



# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**JUNE 30, 2008**  
**(Unaudited)**

MagIndustries Corp.  
TSX-V: MAA

**MAGINDUSTRIES CORP.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim consolidated financial statements of MagIndustries Corp. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2007 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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## Consolidated Balance Sheets

(Unaudited)

As at	June 30 2008	December 31 2007
(US dollars)	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	69,537,886	40,710,923
Restricted cash	1,386,000	1,486,000
Accounts receivable and prepaid expenses	6,829,120	4,109,899
Inventories	6,690,292	4,055,919
Current assets of discontinued operations (note 10)	3,285,214	3,282,946
	<b>87,728,512</b>	<b>53,645,687</b>
<b>Non-current</b>		
Timber holdings	11,631,601	8,831,659
Capital assets, net	43,825,922	34,358,868
Projects under evaluation and development (note 4)	84,749,611	72,172,329
	<b>227,935,646</b>	<b>169,008,543</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	1,111,335	-
Accounts payable and accrued liabilities	11,110,119	19,978,018
Liabilities of discontinued operations (note 10)	3,461,362	3,456,626
	<b>15,682,816</b>	<b>23,434,644</b>
<b>Non-current</b>		
Long term debt	-	18,595,473
Corporate notes	31,393,250	30,683,035
Asset retirement obligation	93,706	83,330
	<b>47,169,772</b>	<b>72,796,482</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	150,805,942	145,337,233
Subscription receipts (note 6)	93,559,662	-
Deficit	(63,599,730)	(49,125,172)
	<b>180,765,874</b>	<b>96,212,061</b>
	<b>227,935,646</b>	<b>169,008,543</b>

The accompanying notes are an integral part of these consolidated financial statements

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**Consolidated Statements of Loss, Comprehensive Loss and Deficit**

(unaudited)	For the three months ended		For the six months ended	
	June 30		June 30	
	2008	2007	2008	2007
(US dollars)	\$	\$	\$	\$
<b>Sales</b>	<b>8,310,453</b>	863,403	<b>20,136,983</b>	1,558,414
Cost of sales	<b>7,000,369</b>	707,718	<b>16,226,021</b>	1,193,656
<b>Gross profit</b>	<b>1,310,084</b>	155,685	<b>3,910,962</b>	364,758
<b>Expenses</b>				
General and administrative	<b>5,137,936</b>	2,712,584	<b>8,283,763</b>	4,701,916
Project expenditures	<b>2,397,354</b>	2,627,132	<b>4,139,691</b>	4,506,006
Stock based compensation (note 5)	<b>2,291,561</b>	328,346	<b>3,829,959</b>	656,692
Write-down of project expenditures (note 4)	<b>1,914,859</b>	-	<b>1,914,859</b>	-
Amortization and depreciation	<b>308,348</b>	246,675	<b>520,697</b>	503,510
Accretion expense	<b>4,250</b>	1,700	<b>10,376</b>	5,714
Interest expense	<b>540</b>	702	<b>540</b>	1,013
	<b>12,054,848</b>	5,917,139	<b>18,699,885</b>	10,374,851
<b>Operating loss from continuing operations</b>	<b>(10,744,764)</b>	(5,761,454)	<b>(14,788,923)</b>	(10,010,093)
Interest income	<b>698,360</b>	293,091	<b>984,924</b>	887,800
Foreign exchange	<b>2,298,456</b>	232,810	<b>(670,559)</b>	169,301
<b>Net loss for the period</b>	<b>(7,747,678)</b>	(5,235,553)	<b>(14,474,558)</b>	(8,952,992)
Net loss from discontinued operations	-	(248,906)	-	(310,308)
<b>Net loss and comprehensive loss</b>	<b>(7,747,678)</b>	(5,484,459)	<b>(14,474,558)</b>	(9,263,300)
<b>Deficit, beginning of period</b>	<b>(55,852,052)</b>	(34,482,002)	<b>(49,125,172)</b>	(30,703,161)
<b>Deficit, end of period</b>	<b>(63,599,730)</b>	(39,966,461)	<b>(63,599,730)</b>	(39,966,461)
<b>Basic and diluted net loss per share</b>				
Continuing operations	<b>0.04</b>	0.03	<b>0.07</b>	0.05
Discontinued operations	<b>0.00</b>	0.00	<b>0.00</b>	0.00
	<b>0.04</b>	0.03	<b>0.07</b>	0.05
<b>Weighted average number of common shares outstanding</b>	<b>196,209,126</b>	176,984,627	<b>195,436,873</b>	174,613,641

The accompanying notes are an integral part of these consolidated financial statements

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**Consolidated Statements of Cash Flows**

(unaudited)

	For the three months ended		For the six months ended	
	2008	2007	2008	2007
(US dollars)	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss for the period	(7,747,678)	(5,235,553)	(14,474,558)	(8,952,992)
Operating items not involving cash				
Stock based compensation	2,291,561	328,346	3,829,959	656,692
Write-down of project expenditures	1,914,859	-	1,914,859	-
Amortization, depreciation and accretion	671,074	292,365	1,593,511	557,204
Foreign exchange	487,682	253,514	1,591,004	253,514
Net changes in non-cash working capital balances	(4,299,329)	2,982,522	(13,110,158)	742,661
Cash used in continuing operations	(6,681,831)	(1,378,806)	(18,655,383)	(6,742,921)
Cash from discontinued operations	2,468	656,157	2,468	747,241
	(6,679,363)	(722,649)	(18,652,915)	(5,995,680)
<b>Investing activities</b>				
Additions to projects under development	(10,605,396)	(7,771,749)	(14,492,142)	(15,481,830)
Additions to capital assets	(6,745,437)	(4,958,427)	(9,987,750)	(8,013,526)
Additions to timber holdings	(1,586,412)	(464,801)	(2,799,942)	(1,121,243)
Restricted cash	100,000	-	100,000	-
Cash used in investing activities	(18,837,245)	(13,194,977)	(27,179,834)	(24,616,599)
<b>Financing activities</b>				
Issuance of subscription receipts	93,559,662	-	93,559,662	-
Repayment of long-term debt	(20,538,700)	-	(20,538,700)	-
Exercise of options	1,025,500	-	1,286,750	40,000
Exercise of warrants	-	9,312,395	352,000	9,312,395
Issuance of long-term debt	-	-	-	12,564,248
Cash provided by financing activities	74,046,462	9,312,395	74,659,712	21,916,643
Net increase (decrease) in cash and cash equivalents	48,529,854	(4,605,231)	28,826,963	(8,695,636)
<b>Cash and cash equivalents, beginning of period</b>	<b>21,008,032</b>	<b>26,435,381</b>	<b>40,710,923</b>	<b>30,525,786</b>
<b>Cash and cash equivalents, end of period</b>	<b>69,537,886</b>	<b>21,830,150</b>	<b>69,537,886</b>	<b>21,830,150</b>

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AMOUNTS ARE IN US DOLLARS UNLESS OTHERWISE STATED.

**1. Nature of operations**

MagIndustries Corp. ("MagIndustries" or the "Company") has four business units, MagEnergy, MagMinerals, MagMetals and MagForestry. The Company is engaged in the financing, development and placing into production or operation of the following projects:

Project	Description	Location	Business unit
Potash plant	Construction of 600,000 tonnes per year potash plant and second phase resource estimate and feasibility study for an additional 600,000 tonnes of capacity	Pointe-Noire, Republic of Congo ("ROC")	MagMinerals
Magnesium plant	Evaluation of the Kouilou magnesium project to be located adjacent to MagMinerals potash plant.	Pointe-Noire, ROC	MagMetals
INGA II	Refurbishment of the hydroelectric facility.	Democratic Republic of Congo ("DRC")	MagEnergy
Busanga	Feasibility study of a greenfield hydroelectric site.	DRC	MagEnergy
Eucalyptus plantation and chipmill	Operation of a 68,000 hectare eucalyptus forestry plantation (of which 25,000 hectares is presently unplanted) and a 500,000 tonne per year wood chip mill.	Pointe-Noire, ROC	MagForestry

In addition, the Company previously owned and operated MagPetroleum Inc., which is engaged in the logistics and supply of oil related products in sub-Saharan Africa. Effective December 28, 2006, MagPetroleum is being accounted for as a discontinued operation (note 8).

The Company is a development stage enterprise that has yet to generate significant revenues from its projects. The development of these industrial projects involves significant financial risk. These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The recoverability of the amounts shown for the projects under evaluation and development and the related deferred evaluation and development expenditures is dependent on a number of factors including environmental, legal and political risks, confirmation of the Company's interest in the underlying resources, the ability of the Company to obtain necessary financing to complete the development and future profitable production or the proceeds of the disposition thereof.

The United States dollar is the principal currency of the Company's primary economic environment. These consolidated financial statements are expressed in United States dollars.

**2. Summary of significant accounting policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with the Company's audited annual financial statements as at and for the year ended December 31, 2007 (except as noted below) and should be read in conjunction with those statements as they do not contain all information or disclosure to be in accordance with Canadian generally accepted accounting principles for annual financial reporting. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the three and six months ended June 30, 2008 may not be indicative of the results that may be expected for the year ending December 31, 2008.

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**Use of estimates and assumptions**

The preparation of the unaudited interim period financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the unaudited interim period financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

**Change in accounting policy - Inventories**

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - Inventories, replaces CICA 3030 - Inventories. The new standard is the Canadian equivalent to International Financial Reporting Standard IAS 2, Inventories. The main features of CICA 3031 are: (1) measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; (2) cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects assigned by using a specific identification of their individual costs; (3) consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted-average cost formula; (4) reversal of previous write-downs to net realizable value when there is a subsequent increase in value of inventories; and (5) possible classification of major spare parts and servicing stand-by equipment as property, plant and equipment (CICA 3061 – Property, Plant and Equipment, was amended to reflect this change). The effect of adopting this section had no impact on the valuation of inventory, income or retained earnings.

MagIndustries' inventories are carried at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis and includes all costs of purchase, costs of conversion (direct costs and an allocation of fixed and variable production overheads) and other costs incurred in bringing the inventories to their present location and condition.

**Change in accounting policy – Capital disclosures**

CICA Handbook Section 1535 - Capital Disclosures - specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new section places increased emphasis on disclosures about the nature and extent of risks and as such did not have an impact on the Company's financial results or position.

**Change in accounting policy – Financial Instruments – Disclosure and Presentation**

CICA Handbook Sections 3862 Financial Instruments – Disclosures; and Handbook, and 3863 Financial Instruments – Presentation, have been adopted for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks and as such did not have an impact on the Company's financial results or position.

**Change in accounting policy - General Standards of Financial Statement Presentation**

The CICA amended Section 1400 "General Standards of Financial Statement Presentation", to include requirements to assess and disclose an entity's ability to continue as a going concern. The main features of the changes are as follows:

- Management is required to make an assessment of an entity's ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and

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- When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

The adoption of this change in accounting policy had no impact on the Company's financial results or position.

**Future 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 will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

**3. Inventory**

Inventories are valued at the lower of cost and net realizable value.

Cost of supplies and production materials include purchase cost and costs incurred in bringing each product to its present location and condition. Supplies and materials value is determined based on a weighted average actual cost. Cost of logs/work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

	<b>June 30 2008</b>	December 31 2007
	\$	\$
Consumable supplies and production materials	<b>4,086,194</b>	1,902,446
Inventory of logs/work in progress	<b>2,604,098</b>	2,153,473
	<b>6,690,292</b>	4,055,919

The amount of inventory recognized as an expense and included in cost of goods sold during the second quarter and first half of 2008 were \$2,273,948 and \$4,935,914 respectively (2007: \$707,718 and \$1,193,656 respectively). No amounts were charged to the income statement for the write-down of inventory for valuation issues during the quarter and first half of 2008 were or 2007.

**4. Projects under evaluation and development**

The Company has five principal projects under evaluation and development:

**MagMinerals** has completed a detailed feasibility study and is commencing to build and operate a stand alone potash plant. The completion of the feasibility study included drilling resource definition holes and solution mining rated production wells which will enable the production of a magnesium and potassium rich chloride brine from the Mengo brine field for delivery by pipeline to the MagMinerals' potash plant and

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MagMetals' Kouilou magnesium plant. An additional feasibility study is underway to increase the planned capacity from 600,000 tpy to 1.2 million tpy.

**MagMetals** is responsible for the development of its Kouilou magnesium project, which includes a proposed magnesium smelter on the same site proposed for MagMinerals potash plant. Further development of this project is awaiting full ramp-up of MagMinerals construction activities.

**MagEnergy** is currently refurbishing turbine G23 and conducting emergency repairs on three other turbines at the Inga II hydro electric facility located on the Congo River, 300 km southwest of Kinshasa in the DRC. The Inga II facility is owned by Société Nationale d'Electricité ("SNEL"), the public energy commission of the DRC. These emergency works involve an agreement whereby the Company contributes 70% of the costs of these works, with the remaining 30% contributed by Industrial Development Corporation ("IDC") of South Africa. The corresponding cash inflows from this phase are split by the same percentage.

The Company's role in the Inga project is that of funder and project manager. The Company will realize its investment with two stages of cash inflows. In the initial stage, before the successful operation of the refurbished turbines, the Company has received a monthly fee of \$200,000 (with 30% due to IDC) which is directed from the income received from SNEL's existing external electricity off-take contracts. Total fees earned to date amount to \$3,080,000 (which is net of the 30% due to IDC). When these emergency repairs are complete the Company will begin to earn a return by sharing in the sale of electricity from INGA II to customers of SNEL. Until such time as the Company is certain that the return on the project will be in excess of its investment, the Company is treating the cash flows as a reduction of the amounts expended. This cash flow is therefore not considered revenue, but a repayment of advances. This payment is recorded on an accrual basis.

**MagEnergy** is also completing final agreements on the complete rehabilitation of four other turbines at the Inga II facility.

**MagEnergy** also has the development rights for the construction of a potential hydroelectric facility at the Busanga site on the Lualaba River in the Katanga Province of the DRC. An interim feasibility study has been completed for this project.

Projects under development comprise the Company's most significant non-monetary asset. Currently, the Company has completed or is in the process of completing feasibility studies that include basic engineering studies, environmental assessment, site selection surveys, and drilling. The recoverability of these costs will be influenced by a number of factors including environmental risks, political risks, title risks, commodity pricing risks and the Company's ability to attain profitable production from its projects, which can happen only following the obtaining of permits, project financing, construction, and start-up, or to realize proceeds from disposal. The amounts shown for properties under development do not necessarily represent current or future values.

	\$
Balance, December 31, 2007	72,172,329
Additions during period	14,492,142
Write-off of previously deferred costs	(1,914,859)
Balance, June 30, 2008	84,749,611

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	Energy \$	Metals \$	Minerals \$	Total \$
Project development	9,557,341	1,540,476	13,107,820	24,205,637
Drilling	-	-	21,355,033	21,355,033
Engineering	14,332,388	678,199	19,534,391	34,544,978
Environmental	229,478	67,552	2,521,361	2,818,391
Technology	-	2,585,888	-	2,585,888
Capitalized interest	1,020,929	1,283,102	3,015,653	5,319,684
IDC Contribution	(3,000,000)	-	-	(3,000,000)
SNEL cash flow	(3,080,000)	-	-	(3,080,000)
	<b>19,060,136</b>	<b>6,155,217</b>	<b>59,534,258</b>	<b>84,749,611</b>

On June 26, 2008, MagMetals signed a technology license agreement for electrolytic magnesium extraction processes. As a result, the deferred costs of \$1,914,859 relating to the previous magnesium processing processes were written off during the second quarter of 2008.

#### 5. Shareholders' equity

	June 30 2008 \$	December 31 2007 \$
Common shares	<b>136,111,328</b>	133,789,803
Warrants	<b>5,852,442</b>	6,030,517
Contributed surplus	<b>8,842,172</b>	5,516,913
	<b>150,805,942</b>	145,337,233

MagIndustries is authorized to issue an unlimited number of common shares.

	Number of Shares	Amount \$
Balance December 31, 2007	193,924,016	133,789,803
Exercise of options	925,000	261,250
Original fair value of options exercised	-	74,500
Exercise of warrants	320,000	352,000
Original fair value of warrants exercised	-	178,075
Balance March 31, 2008	195,169,016	134,655,628
Exercise of options	2,345,000	1,025,500
Original fair value of options exercised	-	430,200
Balance, June 30, 2008	197,514,016	136,111,328

#### Options

As of June 30, 2008, 16,500,000 common shares were reserved for the exercise of stock options granted to directors, officers, employees and service providers in connection with the Company's stock option plan (the "Plan"). The Plan allows for the granting of up to 10% of the issued common shares of the Company at the time of the grant of the stock option. Each grant will not exceed 5 years, and will vest over 18 to 36 months from the date of grant.

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The following summary sets out the activity in outstanding Plan options:

	Options #	Weighted- average exercise price \$
Outstanding, December 31, 2007	12,645,000	0.90
Granted	3,200,000	1.97
Exercised	(925,000)	0.28
Outstanding, March 31, 2008	14,920,000	1.16
Granted	3,925,000	3.25
Exercised	(2,345,000)	0.44
Outstanding, June 30, 2008	16,500,000	1.78
Options exercisable at end of period	8,116,693	1.09

The details of stock options outstanding at June 30, 2008 are as follows:

Exercise price per share	Expiry date	Number of stock options outstanding	Options Exercisable	Remaining contractual life
\$0.10	November 12, 2008	350,000	350,000	0.3 years
\$0.40	November 12, 2008	200,000	200,000	0.3 years
\$0.40	February 19, 2009	100,000	100,000	0.6 years
\$0.85	March 14, 2010	1,025,000	1,000,025	1.7 years
\$0.85	November 17, 2010	100,000	66,667	2.3 years
\$0.85	February 5, 2011	925,000	925,000	2.6 years
CDN\$1.30	March 27, 2011	50,000	50,000	2.7 years
CDN\$1.00	December 3, 2011	1,525,000	1,525,000	3.4 years
CDN\$1.30	June 28, 2012	5,000,000	3,333,334	3.9 years
CDN\$1.96	December 20, 2012	100,000	33,334	4.4 years
CDN\$1.96	February 14, 2013	3,200,000	533,333	4.6 years
CDN\$3.28	June 4, 2013	3,925,000	-	5.0 years
		16,500,000	8,116,693	

The fair value of the options granted during the period was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions: risk-free interest rate of 3.33%, expected dividend yield of nil, expected volatility of 108% and expected life term of five years.

**Warrants**

The following table summarizes information about the Company's warrants outstanding at June 30, 2008.

Description	Warrants	Exercise Price Range
Outstanding, December 31, 2007	7,942,875	\$1.00 to CDN\$2.40
Exercised	(320,000)	\$1.10
Outstanding, March 31, 2008 and June 30, 2008	7,622,875	\$1.00 to CDN\$2.40

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The details of warrants outstanding at June 30, 2008 are as follows:

Exercise price per share	Expiry date	Number of warrants outstanding	Remaining contractual life
\$1.00	December 21, 2009	1,000,000	1.5 years
CDN\$2.40	December 20, 2012	6,622,875	4.4 years
		7,622,875	

**Contributed surplus**

	\$
Balance, December 31, 2007	5,516,913
Stock-based compensation expense	1,538,398
Transfer to common shares on exercise of stock options	(74,500)
Balance, March 31, 2008	6,980,811
Stock-based compensation expense	2,291,561
Transfer to common shares on exercise of stock options	(430,200)
Balance, June 30, 2008	8,842,172

**6. Subscription receipts**

On April 4, 2008 and April 29, 2008 the Company closed a private placement offering of securities in the capital of MagMinerals Potash Corp. (a company, newly incorporated for the purposes of listing the potash project on a recognized Canadian stock exchange, "MagPotash"). The securities were priced at CDN\$4.00 each, for gross proceeds of CDN\$100,000,000 prior to agents' commission of CDN\$4,000,000 and other expenses of the offering. The Offering was structured as an offering of 25,000,000 common shares in a newly formed entity, MagMinerals Holdings Corp. ("MagHoldings"), which used the proceeds from the offering to immediately subscribe for CDN\$100,000,000 of subscription receipts in the capital of MagPotash, at a price of CDN\$4.00 per subscription receipt.

MagPotash has agreed to use its best efforts to cause a liquidity event to occur before October 3, 2008, the Liquidity Event Deadline. Such liquidity event involves (i) the completion of a reorganization to, among other things, cause MagBarbados (the entity which holds the potash assets) to become a wholly-owned subsidiary of MagPotash (complete), (ii) causing MagPotash to become a reporting issuer in one or more provinces of Canada and (iii) causing the common shares of MagPotash to become listed on a Canadian exchange.

Each subscription receipt will entitle the holder thereof to acquire (for no additional consideration) at any time, and will be deemed to cause the holder thereof to acquire on the completion of a liquidity event, one common share in the capital of MagPotash (or in the event that the aforementioned liquidity event does not occur by the Liquidity Event Deadline, 1.05 common shares in the capital of MagPotash).

In connection with the transaction, the Company issued each purchaser of MagHoldings shares a right (an "Exchange Right"). In the event that a listing of the common shares of MagPotash does not occur by December 31, 2008, the Exchange Right will entitle and obligate each holder of MagHoldings shares to exchange such shares for common shares in the capital of MagIndustries ("MagIndustries Shares"). The number of shares to be issued on such exchange will be calculated by dividing the issue price of the MagHoldings shares (multiplied by 1.05) held by each such holder by the lower of (i) 92.5% of the volume weighted average price of the MagIndustries Shares for the twenty trading day period ending on December 31, 2008, and (ii) the closing price of the MagIndustries Shares on the closing date, subject to the restriction that the effective issue price of the MagIndustries Shares will in no case be less than \$1.79.

Pursuant to the Offering, the agents were entitled to receive from the Company a cash fee equal to 5% of the gross proceeds. As permitted under the terms of the offering, the agents elected to receive their commission in respect of the second tranche in securities. This resulted in the issuance of an additional 250,000 MagHoldings' Shares (and related Exchange Rights) and an additional 250,000 subscription receipts. As a result, pursuant to the first and second tranches, a total of 25,250,000 MagHoldings Shares (and related Exchange Rights) and 25,250,000 subscription receipts of MagPotash have been issued.

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On July 14, 2008 the Company completed the issuance of an additional CAD\$70 million in subscription receipts, at a price of CAD\$5.00 per subscription receipt under the same terms and conditions as the April 4, 2008 and April 9, 2008 private placement offering mentioned above.

**7. Segmented operating information**

Reportable segments are identified by the end product or services of the segment. MagForestry operates in Pointe-Noire in the Republic of Congo. All sales currently consist of round log shipments to customers in Europe. The rest of the Company's continuing activities are considered to be in the evaluation and development stage. The accounting policies of these reportable segments are the same as those described in note 2. The Company analyzes the performance of operating segments based on net income/loss.

Three months ended June 30 2008	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
	\$	\$	\$	\$	\$	\$
Sales	8,310,453	-	-	-	-	8,310,453
Cost of sales*	(7,000,368)	-	-	-	-	(7,000,368)
Project expenses	-	(525,590)	(1,836,545)	(35,219)	-	(2,397,354)
Other expenses	(2,532,705)	1,119	(470,723)	(1,926,192)	(4,420,646)	(9,349,147)
Depreciation and amortization	(112,311)	(21,034)	(164,502)	-	(10,501)	(308,348)
Interest received	35,514	2,833	565,367	713	94,203	698,630
Foreign exchange	587,256	28,318	1,581,347	(15,673)	117,208	2,298,456
Net loss	(712,161)	(514,354)	(325,056)	(1,976,371)	(4,219,736)	(7,747,678)

Three Months ended June 30 2007	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
	\$	\$	\$	\$	\$	\$
Sales	863,403	-	-	-	-	863,403
Cost of sales*	(707,718)	-	-	-	-	(707,718)
Expenses	-	(514,724)	(2,095,274)	(17,294)	-	(2,627,292)
Project expenses	(1,164,974)	(27,461)	(409,899)	572	(1,441,410)	(3,043,172)
Depreciation and amortization	(64,675)	(53,096)	(109,205)	-	(19,699)	(246,675)
Interest received	10,980	5,031	10,972	361	265,748	293,092
Foreign exchange	110,597	6,846	213	(858)	116,011	232,809
Net loss	(952,387)	(583,404)	(2,603,193)	(17,219)	(1,079,349)	(5,235,553)

Six months ended June 30 2008	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
	\$	\$	\$	\$	\$	\$
Sales	20,136,983	-	-	-	-	20,136,983
Cost of sales*	(16,226,020)	-	-	-	-	(16,226,020)
Project expenses	-	(1,012,991)	(3,091,481)	(35,219)	-	(4,139,691)
Other expenses	(4,245,415)	72	(494,631)	(1,927,167)	(7,372,358)	(14,039,498)
Depreciation and amortization	(137,023)	(42,160)	(322,421)	-	(19,093)	(520,697)
Interest received	100,297	7,735	582,428	1,100	293,364	984,924
Foreign exchange	(2,605,843)	(1,058,104)	(115,689)	(29,438)	3,138,515	(670,559)
Net loss	(2,977,021)	(2,105,448)	(3,441,794)	(1,990,724)	(3,959,572)	(14,474,558)

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Six Months ended June 30 2007	MagForestry	MagEnergy	MagMinerals	MagMetals	Corporate	Total
	\$	\$	\$	\$	\$	\$
Sales	1,558,414	-	-	-	-	1,558,414
Cost of sales*	(1,193,656)	-	-	-	-	(1,193,656)
Expenses	-	(804,289)	(3,564,755)	(33,544)	(103,579)	(4,506,167)
Project expenses	(1,696,828)	(172,640)	(411,273)	(6,443)	(3,077,990)	(5,365,174)
Depreciation and amortization	(108,063)	(85,619)	(270,807)	-	(39,021)	(503,510)
Interest received	22,224	11,302	21,376	617	832,282	887,801
Foreign exchange	308,864	(10,334)	166,918	(858)	(295,290)	169,300
<b>Net loss</b>	<b>(1,109,045)</b>	<b>(1,061,580)</b>	<b>(4,058,541)</b>	<b>(40,228)</b>	<b>(2,683,598)</b>	<b>(8,952,992)</b>

\*Including shipping

As at	June 30, 2008		December 31, 2007	
	Capital assets	Total assets	Capital assets	Total assets
	\$	\$	\$	\$
MagMinerals	4,146,169	129,715,424	4,214,218	57,645,809
MagMetals	-	6,794,745	-	4,547,692
MagEnergy	324,261	20,282,170	366,420	18,591,713
MagForestry	38,448,747	59,273,536	29,115,729	53,192,061
Corporate	906,745	8,584,556	752,501	31,748,322
	<b>43,825,922</b>	<b>224,650,432</b>	<b>34,358,868</b>	<b>165,725,597</b>

All amounts are from continuing operations

## 8. Financial instruments and risk management

### Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments, including those held for sale on the consolidated balance sheet are classified into the following categories:

	June 30 2008 \$	December 31 2007 \$
Held for trading <sup>(1)</sup>	<b>70,923,886</b>	42,196,923
Loans and receivables <sup>(2)</sup>	<b>6,829,120</b>	4,109,899
Other financial liabilities <sup>(3)</sup>	<b>(43,614,704)</b>	(69,256,526)
	<b>34,138,302</b>	(22,949,704)

(1) Includes cash and cash equivalents.

(2) Includes accounts receivable.

(3) Includes accounts payable and accrued liabilities long-term debt, and corporate notes

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying value.

### Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management

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program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

Risk management is carried out by management in conjunction with an outsourced treasury management organization under policies approved by the Board of Directors. Management identifies, evaluates and executes the hedging of financial risks.

**(a) Market risk**

*(i) Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The company is primarily operates in Republic of Congo, which has a currency which has a fixed exchange rate to the Euro (the "FCFA"). Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-US dollar forecast operating costs on a case by case basis. Future revenue from forecast potash sales is likely to be denominated in US Dollars. The majority of the Company's forecast operating cost is in US dollars and FCFA/Euros and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities at the reporting date is as follows:

	Assets \$	Liabilities \$
US dollars	31,191,592	(36,948,310)
Euros <sup>(1)</sup>	27,500,652	(5,555,383)
Canadian dollars	19,060,762	(1,111,011)
	<u>77,753,006</u>	<u>(43,614,704)</u>

(1) includes FCFA assets and liabilities as the FCFA has a fixed exchange rate to the Euro.

*Sensitivity*

Based on the financial instruments held at June 30, 2008, had the US Dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the quarter would have been \$4.0 million higher/lower as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments as detailed above. Equity would have been \$4.0 million higher/lower had the US Dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-US dollar denominated financial instruments.

*(ii) Price risk*

*Commodity price risk*

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company is exposed to commodity price risk arising from revenue derived from forecast future potash, wood fibre or electricity sales. The Company does not manage commodity price risk through the use of derivative instruments.

*Sensitivity*

At June 30, 2008 a change in the value of potash, wood fibre or electricity would not change the recognized value of any of the Company's financial instruments.

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*(iii) Cash flow fair value interest rate risk*

The Company does not have significant interest-bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the balance of the bank accounts.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to outstanding receivables.

The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit rating and where necessary credit risk is effectively eliminated or substantially reduced by using bank instruments to secure payment.

The Company has no significant concentrations of credit risk. The carrying amount of financial assets recorded in the financial statements are adjusted for any impairment and represent the Company's maximum exposure to credit risk.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. The main long-term financial obligation of the Company is the \$38.7 million face value of the corporate notes which are due December 20, 2012.

**(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available for similar financial instruments.

**9. Management of capital**

The Company's objective when managing capital is to maintain adequate levels of funding to support evaluation and development projects, to expand regional exploration activities within the Kouilou province of Congo and to maintain corporate and administrative functions.

The Company manages its capital structure in a manner that provides sufficient funding for project evaluation and development and operational activities. Funds are primarily secured through the issue and sale of common shares and long-term debt. There can be no assurances that the Company will be able to continue to provide adequate funds in this manner.

The Company maintains minimal surplus capital and therefore does not have significant investments. All working capital for immediate needs are invested in liquid and highly rated financial instruments, such as money market funds with major Canadian and Caribbean financial institutions.

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**10. Discontinued operations**

The following is a summary of the MagPetroleum business segment, which has been accounted for as a discontinued operation since December 28, 2006.

	<b>June 30 2008</b>	December 31 2007
	<b>\$</b>	<b>\$</b>
Cash	<b>101,135</b>	141,336
Accounts receivable and prepaid expenses	<b>3,014,609</b>	2,952,342
Advances for petroleum shipments	<b>169,470</b>	189,268
	<b>3,285,214</b>	3,282,946
Capital assets	-	-
	<b>3,285,214</b>	3,282,946
Accounts payable and accrued liabilities	<b>3,461,362</b>	3,456,626
Due to MagIndustries	<b>2,792,064</b>	2,794,532
Deficit	<b>(2,968,212)</b>	(2,968,212)
	<b>3,285,214</b>	3,282,946

	Three months ended		Six months ended	
	<b>2008</b>	June 30 2007	<b>2008</b>	June 30 2007
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	<b>3,849,397</b>	4,536,530	<b>8,653,951</b>	8,300,501
Cost of goods sold	<b>3,542,640</b>	4,128,644	<b>7,835,561</b>	7,585,858
Gross profit	<b>306,757</b>	407,886	<b>818,390</b>	714,643
Operating expenses	<b>453,585</b>	656,792	<b>959,883</b>	1,024,951
Net loss	<b>(146,828)</b>	(248,906)	<b>(141,493)</b>	(310,308)
Impairment of segment assets	<b>146,828</b>	-	<b>141,493</b>	-
Segment net (loss) income	-	(248,906)	-	(310,308)

In 2007 the Company determined that due to continuing losses at MagPetroleum the capital and non-monetary assets were impaired and were written down to fair value. MagPetroleum is consolidated into these financial statements due to Variable Interest Entity accounting rules. This will continue until MagPetroleum has sufficient capital to support its ongoing operations, the agreement to dispose of the Company interest is complete, or the business is liquidated. The Company's equity accounted deficit does not change as a result of operating losses of MagPetroleum as the carrying value of the investment is nil.

**11. Subsequent events**

On July 14, 2008 the Company completed the issuance of CAD\$70 million in subscription receipts at a price of CAD\$5.00 per subscription receipt. Each subscription receipt will entitle the holder thereof to acquire (for no additional consideration) at any time, and will be deemed to cause the holder thereof to acquire on the completion of a liquidity event, one common share in the capital of MagPotash.

The issuance of the common shares and subsequent purchase of subscription receipts were completed with terms similar to the terms of the financings and subscriptions completed in April, whereby in connection with the above issuances, MagPotash has agreed to use its best efforts to cause a liquidity event to occur before October 3, 2008, the Liquidity Event Deadline. Such liquidity event will involve (i) the completion of a reorganization to, among other things, cause MagBarbados (the entity which holds the potash assets) to become a wholly-owned subsidiary of MagPotash, (ii) causing MagPotash to become a reporting issuer in one or more provinces of Canada and (iii) causing the common shares of MagPotash to become listed on a Canadian exchange.

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Each subscription receipt will entitle the holder thereof to acquire (for no additional consideration) at any time, and will be deemed to cause the holder thereof to acquire on the completion of a liquidity event, one common share in the capital of MagPotash (or in the event that the aforementioned liquidity event does not occur by the Liquidity Event Deadline, 1.05 common shares in the capital of MagPotash).