

## Management's Discussion and Analysis of Operating Results

AMOUNTS ARE IN U.S. DOLLARS UNLESS OTHERWISE STATED

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of MagIndustries Corp. ("MagIndustries" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2009. This discussion dated June 1, 2009 should be read in conjunction with the accompanying consolidated financial statements as at and for the three months ended March 31, 2008 and notes thereto, and the audited consolidated financial statements for the year ended December 31, 2008 and notes thereto. Results are reported in United States dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The Company trades in Canadian currency on the TSX Venture Exchange under the symbol MAA. Further information about the Company and its operations can be obtained from its website [www.magindustries.com](http://www.magindustries.com) or [www.sedar.com](http://www.sedar.com).

### OUR BUSINESS

MagIndustries' resource subsidiaries (MagMinerals, MagForestry, MagEnergy and MagMetals) are operating and developing major industrial projects in the Republic of Congo and the Democratic Republic of Congo. MagIndustries is implementing independent stand-alone resource and energy projects that when combined and integrated, will create a strong agile company which can continue to grow and create long term value and profits for its shareholders.

### EXECUTIVE SUMMARY

During the first quarter of 2009 MagMinerals signed a gas supply agreement for the Kouilou potash project. The agreement represented the last significant cornerstone contract required for the full development of the project. The contracted supply of gas is sourced from EniCongo S.A. which operates the on-shore M'boundi oil field. EniCongo will supply the gas requirements for the project from its treatment plant to be located at Djeno, 25km southwest of the potash plant site. Additional gas quantities will also be made available to support the project's back-up power facilities if electricity supplies fail.

MagIndustries recorded total revenue of \$6.7 million and held cash and cash equivalents of \$70.3 million at March 31, 2009. Net earnings were negative \$10.7 million for the quarter, compared to negative \$6.7 million for the same period in 2008. The lower net earnings are largely due to:

- Non-cash stock based compensation expense of \$4.9 million relating to the fair value of the stock options vested during the period.
- the appreciation of the US dollar relative to the Euro and Canadian dollar which negatively affected earnings by \$1.5 million;
- Lower revenue and operating profit from a deferral of a shipment of wood chips during the quarter;
- Higher depreciation and amortization costs resulting from the construction of the chip plant which achieved commercial production in the fourth quarter of 2008; and
- Interest of \$0.9 million which was expensed during the quarter, whereas it was capitalized in the cost of construction of the chip mill in the prior year.

In 2009, the Company plans on continuing to advance and develop its Kouilou potash project. To finance the necessary expenditures for this development, the Company is expecting to utilize cash on-hand, debt financing and joint venture participation, or a combination thereof, depending upon prevailing market conditions at the time. The potash plant is projected to produce potash fertilizers principally to supply growing agricultural demand in South America, South Africa and other parts of the world.

## MAGINDUSTRIES BUSINESS UNITS

The Company is organized around four principal business units: MagMinerals, MagForestry, MagEnergy and MagMetals. MagMinerals, MagMetals, and MagForestry are all located in the Pointe-Noire area of the Republic of Congo ("ROC") while MagEnergy's operations are currently focused in the Democratic Republic of Congo ("DRC").

### MagMinerals

- intends to build, own, and operate a stand-alone potash plant. The proposed plant site, near the village of Mengo, is located 25 kilometers east of the Atlantic port city of Pointe-Noire, Republic of Congo. Pointe-Noire, West Africa's best deep-water port, has successfully served as the operations base for major international oil companies for the past 35 years.
- in August 2008, released an updated 43-101 technical report entitled *Reserve Estimate for MagMinerals, Makola Permit Area, Kouilou Region, Republic of Congo* (see section entitled "Qualified persons") and a final feasibility study for a first-phase 600,000 tonne per year ("tpy"), stand alone potash plant near Mengo in the Kouilou Province of ROC.

### MagForestry

- operates a 68,000 hectare eucalyptus forestry plantation that sells wood chips and pulpwood logs to the European market. The Company has constructed and commenced operations of the wood chip plant at the port of Pointe-Noire in the ROC.
- The initial targeted volume for wood chips on an annualized basis is 400,000 to 500,000 tonnes.
- The majority of the forestry plantation overlies MagIndustries Makola mineral license including the area chosen for the site of the Mengo brine mining field and the planned location of MagMinerals' potash plant and MagMetals' magnesium plant.

### MagEnergy

- MagEnergy is acting as financier and project manager for the refurbishment of turbine G23 and emergency repairs of certain turbines within the Inga II hydro facility located on the Congo River, 300 km south west of the DRC capital of Kinshasa.
- MagEnergy is also reviewing the results of its independent technical studies for the evaluation of the Busanga "greenfield" hydroelectric sites on the Lualaba River in the Katanga Province of the DRC.

### MagMetals

- is engaged in the evaluation of the Kouilou magnesium plant to be located adjacent to MagMinerals potash plant. MagMetals plans to produce high quality magnesium and magnesium alloys for the automotive industry.

## SEGMENT FINANCIAL SUMMARY

Period ended	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
March 31						
2009 (thousands)	\$	\$	\$	\$	\$	\$
Sales	6,706	-	-	-	-	6,706
Cost of sales*	(5,440)	-	-	-	-	(5,440)
Project expenses	-	(156)	(473)	(7)	-	(636)
Expenses	(1,665)	(45)	(540)	(10)	(1,787)	(4,047)
Options expense	-	-	(3,330)	-	(1,529)	(4,859)
Depreciation and amortization	(938)	(11)	-	-	(122)	(1,071)
Interest income	4	-	159	-	6	169
Foreign exchange	2,339	973	2,208	171	(7,215)	(1,524)
Net income (loss)	1,006	761	(1,976)	154	(10,647)	(10,702)

\*Including shipping

Period ended	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
March 31						
2008 (thousands)	\$	\$	\$	\$	\$	\$
Sales	11,827	-	-	-	-	11,827
Cost of sales*	(9,226)	-	-	-	-	(9,226)
Project expenses	-	(488)	(1,255)	-	-	(1,743)
Expenses	(1,713)	(1)	(24)	(1)	(1,413)	(3,152)
Options expense	-	-	-	-	(1,538)	(1,538)
Depreciation and amortization	(25)	(20)	(158)	-	(9)	(212)
Interest income	65	5	17	-	199	286
Foreign exchange	(3,193)	(1,086)	(1,697)	(14)	3,021	(2,969)
Net (loss) income	(2,265)	(1,590)	(3,117)	(15)	260	(6,727)

\* Including shipping

As at	March 31, 2009		December 31, 2008	
(thousands)	Capital assets	Total assets	Capital assets	Total assets
	\$	\$	\$	\$
MagMinerals	7,281	153,840	6,411	161,483
MagMetals	13	5,999	10	6,031
MagEnergy	337	19,029	348	18,871
MagForestry	40,613	75,593	41,288	77,201
Corporate	4,752	14,051	3,396	13,047
	<b>52,996</b>	<b>268,512</b>	<b>51,453</b>	<b>276,633</b>

## RESULTS OF OPERATIONS

The Company's view of the current phase of its projects is summarized below.

Business unit and project	Description	Status and next stage of plan	Approximate net expenditures & acquisition costs to March 31, 2009	Expected future expenditures to complete the next phase of plan
MagForestry	68,000 hectare eucalyptus forestry plantation	Chip mill is fully commissioned and the forestry is fully operational.	\$67 million	Project complete
MagMinerals potash plant	Development of a stand alone potash plant near Pointe-Noire.	Construction of a plant to be operational in 2012 and studies to double capacity.	\$120 million	\$800 million plus associated financing costs
MagMetals magnesium project	Evaluation of the Kouilou magnesium project proposed to be located adjacent to MagMinerals potash plant.	Commence feasibility study upon the continued development of the MagMinerals potash plant.	\$11 million	\$3 million
MagEnergy Inga II	Refurbishment of one turbine and emergency repairs and at the Inga II hydroelectric site.	Emergency repairs completed. Refurbishment of G23 on hold pending SNEL decision.	\$18 million	\$8 million
MagEnergy Busanga	Feasibility study of greenfield hydroelectric site.	Interim feasibility study completed Q2 2007. Decision pending on whether to proceed with full feasibility.	\$2 million	\$2.4 million - pending decision to follow on with full feasibility study.

### MagForestry

MagForestry's plantation is a 68,000 hectare concession from the ROC government which is leased for a 50 year period (from June 30, 2005), renewable at the Company's option for a further 21 years or until 2076. The plantation lease and some capital assets were obtained from the government of the ROC.

The lease does not specify monetary lease payments, however the specific performance commitments include:

- Operation of the plantation in good condition;
- The building and subsequent operation of woodchip plant;
- Refraining from subleasing the land; and
- Maintenance of certain social responsibilities including the employment of a local workforce.

At the end of the lease in 2076, EFC must leave all buildings and improvements on the land. MagForestry began constructing a 500,000 tpy wood chipping plant on its harbour-side lands located in Pointe-Noire in the fourth quarter of 2006, and during the third quarter of 2008 the Company was in the final stages of commissioning, but had not yet achieved full commercial production.

### *Results for the quarter ended March 31, 2009, compared to quarter ended March 31, 2008*

Overall net income for the quarter ended March 31, 2009 was \$1.0 million (a loss of \$2.3 million for the same period in 2008). The results included an unrealized foreign exchange translation gain of \$2.3 million (as compared

to a loss of \$3.2 million in the comparative period in 2008). The strengthening of the US dollar resulted in a gain when translating the Company's results from the local Euro-pegged currency to US dollars.

Wood chip sales for the quarter were \$6.7 million (\$11.8 million for 2008). Sales in the first quarter of 2008 represented only log sales since the chip mill was constructed and commissioned in the fourth quarter of 2008. Cost of sales this quarter were \$5.4 million (\$9.2 million for the same period in 2008) including shipping costs. Revenue was lower than forecasted during the quarter as one of MagForestry's main customers deferred one ship until later in the year.

### ***Forestry Outlook***

The current economic downturn has negatively impacted the pulp and paper industry worldwide and this is expected to impact MagForestry's profitability throughout 2009. As a consequence, delays or deferral of planned shipments of wood chips may occur. However, with the construction of the chip mill completed and commercial production achieved in 2008, MagForestry is focused on containing overall operating costs and improving the efficiency of its operations in 2009 in preparation for an economic recovery.

### **MagMinerals**

MagMinerals is proceeding with the financing and construction of the first 600,000 tpy module of a potash plant at Mengo in the Kouilou region of the ROC, near the port city of Pointe-Noire, as well as the evaluation of expansion plans for additional 600,000 tpy modules of production capacity. The plant is designed to produce granular K60 agricultural grade potash fertilizers using potassium rich brines from the Kouilou salt deposits. The feasibility study estimates the capital cost of the first module of 600,000 tpy at \$723 million, excluding financing costs.

On May 27, 1997, MagIndustries (then Congo Minerals) was granted the Makola Exploration Licence which lies in the Kouilou region of the ROC. The Makola Exploration Licence which covers an area of about 1,472 km<sup>2</sup> is underlain by extensive deposits of magnesium and potassium salts, including carnallite, bischofite and sylvanite. The carnallite (a magnesium and potassium salt) deposits are among the largest and cleanest of their kind in the world.

The evaluation of the Makola Exploration Licence was subject to an exploration agreement that was signed on May 28, 1997 with the Government of ROC. The exploration agreement described plans for the technical and commercial evaluation of the extraction of magnesium (as metal), potassium (as potash), sodium (table salt) and other related salts. In July 2006 MagMinerals commissioned SNC-Lavalin International Inc. ("SNC") to complete a phase I full feasibility study on the potential plant, the results of which were published on February 29, 2008. In conjunction with the feasibility study, MagMinerals received a NI 43-101 compliant technical report titled *Reserve Estimate for MagMinerals, Makola Licence Area, Kouilou Region, Republic of Congo* (see section entitled "Qualified persons") which concluded that there are sufficient reserves within the study area to support a 600,000 tpy potash plant for 54 years.

The project was granted a 25-year mining license (the "Mengo Exploitation Permit") by the government of the ROC on April 3, 2008. The proposed plant site, near the village of Mengo, is located 25 km, by rail, east of the Atlantic port city of Pointe-Noire, Republic of Congo. Pointe-Noire is the economic capital of the country and is considered to be one of West Africa's best deep-water ports. It has successfully served as the operations base for major international oil companies for the past 35 years. The proposed plant site lies within the eucalyptus plantation operated by MagForestry. This provides MagMinerals access to the site and controls and limits access to the site by third parties.

MagMinerals has signed an off-take agreement with Ameropa AG of Switzerland for the marketing and sale of 100% of the first phase potash production as well as the second phase of potash production if and when that should occur.

On December 22, 2008, the Company and its subsidiary, MagMinerals Potasses Congo S.A. ("MPC S.A."), signed a comprehensive agreement with the government of Republic of Congo ("ROC"), referred to as the Potash

Investment Agreement (“PIA”) or within the ROC as the Convention d’Exploitation Miniere. The PIA addresses all aspects of the Company’s planned Kouilou Potash Project in the Mengo area near the ROC port city of Pointe-Noire, including key fiscal and development terms. The PIA requires the constitution of a Congo company to be the operator of solution mining operations and the potash plant. During 2008 MagMinerals also incorporated MPC S.A. as the operating entity with respect to the project and, in accordance with the Congolese mining code, MPC S.A. will be 10% owned by the government of the ROC.

The PIA was signed by the Minister of Finance and the Minister of Mines and as such represents a binding document between the ROC and the Company. The PIA will proceed through a process of incorporation into a Law, which will need the approval of the ROC Parliament following its submission by the ROC Government and publication in the Official Gazette of the ROC. Until these processes are concluded the content of the PIA is subject to confidentiality terms.

In March 2009, the Company has also signed a long term agreement with a local supplier of natural gas for the gas needs of the project. Reaching agreement for the supply of natural gas is considered to be the last significant agreement that the Company requires to continue to advance the project to construction as well as the project’s debt financing.

The first phase of operations has been designed as a 600,000 tpy, potash plant. The plant is based on a modular design and layout which will allow for the inclusion of an additional 600,000 tpy unit bringing the total production capacity to 1,200,000 tpy to more fully utilize the extensive resource base available. This added capacity is expected to have a lower capital cost than the first module as there is common infrastructure with the first plant. The operating costs per tonne are also expected to decrease with larger economies of scale at this production volume.

The project proposes to use solution mining techniques to produce a brine which can be treated in a crystallization plant to produce granular potash fertilizers for export. The potash plant will utilize existing, commercially available technologies. One of the primary inputs for this crystallization process is natural gas which is currently flared as associated gas from nearby on-shore oil production.

### ***MagMinerals Outlook***

MagMinerals continued production-well drilling in the first quarter and is conducting preconstruction design and engineering. In addition, MagMinerals is conducting site preparation tasks including the harvesting of the eucalyptus trees at the plant site and levelling of the ground for site works.

The Company is advancing discussions with project financing lenders for the Kouliou project now that the material commercial agreements have been signed. The potential project lenders primarily consist of export credit agencies (“ECA”) and development finance intuitions (“DFIs”). Upon reaching agreement on financial terms with the Lenders, the Company intends to proceed to achieve financial close by the second half of 2009. The project financing is expected to amount to \$800 million and to have a leverage ratio of 70:30 (Lenders:Company).

The Company also expects to continue with ongoing discussions with strategic equity partners interested in the potash project.

### **MagEnergy**

MagEnergy is acting as financier and project manager for the refurbishment and rehabilitation of certain turbines within the Inga II hydro facility located on the Congo River, 300 km south west of the DRC capital of Kinshasa. The Inga II facility is owned by the government of the DRC but operated by the state electric utility SNEL, and is the major supplier of electricity for the region. It was commissioned in the early 1980’s with a nameplate capacity of 1,424 megawatts. Due to years of low maintenance budgets the site is currently delivering approximately 20% of its installed capacity.

MagEnergy has entered into a public-private partnership agreement with SNEL and is proceeding with two phases of works at the facility:

- i. Phase 1 includes the refurbishment of turbine G23 and emergency repairs to three other turbines ("the Emergency Works") which is intended to ensure a reliable supply of energy into the current grid during a six year period (2008-2013). The total expected expenditures are approximately \$25 million.
- ii. Phase 2 involves the complete rehabilitation of four turbines (G25, G26, G27, G28) with a proposed budget of \$140 million.

In September 2005, MagEnergy entered into a partnership arrangement with The Industrial Development Corporation ("IDC") of South Africa whereby the costs and returns from energy sales from the Phase 1 emergency works financing arrangement would be shared 70% MagEnergy and 30% IDC. This arrangement also gave IDC the rights to participate in the Phase 2 rehabilitation by contributing 25% of the costs for 15% of the returns.

### ***MagEnergy Outlook***

During Phase 1 the Company expects to realize a return on investment in two stages:

- i. In the first stage, which commenced in May 2006 before the successful commercial operation of the refurbished turbine, the Company received \$0.2 million per month until January 2008. These cash flows are reflected as a reduction of the amounts expended. This cash flow was therefore not considered revenue, but a repayment of advances. Total fees earned to date amount to \$2.7 million (which is net of the 30% due to IDC).
- ii. In the second stage, when the emergency repairs are complete, the Company expects to earn a return by sharing in the sale of electricity from turbine G-23. The refurbishment works were expected to be completed in the second quarter of 2009. However, these refurbishments are currently on hold, as the project has encountered a Euro 5 million cost overrun that is required to be financed by SNEL. MagEnergy has proposed funding options for this cost overrun and is currently awaiting a decision from SNEL on how to proceed. Until this occurs, the Company believes that the expected return on the project will exceed the cost of this investment.

MagEnergy has been appointed as the DRC's first Independent Power Producer. MagEnergy plans to supply electricity to existing demand in both regional and international electrical grids. MagEnergy is proceeding with a feasibility study for the development of the Busanga Hydroelectric site on the Lualaba River in the Katanga Province of southern DRC.

### **MagMetals**

In 2007 MagMetals commissioned a scoping study to evaluate the application of the Norsk Hydro magnesium metal extraction technology to the expected magnesium chloride brine output from the MagMinerals potash plant. Following the successful results of the scoping study MagMetals began discussions for the acquisition of the technology. During the most recent quarter MagMetals completed the acquisition of this technology through a license agreement for a complete electrolytic magnesium extraction processes, including key technical equipment.

### ***MagMetals Outlook***

MagMetals is planning to commence a feasibility study for a magnesium plant, upon continued development of the MagMinerals potash plant, based on the recent acquisition of the Norsk Hydro magnesium extraction technology. The target for MagMetals is to produce high quality magnesium alloys for the automotive industry and high purity magnesium for the aluminum and steel industries.

## GENERAL AND ADMINISTRATIVE EXPENSES

(thousands)	2009 \$	March 31 2008 \$
Wages, benefits and consulting	1,744	1,809
Office costs	855	763
Professional fees	353	196
Travel	182	299
Stakeholder communications	18	79
	<b>3,152</b>	<b>3,146</b>

For the first quarter of 2009 the Company incurred general and administrative expenses of \$3.2 million (\$3.1 million for the comparative period in 2008). The increase reflects the increased administration associated advancement of the MagMinerals project in the ROC and, to a lesser extent, the administration of MagForestry's newly constructed chip mill plant.

## EXPENSED PROJECT EVALUATION AND DEVELOPMENT COSTS

(thousands)	2009 \$	2008 \$
MagMinerals	473	1,255
MagEnergy	156	487
MagMetals	7	-
	<b>636</b>	<b>1,742</b>

For the first quarter of 2009 the Company incurred project development expenditures of \$0.6 million (\$1.7 million for the comparative period in 2008). The decrease in project expenses at MagMinerals during the quarter was primarily driven by a focus on construction activities related to the Kouilou project (which are capitalized) and containment of other administration costs. There was also a decrease in project expenses for MagEnergy which focused its efforts to finalize the Inga II project.

## CAPITALIZED PROJECT EVALUATION AND DEVELOPMENT COSTS

(thousands)	Energy \$	Metals \$	Minerals \$	Total \$
Development & construction	9,117	-	28,746	<b>37,863</b>
Drilling	-	-	30,363	<b>30,363</b>
Engineering	14,760	102	22,841	<b>37,703</b>
Environmental & social	270	-	2,965	<b>3,235</b>
Technology	-	5,751	-	<b>5,751</b>
Capitalized interest	2,395	-	3,013	<b>5,408</b>
IDC Contribution	(3,000)	-	-	<b>(3,000)</b>
SNEL cash flow	(2,660)	-	-	<b>(2,660)</b>
	<b>20,882</b>	<b>5,853</b>	<b>87,928</b>	<b>114,663</b>

## SUMMARY OF QUARTERLY RESULTS

A summary of the eight most recent quarters is as follows:

(thousands, except per share amounts)	March 31 2009 \$	December 31 2008 \$	September 30 2008 \$	June 30 2008 \$
Revenue	6,706	8,971	1,107	8,310
Net loss for the period	(10,702)	(23,473)	(17,886)	(7,748)
Net loss per share	0.04	0.12	0.09	0.04

(Thousands, except per share amounts)	March 31 2008 \$	December 31 2007 \$	September 30 2007 \$	June 30 2007 \$
Revenue	11,827	5,533	8,209	1,401
Net loss for the period	(6,727)	(2,744)	(6,415)	(5,484)
Net loss per share				
Continuing operations	0.03	0.01	0.03	0.03
Discontinued operations	0.00	0.00	0.01	0.00

MagIndustries has undergone major changes that affect the summary of quarterly results in the last 8 quarters. In general, the Company has expanded the development of its projects and continues to ramp up the MagForestry operations. Specifically the major changes include:

- In February 2008 the Company completed a final feasibility study on the MagMinerals Kouilou potash project and an updated 43-101-compliant technical report
- In March 2008 MagMinerals was granted a mining license (the Mengo Exploitation License) for an area of 136 km<sup>2</sup>
- In March, April and June 2008 the company announced and completed the first phases of the funding of the equity required for the MagMinerals project
- In July 2008 MagMinerals signed a definitive off-take agreement for all planned production for the first two phases of the potash plant
- In July 2008 MagForestry completed the first sales of woodchips from its completed chip mill
- In August 2008 MagMinerals commenced detailed engineering and early-works for the construction of the potash plant
- In the fourth quarter of 2008, the wood chip plant achieved commercial production.
- In December 2008, the Company announced that MagMinerals Potasses Congo S.A., signed a comprehensive agreement with the government of Republic of Congo ("ROC"), referred to as the Potash Investment Agreement ("PIA").
- In March 2008 the company concluded a natural gas supply agreement, completing the last material commercial agreement for the Kouilou potash project.

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2009, MagIndustries had net working capital of \$72.0 million and had 288,079,962 shares outstanding on an undiluted basis. The Company currently has sufficient resources to continue MagForestry

operations through the 2009 year and continue advancing MagEnergy's development plans. Development of the MagMinerals potash project as described above is subject to raising additional equity and the debt project financing for the project described below in this section. If these financings are not each completed successfully the Company may consider joint ventures with equity partners, and/or the sale of individual projects and/or other sources of capital or a combination thereof depending on prevailing market conditions at the time.

The Company had 20,860,000 stock options outstanding at March 31, 2009 (15,600,000 at December 31, 2008) with a weighted average exercise price \$1.59 per share and expiring no later than February 24, 2014. The Company had 7,622,875 warrants outstanding at March 31, 2009 (7,622,875 at December 31, 2008) with exercise prices ranging from \$1.00 to CAD\$2.40 per share and expiring no later than December 20, 2012.

Subsequent to March 31, 2009, the Company repurchased \$5.5 million principal amount of its 11% senior unsecured notes due December 20, 2012 for aggregate consideration (including accrued interest) of \$2.1 million, by way of private agreement. The repurchased notes were cancelled pursuant to the terms of the indenture governing such notes and MagIndustries has reached an agreement with the holder of the associated 967,164 common share purchase warrants to not exercise such warrants prior to their expiry.

MagIndustries need for additional funding is primarily driven by the MagMinerals potash project, which had a total capital cost of \$723 million estimated in February 2008. MagIndustries has approached a group of international lenders which are expected to collectively provide up to debt financing representing approximately 70% of the project costs to bring the project into production. MagIndustries intends to provide the minimum required 30% equity and close the project financing in the second half of 2009 and full construction will begin immediately thereafter. Any future project debt facility is, among other things, subject to satisfactory due diligence findings, sufficient equity capital being raised for the project, market conditions, final credit committee approval and other conditions precedent.

## COMMITMENTS

As at March 31, 2009, the Company has not identified any claims, conditions or contingencies that had arisen that would result in a liability as a result of its guarantees and indemnifications. The Company and its subsidiaries may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business which the Company believes would not reasonably be expected to have a material adverse effect on the financial condition of the Company.

In the normal course of operations, the Company and its subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as capital project purchases, business acquisitions, and sales and purchases of assets and services.

The Company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount that the Company could be required to pay third parties as the agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, neither the Company nor its subsidiaries have made significant payments under such indemnification agreements. The future minimum lease payments on the Company's leased premises are:

	\$(thousands)
2009	518
2010	595
2011	415
2012	235
2013	235

The Company has committed to a production well drilling contract of approximately Euro 12 million. Early cancellation of this contract would result in a penalty payment of 25% of the unbilled amounts.

## CHANGES IN ACCOUNTING POLICY

### *Goodwill and Other Intangible Assets and Financial Statement Concepts*

In November 2007, the CICA issued amendments to Section 1000 "Financial Statement Concepts," and AcG 11 "Enterprises in the Development Stage," issued a new Handbook Section 3064 "Goodwill and Intangible Assets" ("Section 3064"), to replace Section 3062 "Goodwill and Other Intangible Assets", withdrew Section 3450 "Research and Development Costs" and amended EIC 27 "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company has implemented them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The adoption of the standard did not have a significant impact on the Company's financial statements.

### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the Emerging Issues Committee ("EIC") concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into accounting in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable retrospectively without restatements of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for period ending on or after the date of the issue of the Abstract (January 20, 2009). Retrospective application with restatement of prior periods is permitted but not required. Early adoption is encouraged. The application of incorporating credit risk into the fair value should result in entities re-measuring the financial assets and financial liabilities as at the beginning of the period of adoption with any resulting difference recorded in retained earnings except when derivatives in a fair value hedging relationship accounted for by the short cut method (difference is adjusted to the hedged item) and for derivatives in cash flow hedging relationship (differences are recorded in accumulated other comprehensive income). The adoption of the standard did not have a significant impact on the Company's financial statements.

### *Mining exploration costs*

In March 2009, the CICA issued EIC-174, "Mining Exploration Costs." The EIC provides guidance on the accounting and the impairment review of exploration costs. This standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have an effect on the Company's financial statements.

## FUTURE CHANGES IN ACCOUNTING POLICY

### *Consolidated Financial Statements and Non-controlling Interests*

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace the existing Section 1600, Consolidated Financial Statements, and provide the Canadian equivalent to International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new sections will be applicable to the Company on January 1, 2011. Section

1601 establishes standards for the preparation of consolidated financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial

#### *International Financial Reporting Standards*

The Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. MagIndustries has undertaken a project to assess the potential impacts of the transition to IFRS and has developed a detailed project plan to ensure compliance with the new standards.

The Company has completed the initial phase of the implementation project including the detailed diagnostic analysis which included a high-level impact assessment to identify key areas that may be impacted by the adoption of IFRS. This analysis resulted in the prioritization of areas to be evaluated in the next phase of the project plan, component evaluation. This phase, which is currently in progress, includes the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. The Company is currently assessing the impact of the adoption of IFRS on our results of operations, financial position and financial statement disclosures.

## OUTSTANDING SHARE DATA

MagIndustries is authorized to issue an unlimited number of common shares. As at March 31, 2009 and June 1, 2009, the Company had 288,079,962 common shares outstanding.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair value*

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

#### *Foreign exchange risk*

Some of the Company's revenue and expenses are denominated in foreign currencies including the Canadian Dollar, the Euro, the Central African Franc and the South African Rand. The Company is therefore subject to gains or losses due to fluctuations in these currencies. The Company does not use derivatives to hedge these risks, however the Company does endeavor to hold currency in the denominations of its financial commitments in that currency.

#### *Interest rate risk*

The Company does not have significant interest-bearing borrowings for which general rate fluctuations apply.

#### *Credit risk*

The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

## RELATED PARTY LOAN

On April 11, 2008 the Company extended a relocation loan of an original amount of CAD\$0.25 million to an employee and director of the Company. The loan bears interest at 4% per annum, is unsecured and repayable on

November 10, 2009. The loan and interest are recorded at the exchange amount. The balance of the loan at March 31, 2009 is CAD\$0.13 million.

## RISK FACTORS

There are numerous risk factors that could affect the Company's business prospects and future performance, including the following. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also affect the Company's business prospects and future performance.

### *Operating History*

The Company has a very limited history of operations and must be considered a start-up. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and an absence of revenues. There is no assurance that the Company will be successful in achieving a return on shareholder investment and the likelihood of success must be considered in light of its early stage of operations. The Company has no intention of paying any dividends in the foreseeable future.

### *Key officers, consultants and employees*

The success of the Company will be largely dependent upon the performance of its key officers, consultants and employees. Failure to retain key individuals or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success. The Company has not purchased any key-man insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

### *Political stability*

The Company's development projects are located in the ROC and DRC and the Company holds its interests in these projects and exploration properties (including the Kouilou deposits to be developed for the potash and magnesium projects) through licenses that enable it to conduct operations or development and exploration activities. The Company's projects in the ROC and the DRC may be subject to the effects of political changes, war and civil conflict, changes in government policy, lack of law enforcement and labour unrest and the creation of new laws. These changes (which may include new or modified taxes or other government levies as well as other legislation) may impact the profitability and viability of its properties. The ROC and DRC have physical and institutional infrastructure that is in dilapidated condition. Both economies are still transitioning from largely state-controlled economies to ones based on free market principles, and from non-democratic political systems to ones based on more democratic principles. There can be no assurance that these changes will be effected or that the achievement of these objectives will not have material adverse consequences for the Company and its operations.

### *Environmental regulations*

All phases of the Company's operations are subject to environmental regulation. Environmental legislation is becoming more strict, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on a property in which the Company holds an interest which are unknown to the Company at present which have been caused by previous or existing owners or operators of the property. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means standards, and enforcement, fines and penalties for non-compliance are more stringent.

Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. The Company intends to fully comply with all environmental regulations in the ROC and DRC.

#### *Health and safety risks*

The development, ownership and operation of the Company's assets carry an inherent risk of liability related to worker health and safety, including the risk of government imposed orders to remedy unsafe conditions and/or potential penalties for contravention of health, safety laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety laws (and any future changes) and the requirements of licenses, permits and other approvals will remain material to the Company's business. The Company has incurred and will continue to incur capital and operating expenditures to comply with health and safety standards. Nevertheless, from time to time the Company may be unsuccessful in obtaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health and safety matters. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of, health and safety laws, licenses, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures. As a consequence, no assurances can be given that additional workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business and operations.

#### *Conflicts of interest*

Certain directors and officers of the Company are or may become associated with other industrial and natural resource companies which may give rise to conflicts of interest. In accordance with the Canada Business Corporations Act, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company. The directors and officers of the Company have either other full-time employment or other business or time restrictions placed on them and, accordingly, the Company will not be the only business enterprise of these directors and officers.

#### *Labour relations*

While labour relations at the Company's operations have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. In the event of a labour disruption such as a strike or lock out, the ability of the Company's operations to generate income may be impaired.

#### *Dividend policy*

No dividends on the common shares of the Company have been paid by the Company to date. The Company intends to retain its earnings, if any, to finance the growth and development of its business and has no present intention of paying dividends or making any other distributions in the foreseeable future.

#### *MagMinerals and MagMetals' developments*

The following are risks to the Company's planned development of the Potash plant and magnesium plant and related solution mining operations. The Company's primary plan to mitigate these risks is to hire experienced engineers and consultants to conduct detailed bankable feasibility studies on these projects before making the decision to enter the construction phase of any project.

#### *Highly speculative business*

The nature of the Company's business is highly speculative, primarily due to its proposed involvement in the exploration, development and production of minerals. The commercial viability of a mineral deposit depends upon a number of factors including the particular attributes of the deposit (principally size and grade), the proximity to infrastructure, the impact of mine development on the environment, environmental regulations imposed by various levels of government and the competitive nature of the industry which causes commodity prices to fluctuate substantially over short periods of time. Most of these factors are beyond the control of the Company.

#### *Barriers to commercial production*

The Company will rely upon consultants and others for construction and operating expertise. The economics of developing mineral properties is affected by many factors including, but not limited to, the cost of operations, grade of ore, fluctuating mineral markets (such as the price of potash and magnesium), costs of processing equipment, competition, extensions on licenses and such other factors as government regulations, including regulations relating to title to mineral concessions, royalties, allowable production, importing and exporting of minerals and environmental protection. Many of the above factors are beyond the control of the Company. Depending on the price of minerals produced, the Company may determine that it is impractical to either commence or continue commercial production.

#### *Additional capital*

The further development of some of Company's projects – such as the potash and magnesium plants - will require additional financing. Failure to obtain sufficient financing may result in the delay or postponement of development or production of the projects. The Company would also require additional funding to acquire interests in additional projects. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and security holders may suffer additional dilution.

#### *Commodity price fluctuations*

The feasibility of mineral exploration is significantly affected by changes in the market price of the minerals and metals – including potash and magnesium. Mineral and metal prices fluctuate widely and are affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, world supply of minerals and metals and stability of exchange rates can all cause significant fluctuations in mineral and metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

#### *Exchange rate fluctuations*

Based on the selection of its suppliers the Company has agreed to pay many of its development costs relating to the potash plant in Canadian dollars and Euros and South African Rand. A significant change in these exchange rates with the US dollar would significantly affect the cost of these development activities.

#### *Interest rate risk*

Currently the Company's only interest bearing debt is at a fixed interest rate. However the Company plans to continue to finance capital expenditures. Upward fluctuations in interest rates increase the cost of new debt.

#### *Maintaining interests in mineral properties*

The Company's continuing right to maintain its licences for its mineral claims and property interests will be dependent upon compliance with applicable laws and with agreements to which it is a party. There is no assurance that the Company will be able to obtain and/or maintain all required permits and licences to carry on its operations. Additional expenditures will be required by the Company to maintain its interests in its properties.

There can be no assurance that the Company will have the funds, will be able to raise the funds or will be able to comply with the provisions of the agreements relating to its properties which would entitle it to an interest therein and if it fails to do so its interest in certain of these properties may be reduced or be lost.

#### *External market factors*

The marketability and price of potash and magnesium which may be produced by the Company will be affected by numerous factors beyond the control of the Company. The Company will be affected by changing production costs, the supply of / demand for minerals and metals, the rate of inflation, the inventory levels of minerals and metals held by competing companies, the political environment and changes in international investment patterns.

#### *Governmental and regulatory requirements*

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent that such approvals are required and not obtained, the Company may be restricted or prohibited from proceeding with planned development activities. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in the development of properties.

#### *MagForestry operations*

##### *Business and operating risk*

Revenues, net income and cash flow from forestry operations are dependent on the Company's continued ability to harvest timber at adequate levels. The Company's ability to harvest timber from its timberlands may be limited by weather conditions, timber growth cycles, market pricing, sustainable forestry standards and regulatory requirements. There can be no assurance that the Company will achieve harvest levels in the future necessary to maintain or increase revenues, net earnings and cash flows.

To minimize the potential for adverse effects arising from these risk factors, the Company is developing procedures to monitor the utilization of these resources, the protection of assets, and establish control mechanisms. The Company believes it can develop procedures in place to track and monitor changes, along with adequate insurance coverage, protect the Company's assets from undue business operations risk.

##### *Competition risk*

The Company's competitors in the forest products businesses have substantially greater financial and operating resources and own more timberlands than the Company. Some of the Company's forest products competitors may also be lower cost producers in the businesses.

##### *Forest resource risk*

The Company's forestry concession is subject to the risks associated with standing forests. Forest fires are the primary risks. The Company has endeavoured to minimize these risks through prevention techniques such as building fire breaks and continuous monitoring. As is typical in the forest products industry, the Company does not maintain insurance coverage with respect to damage to the standing timber in its timberlands.

##### *Exchange rate fluctuations*

Forestry operations are primarily conducted in Euros and Congolese Francs (which has a fixed exchange rate with the Euro) and revenue is in US dollars. A significant change in the exchange rate between US dollars and Euros

would significantly affect the reported costs and revenues from this operation. The Company does not use any derivatives to hedge foreign currency risk.

#### *End-market risk*

The results of the Company's operations are, and will continually be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and wood products have been, and in the future can be expected to be, subject to cyclical fluctuations. The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodeling activity and other industrial uses, which are subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. Decreases in the level of residential construction activity and the emergence of non-wood, substitute products generally reduce demand for logs and wood products, resulting in lower revenues, net earnings and cash flows.

The Company's business includes the sale of wood chips from its forestry concession for export, which is substantially dependent on market and economic conditions in Europe which may be affected by, among other things, log supply in competing regions, fluctuations in exchange rates, the availability of substitute products, the level of housing starts, changes in building practices.

#### *Input cost risk*

The price of raw materials and energy can be volatile and is susceptible to rapid and substantial increases due to factors beyond the Company's control, such as changing economic conditions, political unrest and instability in energy-producing nations, and supply and demand considerations. For example, in early 2008 oil and natural gas costs significantly increased but have dropped suddenly due to the fall in economic demand. Increases in production costs could have a material adverse effect on the Company's business, financial condition and results of operations.

#### *MagEnergy operations*

MagEnergy's relationship with SNEL as the funder and project manager creates a specific set of risks relating to SNEL's operations and the success of the refurbishment of the Inga turbines. Because MagEnergy's cash flow from its financing relationship with SNEL is contingent on SNEL delivering power to its international customers, MagEnergy is exposed to risk around the generation and transmission of that power. Those risks include hydrology and equipment failure.

#### *Hydrology*

The revenues generated by SNEL from the sale of power generated at Inga are proportional to the amount of electricity generated. The amount of electricity generated by the power systems is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that no material hydrologic event will impact the hydrologic conditions that exist within the watershed. However, based on historical water flows on the Congo river, this risk is not considered significant.

#### *Equipment failure*

There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect revenues and cash flows. SNEL, with the assistance of the Company, is developing capital programs and prudent maintenance programs and improving operational flexibility as a result of having generating units which can operate independently.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial

Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at March 31, 2009, the Company's management, with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators and has concluded that such controls and procedures are effective.

## QUALIFIED PERSONS

The authors of the MagMinerals technical report *Reserve Estimate for MagMinerals, Makola Permit Area, Kouilou Region, Republic of Congo*, Dr. Henry Rauche, EurGeol, and Dr. Sebastiaan van der Klauw, EurGeol, are the qualified persons with respect to the technical reporting as that term is defined in National Instrument 43-101.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on beliefs of the management of MagIndustries Corp. as well as assumptions made by and information currently available to management of the Company. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those forward-looking statements. The forward-looking statements contained in this report speak only as of the date hereof. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.