Management's responsibility for financial reporting

The accompanying consolidated financial statements and all the data included in this financial report have been prepared by, and are the responsibility of, the management of MagIndustries Corp. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains a system of disclosure controls and internal controls in order to ensure, on a reasonable and cost effective basis, the reliability and completeness of the financial information and disclosures.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee of the Board of Directors, which is comprised of independent directors, has reviewed in detail the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Ernst & Young LLP, Licensed Public Accountants have audited the consolidated financial statements. Their report outlines the scope of their audit and opinion on the consolidated financial statements.

March 30, 2012

Chen LongboChief Executive Officer

William C. Burton
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of MagIndustries Corp.

We have audited the accompanying consolidated financial statements of MagIndustries Corp., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MagIndustries Corp. as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the Company incurred a net losses of \$97.0 million and \$67.9 million during the years ended December 31, 2011 and 2010, respectively. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Toronto, Canada March 30, 2012 Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Consolidated statements of financial position (note 1 – Nature of operations and basis of presentation) (Expressed in thousands of US dollars)

As at	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Current assets			
Cash and cash equivalents	1,422	9,346	24,364
Restricted cash (note 6)	648	667	717
Accounts receivable and prepaid expenses (note 7)	4,722	2,926	3,655
Inventories (note 8)	8,347	7,870	7,931
Current assets of discontinued operations (note 13)	-	1,290	
	15,139	22,099	36,667
Non-current assets			
Timber holdings (note 9)	3,831	3,141	-
Property, plant and equipment, net (note 10)	95,926	112,976	134,728
Evaluation and exploration (note 11)	8,904	58,547	66,075
Mineral exploration rights (note 12)	11,050	11,050	5,050
Non-current assets of discontinued operations (note 13)	-	-	3,734
	134,850	207,813	246,254
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities Bank indebtedness (note 6)	337	864	1,001
Accounts payable and accrued liabilities	7,632	6,065	18,636
Shareholder loan (note 15)	45,389	-	-
Current liabilities of discontinued operations (note 13)	378	802	-
Non-current liabilities	53,736	7,731	19,637
Corporate notes (note 14)	-	29,787	28,763
Provisions (note 16)	107	99	96
	53,843	37,617	48,496
Commitments, contingencies and guarantees (note 18)			
Shareholders' equity			
Share capital (note 19)	424,715	416,880	376,569
Deficit	(327,825)	, , ,	(178,811)
Accumulated other comprehensive loss	(15,883)		-
	81,007	170,196	197,758
	134,850	207,813	246,254

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

Approved on behalf of the Board,

(signed) Longbo Chen

(signed) Yuan Ding

Consolidated statements of loss and comprehensive loss (Expressed in thousands of US dollars, except share and per

share data)

,	2011	2010
	\$	\$
Sales	16,402	27,745
Shipping	3,258	8,855
Cost of sales	10,074	19,362
	3,070	(472)
Expenses		
Impairment charges (notes 10 and 11)	64,685	16,275
General and administrative	16,424	12,156
Project expenditures	5,916	6,617
Reforestation costs	5,176	4,818
Interest	5,176	4,559
Loss on corporate notes settlement (note 14)	2,340	-
Loan modification expense (note 15)	2,180	-
Amortization and depreciation	579	635
Stock-based compensation (note 19)	140	8,995
Accretion expense (note 16)	10	11
Shipping contract settlement	-	4,000
	102,626	58,066
Operating loss from continuing operations	(99,556)	(58,538)
Revaluation of timber holdings (note 9)	690	3,141
Interest income	52	21
Foreign exchange (loss) gain	(734)	703
Loss before income taxes	`	
Net loss from continuing operations	(99,548)	(54,673)
Income tax recovery (note 17)	753	-
Net loss from continuing operations	(98,795)	(54,673)
Net gain (loss) from discontinued operations (note 13)	5,754	(1,300)
Net loss for the year	(93,041)	(55,973)
Other comprehensive loss	, , ,	, , ,
Foreign currency translation adjustments	(3,983)	(11,900)
Comprehensive loss for the year	(97,024)	(67,874)
Basic and diluted net loss (income) per share:		
- Continuing operations	ቁ ስ 22	\$0.13
3 1	\$0.22	Φ0.13
- Discontinued operations Total basic and diluted net loss per share	(\$0.01) \$0.21	\$0.13
1		-
Weighted average number of common shares outstanding	458,206,984	409,745,257

Consolidated statements of changes in shareholders' equity

(Expressed in thousands of	US dol	lars)				Accumulated other	
	Note	Capital stock \$	Warrants \$	Deficit \$	Contributed surplus \$	comprehensive loss	Total \$
January 1, 2010		333,070	5,430	(178,811)	38,069	-	197,758
Shares issued for:							
Stock options exercised	19	121	-	-	(40)	-	81
Prospectus share offerings	³ 19b	31,234	-	-	-	-	31,234
Stock-based							
compensation	19	-	-	-	1,820	-	1,820
Warrants issued	19	-	7,176	-	-	-	7,176
Net loss for the year		-	-	(55,973)	-	-	(55,973)
Other comprehensive loss:							
Foreign currency translation adjustments						(11,000)	(11,000)
December 31, 2010	_	264.425	12.606	(224.794)	20.940	(11,900)	(11,900)
Net loss for the year		364,425	12,606	(234,784)	39,849	(11,900)	170,196
Stock options exercised	1.0	1 275	-	(93,041)	- (421)	-	(93,041)
Stock-based	19	1,275	-	-	(421)	-	854
compensation	19	-	-	-	140	-	140
Transfer of expired warrants	19	-	(6,248)	_	6,248	-	-
Income tax recovery	17	130	-	-	(883)	-	(753)
Issuance of loan conversion feature Other comprehensive	19	-	-	-	7,594	-	7,594
loss:							
Foreign currency translation adjustments						(2.002)	(2.002)
December 31, 2011		265 920	(250	(225 925)	- 	(3,983)	(3,983)
December 31, 2011		365,830	6,358	(327,825)	52,527	(15,883)	81,007

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

Consolidated statements of cash flows

(Expressed in thousands of US dollars)

(Expressed in mousailus of OS donars)	2011	2010
	\$	\$
Operating activities		
Loss from continuing operations for the year	(98,795)	(54,673)
Operating items not involving cash:		
Impairment charges (notes 10 and 11)	64,685	16,275
Loss on corporate notes settlement (note 14)	2,340	-
Loan modification expense (note 15)	2,180	-
Revaluation of timber holdings	(690)	(3,141)
Amortization, depreciation and accretion expense	4,873	5,679
Stock-based compensation (note 19)	140	8,995
Loss on disposal of property, plant &equipment	-	150
Income tax recovery	(753)	-
Foreign exchange gain	(2,859)	(761)
Net change in non-cash working capital balances related to		
operating activities (note 21)	(1,292)	806
Cash used in continuing operations	(30,171)	(26,670)
Cash from discontinued operations	6,620	1,583
Cash used in operating activities	(23,551)	(25,087)
Investing activities		
Additions to evaluation and exploration (note 11)	(1,562)	(1,676)
Restricted cash	19	50
Additions to property, plant and equipment	(249)	(1,585)
Purchase of mineral exploration rights (note 12)	(= ->) -	(6,000)
Proceeds from sale of property, plant & equipment	_	136
Net change in non-cash working capital balances related		150
to investing activities	587	(12,587)
Cash used in investing activities	(1,205)	(21,662)
Financing activities		
Shareholder loan issued (note 15)	50,684	
Corporate notes redeemed (note 14)	(32,318)	_
Bank indebtedness	(527)	(137)
Common shares issued, net of issuance costs (note 19)	(321)	31,234
	854	-
Exercise of options (note 19)		82
Cash from financing activities	18,693	31,179
Effect of exchange rate changes on foreign cash	(1,861)	552
Net decrease in cash and cash equivalents	(7,924)	(15,018)
Cash and cash equivalents, beginning of year	9,346	24,364
Cash and cash equivalents, end of year	1,422	9,346

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

Notes to consolidated financial statements

(Expressed in US dollars unless otherwise stated)

1. Nature of operations and basis of presentation

MagIndustries Corp. ("MagIndustries" or the "Company") is governed by the Canada Business Corporation's Act pursuant to articles of continuance dated January 10, 2006. The Company is a reporting issuer and its common shares are publicly traded on the Toronto Stock Exchange under the symbol "MAA". The parent of MagIndustries is Evergreen Industries Group ("Evergreen"). The principal head office of the Company is located at Suite 820, 33 Yonge Street, Toronto, Ontario, Canada M5E 1G4.

The Company has three business units: MagMinerals, MagMetals and MagForestry. The Company is engaged in financing, developing and placing into production or operation the following projects:

Project	Description	Location	Business unit
Potash plant	Construction of 1.2 million tonnes per year potash plant	Pointe-Noire, Republic	MagMinerals
	in two phases of 600,000 tonnes each	of Congo ("ROC")	
Potash	Makola exploration license for an estimated 1.7 billion	Pointe-Noire, ROC	MagMinerals
exploration	tonnes of potash (KCI)		
Magnesium plant	Evaluation of the Kouilou magnesium plant to be located	Pointe-Noire, ROC	MagMetals
	adjacent to MagMinerals potash plant		
Eucalyptus	Operation of a 68,000 hectare eucalyptus forestry	Pointe-Noire, ROC	MagForestry
plantation and	plantation (of which 25,000 hectares is presently		
chip mill	unplanted) and a 500,000 tonnes per year wood chip mill		

The Company's MagEnergy division has development rights for the construction of a potential hydroelectric facility at the Busanga site on the Lualaba River in the Katanga Province of the Democratic Republic of Congo ("DRC"). Effective August 2010, MagEnergy is being accounted for as discontinued operations (note 13).

The Company's projects have yet to generate significant revenues. As at December 31, 2011, the Company had a working capital deficit of \$38.6 million and had incurred net losses of \$97.0 million and \$67.9 million for the years ended December 31, 2011 and December 31, 2010, respectively, and had yet to achieve profitable operations thereby accumulating losses of \$327.8 million. These continuing losses cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As described in notes 11 and 22(c), the development of the MagMinerals potash project is subject to raising additional equity and debt. The availability of such additional funds is not assured and, if available, the terms thereof are not yet determinable.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing. The Company anticipates that it will substantially source this financing from shareholder loans from Evergreen, or equity issuances to Evergreen, or a combination thereof. The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Summary of significant accounting policies

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were prepared on a going concern basis under the historical cost convention, except for certain financial assets which are presented at fair value in United States dollars, which is the Company's presentation currency. These consolidated financial statements represent the Company's first annual financial statements, including comparative periods, under IFRS. They have been prepared in accordance with IFRS and IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), and those IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective as at the time of preparing these consolidated financial statements. The IFRS standards and IFRIC interpretations applicable at December 31, 2011, including those applicable on an optional basis, were not known with certainty at the time of preparing these consolidated financial statements.

The Company's annual consolidated financial statements previously were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs from IFRS in some areas. In preparing the IFRS statements, management amended certain accounting and valuations previously applied under Canadian GAAP. The 2010 comparative figures have been restated to reflect these adjustments.

The Company's date of transition was January 1, 2010 ("Transition Date"). On adoption of IFRS, the accounting policies of the Company's subsidiaries were changed as necessary to ensure consistency with the policies of the Company. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS on the Company's consolidated financial statements are provided in note 5.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 30, 2012.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

The Company's significant subsidiaries are as follows:

	Relationship	Geographic location	Economic interest	Basis of accounting
MagMinerals				
Potasses Congo SA	Subsidiary	Pointe Noire, ROC	90%	Full consolidation
Potasse du Congo SA	Subsidiary	Pointe-Noire, ROC	100%	Full consolidation
MagMetals Inc.	Subsidiary	St. Michael, Barbados	100%	Full consolidation
Eucaluptus Fibre				
Congo SA	Subsidiary	Pointe Noire, ROC	100%	Full consolidation
MagEnergy Inc.	Subsidiary	St. Michael, Barbados	100%	Full consolidation
				(discontinued)

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies to obtain benefits from its activities. Control is presumed to exist where the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The potential impact of voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the

date control is transferred to the Company and are de-consolidated from the date control ceases.

Foreign currency translation

The consolidated financial statements are presented in United States dollars. The Company's functional currency is the Canadian dollar. Each entity consolidated by the Company determines its own functional currency based on the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange at the consolidated statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

Translation of foreign entities

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which it operates. Foreign operations that have a functional currency different from the presentation currency are translated into United States dollars in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the rate of exchange in effect at the reporting date;
- Revenue and expense items (including depletion, depreciation and amortization) are translated at average rates of exchange prevailing during the period; and
- Exchange gains and losses that result from the translation are recognized in other comprehensive loss and reported as a foreign currency translation adjustment in accumulated other comprehensive loss.

Discontinued operations

A discontinued operation is a component of the Company that can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes, and is expected to be recovered primarily through sale rather than continuing use. The assets and liabilities are presented as held for sale in the consolidated statements of financial position when the relevant criteria are met. Results of operations and any gain or loss from disposal are excluded from income before financial items and tax and are reported separately as income from discontinued operations.

Basis of segmented disclosure

The Company's reportable segments are business units that offer distinct products and services.

- MagMinerals has proposed a stand-alone potash plant in ROC with total planned production of 1.2 million tonnes of potash per year, separated into two modular phases of 600,000 tonnes per year each. MagMinerals also has additional potash exploration licenses it is evaluating.
- MagMetals is evaluating the possibility of establishing a magnesium smelter adjacent to the proposed MagMinerals potash plant.
- MagForestry operates a 68,000 hectare eucalyptus forestry plantation that produces and sells wood chips to the European market. The Company has constructed a wood chip plant at the port of Pointe-Noire in the ROC which achieved commercial production in November 2008.
- MagIndustries' corporate offices oversee the operations of these three segments.

When determining its reportable segments, the Company considers qualitative factors, such as operations which are considered to be significant by senior management. The Company also considers quantitative thresholds when determining operating segments, such as if revenue, income (loss) or assets are greater than 10% of the total consolidated revenue, net income (loss), or assets of all the reportable segments, respectively. The reportable segments' financial results are reviewed by senior management.

Revenue recognition

100% of MagForestry's revenue consists of the sale of eucalyptus wood chips and logs. The wood chips and logs are delivered by ship and revenue recognition is based on shipping terms. The logs are delivered to customers directly from the storage facility at the port of Pointe Noire, ROC, and typically have the terms free on board (FOB) shipping point or cost and freight (CFR or C&F). Revenue is recorded when the ship leaves the port at which time title and significant risk of ownership has passed to the customer.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and short-term bank deposits with original maturity dates of less than three months at the time of acquisition or which are readily convertible into known amounts of cash. Cash and cash equivalents as at December 31, 2011 include cash equivalents of \$0.4 million (December 31, 2010 – \$0.9 million).

Inventories

MagIndustries' inventories are carried at the lower of cost and net realizable value ("NRV"). 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 based on normal operating capacity) and other costs incurred in bringing the inventories to their present location and condition.

Cost of supplies and production materials includes purchase costs 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-progress includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Inventories are written down to NRV at the time carrying value exceeds NRV. Reversals of previous write-downs to NRV are recognized when there is a subsequent increase in the value of inventories. NRV is determined using the estimated selling price in the ordinary course of business, less estimated costs to make the sale.

Financial instruments

Financial instruments are measured at their fair values on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method

The Company has made the following classifications:

- Cash and cash equivalents, restricted cash and bank indebtedness are classified as held-for-trading and are measured at fair value. Gains and losses resulting from their periodic revaluation are recorded in net income (loss).
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair values. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are
 initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective
 interest rate method.

The Company's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based on inputs that are not based on observable market data.

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. Transaction costs for financial assets classified as available-for-sale are added to the value of the instruments at acquisition. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and recorded in income (loss) using the effective interest rate method.

Property, plant and equipment

Property, plant and equipment include capitalized development and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Also included in the cost of property, plant and equipment are borrowing costs on qualifying capital projects. Once construction of an asset is substantially complete and is ready for its intended use, the costs are depreciated.

Property, plant and equipment are depreciated using the straight-line method based on estimated useful lives, when the assets are available for use. Property, plant and equipment may have components with different useful lives. Depreciation is calculated based on each individual component's useful life. New components are capitalized to the extent that they meet the recognition criteria of an asset. The carrying amount of the replaced component is derecognized and included in income. If the carrying amount of the replaced component is not known, it is estimated based on the cost of the new component less estimated depreciation. The useful lives of the Company's property, plant and equipment, which are regularly assessed for relevance at least every statement of financial position date, are as follows:

Computer, office equipment and vehicles

Forestry equipment

Leasehold improvements

Drilling equipment

Civil and building works

Structural works

Machinery

2 - 5 years

5 - 10 years

20 years

20 years

10 years

Assets under construction not depreciated during development period

Evaluation and exploration

Evaluation and exploration ("E&E") expenditures generally include the direct costs of licenses, technical services and studies, environmental studies, seismic studies, exploration drilling and testing, and directly attributable overhead and administration expenses including remuneration of operating personnel and supervisory management. These costs do not include general prospecting or evaluation costs incurred prior to having obtained the rights to explore an area, which are expensed as they are incurred.

E&E expenditures are capitalized and carried forward until technical feasibility and commercial viability of extracting the resource is established.

Mineral exploration rights

Acquisition costs for mineral exploration rights are deferred until it is determined that these costs will not be recovered from future operations, at which point these costs are written off to operations. These costs are depleted on a unit-of-production basis commencing at the onset of commercial production for the related property.

Timber holdings

Timber holdings are stated at fair value less estimated costs of harvesting and selling.

The fair value of standing timber is determined by independent third-party appraisers using a discounted cash flow analysis. Quarterly valuations are determined by reducing the value of the timber by the fair value of the timber harvested in the period and adding back the fair value of the estimated timber growth in the period. As well, management reviews

the underlying appraisal assumptions to determine if there has been a material change that would require a fair value adjustment based on changes in assumptions.

The fair value of timber harvested is charged to inventory when logs are measured and transferred to fair value adjustments when logs are sold. A distinct value is calculated for each harvest product group based on average market price less average cost of harvest and delivery.

The fair value of timber growth is credited to fair value adjustments based on a periodic growth rate. The value of growth is determined for each product grouping based on trend average market prices less average cost of harvest and delivery.

Reforestation expenditures are expensed as incurred.

Impairment of non-financial assets

The Company assesses the carrying amount of non-financial assets including property, plant and equipment at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors, are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset. The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset. Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain from the sale of the asset in an arm's length transaction. This is often accomplished by using a discounted cash flow technique.

Impairment is assessed at the cash-generating unit ("CGU") level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Company reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in cost of sales or general and administrative expense, depending on the nature of the asset.

Provisions

Provisions represent liabilities of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Environmental rehabilitation

Provisions for environmental rehabilitation include decommissioning and restoration costs when the Company has an obligation to dismantle and remove infrastructure and residual materials as well as to restore the disturbed area. Estimated decommissioning and restoration costs are provided for in the accounting period when the obligation arising from the

disturbance occurs based on the net present value of estimated future costs. The provision for environmental rehabilitation is reviewed and adjusted each period to reflect developments which could include changes in closure dates, legislation, discount rate or estimated future costs.

The amount recognized as a liability for environmental rehabilitation is calculated as the present value of the estimated future costs determined in accordance with local conditions and requirements. An amount corresponding to the provision is capitalized as part of property, plant and equipment and is depreciated over the life of the corresponding asset. The impact of amortization or unwinding of the discount rate applied in establishing the net present value of the provision is recognized in interest expense. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16, "Property, Plant and Equipment". Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying amount is recorded immediately in cost of sales.

If the change in estimate results in an increase in the rehabilitation provision and therefore an addition to the carrying amount of the asset, the entity is required to consider whether the new carrying amount is recoverable, and if this is an indication of impairment of the asset as a whole exists, the Company tests for impairment in accordance with IAS 36, "Impairment of Assets". If the revised mine assets net of rehabilitation provisions exceed the recoverable value, that portion of the increase is charged directly to cost of sales. For closed sites, changes to estimated costs are recognized immediately in cost of sales. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated cost of outstanding rehabilitation work at each consolidated statement of financial position date and any increase in overall cost is expensed.

No amount has been recorded in these consolidated financial statements for future site cleanup, reclamation or remediation obligations for the Company's mineral exploration activities as no such obligations have yet been incurred. The Company has recorded an asset retirement obligation as a result of its forestry operation as the terms of the lease require that the forestry concession on which the Company operates be left in good condition at the end of the lease.

Income taxes

The income tax expense or benefit for the reporting period consists of two components: current and deferred taxes.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at each reporting date in each of the jurisdictions and includes any adjustments for taxes payable or recoverable in respect of prior periods.

Current tax assets and liabilities are offset when they relate to the same jurisdiction, the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are determined using the statement of financial position liability method based on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted by each reporting date in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled. Deferred tax assets and liabilities are presented as non-current.

Deferred tax liabilities are recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences with the exception of the following items:

- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the Company is able to control the timing of the reversal of temporary differences and such reversals are not probable in the foreseeable future;
- Temporary differences associated with goodwill;
- Temporary differences that arise on the initial recognition of assets and liabilities in a transaction that is not a business combination and has no impact on either accounting profit or taxable profit; and
- Deferred tax assets are only recognized to the extent that it is probable that sufficient taxable profits exist in future periods against which the deductible temporary differences can be utilized.

The probability that sufficient taxable profits exist in future periods against which the deferred tax assets can be utilized is reassessed at each reporting date. The amount of deferred tax assets recognized is adjusted accordingly. Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Company has the legal right to offset them.

Current and deferred taxes that relate to items recognized directly in equity are also recognized in equity. All other taxes are recognized in income tax expense in the consolidated statements of loss and comprehensive loss.

Stock-based compensation

The fair value method of accounting for stock options is used. Under this method, compensation cost is measured at the grant date based on the fair value of the option as determined using the Black-Scholes option pricing model and is accounted for in income over the vesting period of the options, with the related credit being included in contributed surplus. Consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital along with the contributed surplus previously recognized.

Income (loss) per share

Basic income (loss) per share amounts are calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury method, which assumes that all outstanding stock option grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

3. Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

Environmental rehabilitation provisions

The Company's operations are subject to environmental regulations in all the countries in which the Company operates. Many factors such as future changes to environmental laws and regulations, life of mine estimates, the cost and time it will take to rehabilitate the property and discount rates all affect the carrying amount of environmental rehabilitation provisions. As a result, the actual cost of environmental rehabilitation could be higher than the amounts the Company has estimated. The environmental rehabilitation provision is assessed quarterly and measured by discounting the expected cash flows. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money, which is determined based on government bond interest rates and inflation rates. The actual rate depends on a

number of factors, including the timing of rehabilitation activities that can extend decades into the future and the location of the property.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, including asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment requires judgment and is based on currently available information. Property, plant and equipment are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy, can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment or future cash flows constitute a change in accounting estimate and are applied prospectively.

Asset impairment

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Valuation of timber holdings

Timber holdings are stated at fair value less estimated costs of harvesting and selling using discounted cash flow analysis. This calculation includes estimates of future prices and margins, future sales volumes, future harvest rates and sustainable yields, and discount rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Evaluation and exploration

Management must make estimates and assumptions when determining when to transfer E&E expenditures from intangible asset to property, plant and equipment, which is normally at the time when commercial viability is achieved. Assessing commercial viability requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure, a decision is made that recovery of the expenditure is unlikely, the amount capitalized is recognized in cost of sales in the consolidated statements of loss and comprehensive loss.

Income taxes

The Company calculates deferred income taxes based on temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Company records deferred tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs, and can be either increased or decreased where, in the view of management, such change is warranted.

In determining whether it is probable that a deferred tax asset will be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Significant judgment may be involved in determining the timing of expected reversals of temporary differences.

4. Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the IASB and the IFRIC with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IAS 12 – Income Taxes	In December 2010, IAS 12 Income Taxes ("IAS 12") was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – Recovery of Revalued Non-depreciable Assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which has been withdrawn.	January 1, 2012
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB's) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments ("IFRS 9") that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015
IFRS 10 - Consolidation	IFRS 10 Consolidation ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 Joint Arrangement ("IFRS 11") requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-monetary Contributions.	January 1, 2013

International Accounting Standards		Effective Date
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off statement of financial position vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 Fair Value Measurement ("IFRS 13") is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements ("IAS 27") has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 Investments in Associates and Joint Ventures ("IAS 28") has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013
IAS 1 – Presentation of Financial Statements	The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss.	January 1, 2013
IFRS 7 – Financial Instruments, Disclosures	IFRS 7 Financial Instruments, Disclosures has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements.	January 1, 2013
IAS 32 – Financial Instruments, Presentation	In December 2011, IAS 32 Financial Instruments, Presentation has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event.	January 1, 2014

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Company has not been determined.

5. Transition to IFRS

The Company has adopted IFRS effective January 1, 2011. As at the Transition Date, the Company has prepared its opening IFRS consolidated statement of financial position. These consolidated financial statements have been prepared in accordance with the accounting policies described in note 2, including the application of IFRS 1.

The following tables reconcile the consolidated financial statements previously reported under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS. Explanations of the effect of the transition to IFRS follow the reconciliations

Mandatory exceptions from retrospective application

IFRS 1 requires certain mandatory exceptions from full retrospective application of all accounting standards effective at the Transition Date. The following mandatory exceptions were applicable to the Company at the Transition Date:

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the Transition Date to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimated were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Optional IFRS 1 exemptions from retrospective application

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. IFRS 1 provides optional exemptions from retrospectively applying the standards. The Company has applied the following significant optional exemptions to its opening consolidated statement of financial position prepared as at the Transition Date:

Deemed cost

IFRS 1 provides the option to measure property, plant and equipment, including E&E costs, at deemed cost, being the fair value of the asset at the date of transition. The Company has elected to measure items of property, plant and equipment, including E&E costs, at depreciated historical cost.

IAS 21 - The Effects of Changes in Foreign Exchange Rates

IFRS 1 provides an exemption to not apply the guidance of IAS 21 The Effects of Changes in Foreign Exchange Rates ("IAS 21"), retrospectively for cumulative translation differences relating to foreign operations that existed at the Transition Date. Retrospective application of IAS 21 would require the Company to determine cumulative currency translation differences from the date a subsidiary or other investee was formed or acquired. The Company has elected to apply the exemption under IFRS 1 and reset all cumulative translation gains and losses to zero at its Transition Date.

IFRS 2 - Exemption for share-based payment transactions

An IFRS 1 exemption allows the Company to not apply IFRS 2 Share-based payment ("IFRS 2"), to equity instruments granted after November 7, 2002 that vested before the Transition Date to IFRS. The Company has elected to take the exemption and, as a result, was only required to recalculate the impact on any share-based payments that have not vested at the Transition Date.

Under IFRS, the Company moved from straight-line to graded vesting as well as to estimating forfeitures for the recognition of share-based compensation expense. The graded vesting requires a greater portion of expense to be recorded in the initial periods compared to distributing the expense equally over all vesting periods under the straight-line method. At January 1, 2010, this change in accounting policy had no impact on the opening deficit.

Reconciliation of statements of financial position items and equity under Canadian GAAP and IFRS

(Thousands) Effect of Previous Effect of Previous **IFRS IFRS** Canadian Canadian **GAAP** Transition **IFRS GAAP** Transition **IFRS** January 1, 2010 December 31, 2010 Note **Current assets** Cash and cash equivalents 9,346 9,346 24,379 (15)24,364 (a) 717 717 Restricted cash 667 667 Receivables and prepaid expenses 3,037 (111)2,926 3,628 27 3,655 (a) Inventories (b) 7,868 2 7,870 7,928 3 7,931 Discontinued operations 1,290 1,290 22,208 (109)22,099 36,652 15 36,667 Non-current assets Timber holdings (b) 25,138 (21,997)3,141 20,792 (20,792)Property, plant and equipment, net (c)(d)(e)42,599 70,377 112,976 47,100 87,628 134,728 Evaluation and exploration (d) 147,962 (89,415)58,547 151,373 (85,298)66,075 Mineral exploration rights (f) 15,800 (4,750)11,050 6,750 (1,700)5,050 Discontinued operations 3,734 3,734 253,707 (45,894)207,813 266,401 (20,147)246,254 **Current liabilities** Bank indebtedness (a) 854 10 864 1,001 1,001 Accounts payable and accrued liabilities (a) 6,049 16 6,065 18,398 238 18,636 Discontinued operations (a) 802 802 7,705 26 7,731 19,399 238 19,637 Non-current liabilities Corporate notes (a) 29,746 41 29,787 28,520 243 28,763 (f) 4,490 (4,490)1,700 (1,700)Deferred (Future) income taxes Provisions (Asset retirement obligations) (a) 101 99 97 96 (2)(1) 37,617 42,042 (4,425)49,716 (1,220)48,496 Shareholders' equity Share capital 416,880 416,880 376,569 376,569 Deficit (205,215)(29,569)(234,784)(159,884)(18,927)(178,811)(11,900)(11,900)Accumulated other comprehensive loss (a) 211,665 (41,469)170,196 216,685 (18,927)197,758 253,707 (45,894)207,813 266,401 (20,147)246,254

Reconciliation of net loss and other comprehensive loss under Canadian GAAP and IFRS

		Year ended
		December 31
	Note	2010
(thousands)		\$
Net loss – as reported under Canadian GAA	P	(45,331)
Expensed reforestation costs	(b)	(4,818)
Fair value adjustment of timber holdings	(b)	3,141
Impairment write-down	(c)	(10,800)
Reversal of depreciation	(c)(d)	(380)
Depreciation adjustment	(c)(d)	158
Effect of translation of foreign currencies	(a)	2,057
		(10,642)
Net loss – as reported under IFRS		(55,973)
Other comprehensive loss	(a)	(11,900)
Comprehensive loss – as reported under IFF	S	(67,873)

IAS 21 - Foreign currency translation (a)

Under Canadian GAAP, MagMinerals Potasses Congo SA ("MPC", the subsidiary which holds the potash project) was considered an integrated foreign operation that used the temporal method for translating foreign currencies and had a U.S dollar functional currency. The indicators used to determine if a foreign operation is integrated or self-sustaining are equally weighted. Gains or losses resulting from these translation adjustments are recognized in the consolidated statements of loss and comprehensive loss.

In IFRS, the concept of an integrated or self-sustaining foreign operation does not exist. The Company determined that the functional currency of MPC is the Euro. The indicators used to determine the functional currency of a foreign operation are based on the transactions carried out in the entity's primary economic environment. The various factors evaluated in making the determination of functional currency are ranked differently between Canadian GAAP and IFRS. As a result of a Euro functional currency, MPC's operations have been translated at the current rate, which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive loss and recognized in accumulated other comprehensive loss.

IAS 41 - Biological assets (b)

In accordance with IAS 41, the Company's standing timber is considered to be a biological asset that is measured at fair value less costs to sell at each reporting date, with changes in fair value less costs to sell recognized in net income (loss) in the period incurred. Under previous Canadian GAAP, standing timber was recognized at historical cost. As a result of this IFRS guidance, the Company's biological assets have been assessed a nil fair value at January 1, 2010. This reflects a decrease of \$20.8 million at the Transition Date, which has been included in deficit at January 1, 2010. The key assumptions used to establish this fair value less costs to sell are discussed in note 9 to these consolidated financial statements.

Biological assets at December 31, 2010 reflect this initial fair value less costs to sell at January 1, 2010, adjusted for the effects of any asset sales, growth, harvest and changes in valuation assumptions during the respective periods. The change

in fair value less costs to sell for the Company's biological assets for the year ended December 31, 2010 totaled \$3.1 million and is separately disclosed in net loss on the consolidated statements of loss and comprehensive loss.

The Company expensed \$4.8 million of reforestation planting costs that were previously deferred under Canadian GAAP for the year ended December 31, 2010.

IAS 36 - Impairment (c)

In Canadian GAAP, if an indication of impairment is identified, the asset's carrying amount is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying amount, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying amount. A reversal of a previously recognized impairment is not permitted.

Under IFRS, if an indication of impairment is identified, the asset's carrying amount is compared to the asset's recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. Reversal of impairment losses up to the expected depreciated value is required for assets other than goodwill if certain criteria are met.

Applying IAS 36 resulted in an impairment of MagForestry's property, plant and equipment of \$4.5 million at the Transition Date, with a corresponding increase in deficit. As at December 31, 2010, the application of this test resulted in a further impairment of \$10.4 million at December 31, 2010, and a corresponding increase in impairment charges. The impairment during 2010 was the result of lowering management's estimate of growth rates of timber based on new information obtained during 2010.

Also as a result of the impairment of these assets, a decrease in cost of sales of \$0.4 million for the year ended December 31, 2010 was recognized due to the lower depreciation charged.

IAS 16 – Property, plant and equipment (d)

As part of the IFRS transition and the evaluation of components of property, plant and equipment and the corresponding change in depreciation rates, the Company recorded at January 1, 2010 a decrease of \$1.3 million to property, plant and equipment and a corresponding increase in deficit. For the year ended December 31, 2010, the Company recorded an increase in depreciation of \$0.2 million.

Certain of MagForestry's assets were constructed by the Company in 2008. In Canadian GAAP, the decision on when commercial production is reached is based on a range of criteria that is considered relevant to the specific situation, including: a pre-determined percentage of design capacity for the plant or mill; achievement of continuous production, ramp-ups, or other output; and expected net margin during the pre-production period. Any production revenue earned prior to commercial production, net of related costs, is offset against the development costs. Under IFRS commercial production is deemed to be achieved when the asset is ready for use with no deferring of pre-commercial production losses. The Company has recorded a decrease in the cost of these assets of \$1.3 million. The amount has been offset by a lower impairment charge as the assets have been deemed impaired per note (c) above.

IFRS 6 - Evaluation and exploration (e)

IFRS 6 is more explicit about the categorization of evaluation and exploration costs. As a result, as at January 1, 2010, the Company reclassified \$87.5 million in evaluation and exploration costs (then called projects under development) to property plant and equipment.

IAS 12 - Income taxes (f)

Under IFRS, deferred taxes are not recorded on the initial recognition of an asset or a liability that is not a business combination and at the time of the transaction affects neither taxable profits nor accounting profits.

Cash flows

There was no material change to total cash flows from operating, investing or financing activities under IFRS from those under Canadian GAAP.

6. Restricted cash and bank indebtedness

Restricted cash is hypothecated for letters of credit written in favour of the banks at which the Company maintains overdraft balances as partial security on those balances. Bank indebtedness balances bear interest at 11% per annum and are due on demand.

7. Accounts receivable and prepaid expenses

Accounts receivable and prepaid expenses consist of:

	December 31	December 31	January 1
	2011	2010	2010
(thousands)	\$	\$	\$
Accounts receivable	122	829	265
Trade receivable	2,151	1,062	1,266
Advances to suppliers	1,733	265	935
Prepaid expenses	716	737	1,062
Employee loan	-	33	127
	4,722	2,926	3,655

At December 31, 2011 the Company's trade receivables increased in comparison to the previous year end as a result of an FOB shipment of woodchips immediately before the year end. In the previous year, sales shipments for shipments had been partially collected as per the normal terms for these sales.

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 demand. The loan and interest are recorded at the exchange amount. The balance was repaid in full on April 30, 2011.

8. Inventories

Inventories consist of:

	December 31	December 31	January 1
	2011	2010	2010
(thousands)	\$	\$	\$
Raw materials (1)	7,230	7,297	4,965
Work in progress (2)	330	254	680
Finished goods (3)	787	319	2,286
	8,347	7,870	7,931

- (1) Raw materials consist of consumable supplies and production materials.
- (2) Work in progress represents the inventory of logs.
- (3) Finished goods consist of wood chips.

The amount of inventory recognized as an expense and included in cost of sales during the year ended December 31, 2011 was \$10.1 million (2010 - \$19.4 million). An amount of \$119 thousand was charged to the consolidated statement of loss and comprehensive loss in 2011 for the write-down of inventory of spare parts at MagForestry. The spare parts, which were purchased several years ago, have become obsolete. There was no write-down in 2010.

9. Timber holdings

The change in value of timber holdings is due to the following:

(thousands)	\$_
Fair value at January 1, 2010	-
Changes from growth and harvesting	(1,460)
Increase arising from costs to sell	4,799
Decrease from value price	(198)
Fair value at December 31, 2010	3,141
Changes from growth and harvesting	752
Decrease arising from costs to sell	(3,456)
Increase from value price	3,394
Fair value at December 31, 2011	3,831

Annual harvesting volumes are estimated on the basis of the total trees in a given year that have reached maturity. The valuation of the standing timber is therefore established by calculating the present value of expected cash flows from the growing forest and has been established by management with the assistance of an independent valuator. The annual valuation of standing timber was carried out during the first quarter of 2011 using a consistent methodology for establishing fair value less costs to sell. The fair value of the Company's standing timber is based on the following significant assumptions:

(i) harvestable volumes have been determined as the estimated future volume and current standing volume to be harvested over the sustainable life of the privately held timberlands in accordance with the Company's available timber inventory. The methodology used to assess the volume of standing timber is based on the inputs and

- assumptions associated with the net planted area, estimated growth rates, estimated yield per hectare and expected sustainable harvest management practices;
- (ii) log price assumptions used in the valuation were based on consideration of the Company's historical actual log prices, management's forecast of long-term trend pricing for its species mix as well as consideration of forecast pricing trends published by third-party analysts and independent valuators;
- (iii) harvest and operating costs were assumed to be consistent with the Company's past experience and actual operating results;
- (iv) the costs associated with the land owned by the Company on which standing timber is grown include land taxes and other costs and were assumed to be consistent with the Company's past experience;
- (v) all price and cost assumptions were assessed in real dollars without the estimate of inflation;
- (vi) the valuation assumes the continuation of existing practices with regard to silviculture and harvesting; and
- (vii) a discount rate of 15% has been applied to the estimated future cash flows in arriving at net present value at December 31, 2011. This discount rate has been determined with reference to the Company's market-determined discount rate for this asset type based on advice from an independent expert.

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation. At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions and conditions impacting its standing timber as at December 31, 2011 and noted no indication that a full re-assessment of fair value less costs to sell was warranted at that date.

10. Property, plant and equipment

As at December 31, 2011					Effects of	
(thousands)	Cost				foreign	Cost
	beginning				currency	end of
	of year	Additions	Disposals	Impairment	translation	year
Computer and office equipment	1,510	38	-	-	(19)	1,529
Leasehold improvements	5,289	87	-	-	(143)	5,233
Vehicles	4,857	21	-	-	(38)	4,840
Forestry equipment	9,288	103	-	-	(43)	9,348
Drilling equipment	2,829	-	-	-	(91)	2,738
Civil and building works	5,978	-	-	(3,152)	(376)	2,450
Structural works	3,096	-	-	(1,630)	(166)	1,300
Machinery	11,018	-	-	(5,626)	(213)	5,179
Brine mine in progress	35,045	-	-	-	(770)	34,275
Pipelines in progress	12,675	-	-	-	(278)	12,397
Base camp in progress	242	-	-	-	(5)	237
Land	1,838	-	-	-	(39)	1,799
Potash plant in progress	36,915	-	-	-	(812)	36,103
	130,580	249	-	(10,408)	(2,993)	117,428

As at December 31, 2011	Accumulated				Effects of	Accumulated
(thousands)	depreciation				foreign	depreciation
	beginning				currency	end
	of year De	preciation	Disposals Imp	pairment t	ranslation	of year
Computer and office equipment	(857)	(276)	-	-	9	(1,124)
Leasehold improvements	(1,404)	(627)	-	-	47	(1,984)
Vehicles	(4,105)	(386)	-	-	23	(4,468)
Forestry equipment	(4,950)	(1,419)	-	-	197	(6,172)
Drilling equipment	(1,571)	(729)	-	-	147	(2,153)
Civil and building works	(1,184)	(220)	-	-	-	(1,404)
Structural works	(624)	(118)	-	-	-	(742)
Machinery	(2,909)	(546)	-	-	-	(3,455)
	(17,604)	(4,321)	-	-	423	(21,502)

Net book value, December 31, 2011 **95,926**

As at December 31, 2011, the Company recorded an impairment charge of \$10.4 million as a result of the impairment of the assets of MagForestry. The impairment recorded in 2011 was the result of the change in the weightings of probable outcomes for the business as a whole. The recoverable amount was calculated on value-in-use, using a discounted cash flow model based on the Company's long-term planning model. The significant assumptions used to determine the recoverable amounts are as follows:

As at December 31	2011	2010
Year 1 gross margin	20%	20%
Cost inflation	3%	3%
Wood price inflation	4%	4%
Discount rate	15%	15%
Sales volume*	150,000 to 400,000 dry	150,000 to 400,000 dry
	tonnes per year	tonnes per year

^{*}Management models different scenario analyses, applying different probability weightings for each outcome. In 2010, one scenario analysis included the sale of the business at an indicative bid price at the time. This scenario was not included in 2011.

December 31, 2010					Effects of	
(thousands)	Cost				foreign	Cost
	beginning				currency	end of
	of year	Additions	Disposals	Impairment	translation	year
Computer and office equipment	1,879	85	(482)	-	28	1,510
Leasehold improvements	4,249	1,089	(4)	-	(45)	5,289
Vehicles	4,961	45	(53)	-	(96)	4,857
Forestry equipment	8,678	510	-	-	100	9,288
Drilling equipment	3,048	-	-	-	(219)	2,829
Civil and building works	9,241	-	-	(3,263)	-	5,978
Structural works	4,777	-	-	(1,681)	-	3,096
Machinery	16,496	-	-	(5,478)	-	11,018
Completed mining wells	37,616	-	-	-	(2,571)	35,045
Pipelines	13,605	-	-	-	(930)	12,675
Base camp	260	-	-	-	(18)	242
Land	1,749	-	-	-	89	1,838
Potash plant in progress	39,624	-	-	-	(2,709)	36,915
	146,183	1,729	(539)	(10,422)	(6,371)	130,580

December 31, 2010	Accumulated			Effects of	Accumulated
(thousands)	depreciation			foreign	depreciation
	beginning			currency	end
	of year	Depreciation	Disposals	translation	of year
Computer and office equipment	(783)	(370)	311	(15)	(857)
Leasehold improvements	(836)	(562)	3	(9)	(1,404)
Vehicles	(3,034)	(1,098)	7	20	(4,105)
Forestry equipment	(3,363)	(1,623)	-	36	(4,950)
Drilling equipment	(764)	(807)	-	-	(1,571)
Civil and building works	(800)	(384)	-	-	(1,184)
Structural works	(422)	(202)	-	-	(624)
Machinery	(1,953)	(956)	-	-	(2,909)
·	(11,955)	(6,002)	321	32	(17,604)

Net book value, December 31, 2010 112,976

As at December 31, 2010, the Company recorded an impairment charge of \$10.4 million as a result of the impairment of the assets of MagForestry. The impairment recorded in 2010 was the result of lowering management's estimate of growth rates of timber.

11. Evaluation and exploration

MagMinerals potash project

MagMinerals has completed a detailed feasibility study and is conducting pre-construction activities and planning for full construction of a standalone 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 MagMetals' Kouilou magnesium plant. Pre-construction activities have also included building an 11.2 km gas pipeline, drilling of production wells and site preparation.

On August 12, 2010, the Company issued a press release reporting that its subsidiary, MagMinerals, completed a technical scoping for the 1,111 square km Makola exploration license on the Atlantic coast of the ROC. The report estimates inferred resources of 1.7 billion tonnes of potash.

Currently, the Company has completed 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, additional equity financing, construction and start-up, or to realize proceeds from disposal.

(thousands)			\$
Balance, January 1, 2010			66,075
Additions			2,442
Impairment recognized			(5,853)
Foreign currency translation difference			(4,117)
Balance, December 31, 2010			58,547
Additions			1,562
Impairment recognized			(54,277)
Foreign currency translation difference			3,072
Balance, December 31, 2011			8,904
MagMinerals potash project			
rangeration promote project	December 31	December 31	January 1
	2011	2010	2010
(thousands)	\$	\$	\$
Feasibility and geological studies	51,616	51,616	54,623
Environmental and social	8,219	6,657	4,215
Capitalized interest	1,105	1,105	1,105
Foreign currency translation difference	2,241	(831)	279
Impairment recognized	(54,277)	· -	_
	8,904	58,547	60,222

As at March 31, 2011, the Company considered the evaluation and exploration assets of the MagMinerals potash project to be impaired, based on the presence of a third-party offer for all of the outstanding shares of the Company, as disclosed in note 14, and a third-party fairness opinion. An impairment charge of \$54.3 million was taken as a result.

MagMetals magnesium project

	December 31	December 31	January 1
	2011	2010	2010
(thousands)	\$	\$	\$
Technology and licenses	-	5,853	5,853
Impairment recognized	-	(5,853)	-
	-	-	5,853

The deferred expenses of MagMetals of \$5.9 million were written off in December 2010 as it was determined that these amounts are not recoverable as a result of constraints on developing the project, including technology obsolescence.

12. Mineral exploration rights

In October 2009, the Company agreed to acquire the Congolese company Potasse du Congo ("PdC") through an arm's length transaction. PdC holds three mineral exploration licenses in the Kouilou region surrounding the Mengo Exploitation Permit. The shares of PdC were purchased for a consideration of \$0.5 million and the vendor retains a carried interest in the exploration permits, the value of which is capped at \$9.5 million. In addition the Company incurred \$1.05 million in due diligence costs relating to this investment. The Company agreed to reduce this carried interest from 10% to 6% by the payment of \$3.5 million in October 2009. In January 2010, the Company reduced the carried interest from 6% to 3% with a further payment of \$3 million. In April 2010, the Company eliminated the balance of this carried interest with a further payment of \$3 million.

(thousands)	\$
Balance, January 1, 2010	5,050
Cash paid	6,000
Balance, December 31, 2010	11,050
Mineral exploration rights, December 31, 2011	11,050

13. Discontinued operation – MagEnergy

In August 2010, a "Transactional Agreement" was reached between the Company and the Société Nationale d'Electricité ("SNEL") of the DRC. Rather than sharing in the revenue to be received from the sale of energy generated from the refurbished turbine G23 at SNEL's Inga II hydroelectric facility ("Inga II"), as was originally agreed upon per the Memorandum of Understanding signed in April 2005, SNEL will reimburse the Company for all the costs incurred by the latter during the refurbishment period. SNEL has agreed to make payments to the Company of \$0.5 million per month over a 60-month period starting in September 2010. The present value of the future payments has been set up as a receivable using management's best estimate of a discount rate of 20%. Due to the long period of time of collection and some socio-economic uncertainties in the region, the Company has recorded a provision to reduce the carrying value of this receivable.

The Company has contractual obligations to pay a portion of the amounts received from SNEL to third parties who were also either partly financing or managing the project. These payables have been recognized to the extent the receivable from SNEL has been recorded.

As a result of the above agreement, the consolidated financial statements disclose the Inga II project as a discontinued operation. The previously deferred costs of this project have been reclassified as part of the receivable.

On April 6, 2011, MagEnergy sold forward the balance of its receivable from SNEL for net proceeds of approximately \$6 million. Under the terms of the receivable sale agreement, the Company has received payment of approximately US\$6 million, and the purchaser has agreed to assume and perform all obligations of the Company in respect of this receivable to its partners in the refurbishment project and indemnify the Company and MagEnergy for any claims arising from these obligations.

The results of the discontinued operations presented in the consolidated statements of loss and comprehensive loss were as follows:

Year ended December 31	2011	2010
(thousands)	\$	\$
Project expenditures	(30)	(1,219)
Depreciation and amortization	-	(159)
Foreign exchange	1	(22)
Loss from operations	(29)	(1,400)
Loss on settlement	-	(820)
Gain on revaluation of receivable	5,338	-
Interest income, net	445	920
Net gain (loss) from discontinued operations	5,754	(1,300)

The assets and liabilities related to the discontinued operations were as follows:

	December 31	December 31	January 1
As at	2011	2010	2010
(thousands)	\$	\$	\$
ASSETS			
Current – Accounts receivable	-	1,290	-
Non-current - Evaluation and exploration	-	-	3,734
	-	1,290	3,734
LIABILITIES			
Current – Accounts payable and accrued liabilities	378	802	
·	378	802	-

14. Corporate notes

On December 19, 2007, the Company completed the issuance of units for total gross proceeds of \$37.8 million. The financing consisted of an offering of units with each unit consisting of one Note in the principal amount of \$1 thousand and 175 common share purchase warrants (the "Warrants"). The Notes bear interest at the rate of 11% per year, payable semi-annually, and mature five years and one day following closing (being December 20, 2012). Each Warrant will entitle the holder to purchase one additional common share of the Company at a price of CAD\$2.40 per share for five years after closing. The Notes are secured by the assets of MagIndustries Corp., MagForestry Inc. and MagMinerals Inc. The agents to the offering received a cash commission of 4.0% of the principal amount of the Notes sold under the offering.

On April 20, 2011, the Company entered into a definitive agreement (the "Support Agreement") pursuant to which Evergreen, a diversified industrial company based in Shanghai, China, has agreed, subject to the terms of the Support

Agreement, to make an offer to acquire all of the outstanding MagIndustries common shares by way of a friendly takeover bid (the "Offer") for CAD\$0.25 per share in cash, valuing the Company at approximately \$115 million. As a result, the Company assessed the impact of the valuation established through this transaction in comparison to the carrying value of the assets and liabilities.

On July 22, 2011, Evergreen acquired 353,838,683 common shares of the Company pursuant to the Offer, representing approximately 75.9% of the issued and outstanding common shares of the Company. Concurrent with completion of the Offer, 3,400,000 common share purchase options were exercised at a price of CAD\$0.24 per share for net proceeds of CAD\$816,000. These shares were also tended to the Offer, resulting in an additional 3,400,000 common shares being tendered to the Offer and resulting in Evergreen owning a total of 357,238,683 common shares of the Company, representing approximately 77.6% of the issued and outstanding common shares.

The Notes described above required a mandatory redemption offer of all of the outstanding Notes at a price of 102% of face value within 10 business days as a result of this change of control of the Company.

On July 22, 2011, Evergreen completed its acquisition of approximately 77.6% of the issued and outstanding common shares of the Company. As a result of this acquisition, a change of control under the indenture which governs the Notes has occurred. On August 9, 2011, the Company issued a notice of redemption for all of the Notes due December 20, 2012. The redemption price of \$1,049.53 per \$1,000 principal amount of Notes or a total of \$33.7 million was paid on October 6, 2011.

On July 22, 2011, the Company cancelled all of the remaining outstanding common share purchase options described in note 19. The Warrants remain outstanding.

(thousands)	\$
Balance, January 1, 2010	28,763
Foreign exchange	(202)
Value accretion	1,226
Balance, December 31, 2010	29,787
Foreign exchange	(13)
Value accretion	1,571
Loss on redemption offer	2,340
Payment	(33,685)
Balance, December 31, 2011	-

15. Shareholder loan

On August 23, 2011, the Company entered into an agreement with Evergreen to provide the Company with a CAD\$50 million principal amount term loan that bears interest at 10.5% per annum calculated daily and compounded monthly, which interest, if unpaid, will be capitalized and added to the outstanding principal balance (the "Shareholder Loan").

As approved by the Company's disinterested shareholders, the Shareholder Loan is convertible, in whole or in part, at the option of Evergreen, into common shares of the Company on the basis of a conversion price per share that is equal to the volume average trading price of the common shares of the Company on the Toronto Stock Exchange for the five trading days immediately prior to the date of entering of the Shareholder Loan, less a discount of 20% (the "Conversion Feature") or CAD\$0.1712. As a result of the approval of the Conversion Feature, the Shareholder Loan is now interest free, as from

the date of such approval (October 25, 2011). The Shareholder Loan is due on August 23, 2012, the first anniversary of the Shareholder Loan.

On the date of the approval of the Conversion Feature, the Company accounted for this approval as a modification of the Shareholder Loan. Accordingly, the incremental fair value of the Shareholder Loan from this modification of \$2,180 was charged to the consolidated statement of loss and comprehensive lossas a loan modification expense.

As at December 31, 2011, the Company had drawn the entire CAD\$50 million available from this facility, which is convertible into 295,770,211 of the Company's common shares.

As at December 31, 2011, \$45,389 and \$7,594 of the convertible Shareholder Loan have been attributed to the debt component and equity component, respectively. The difference between the carrying value and the face value of the convertible Shareholder Loan will be accreted using the effective interest rate method.

16. Provisions

Environmental rehabilitation provision

In connection with MagForestry's operations on the forestry concession in the ROC, the Company has an obligation to maintain the concession by operating it in good condition and to continue with a program of silviculture to maintain or enhance the current growing area. This gives rise to an asset retirement obligation at the end of the 71-year lease because towards the end of the lease the Company will have to plant and maintain trees that it will prospectively not sell. The long-term asset retirement obligation is based on current management plans, cost estimates and compliance with existing agreements. Accretion expense is charged to the consolidated statements of loss and comprehensive loss based on application of an interest component to the existing liability.

(thousands)	\$_
Balance, January 1, 2010	96
Accretion expense	11
Foreign exchange gain	(8)
Balance, December 31, 2010	99
Accretion expense	10
Foreign exchange gain	(2)
Balance, December 31, 2011	107

MagForestry's asset retirement obligation was initially recorded as a liability at fair value, assuming a credit-adjusted risk-free discount rate of 10% and an inflation factor of 2%. The liability for replanting on an undiscounted basis before inflation is estimated to be approximately \$8.1 million. Management anticipates that such obligations will be substantially settled during the final seven years of the forestry lease, anticipated to occur from 2070 to 2076.

In view of the uncertainties concerning planting costs and hectares to plant, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable.

The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

The major components of income tax recovery for the year are as follows:

17. Income taxes

December 31	2011	2010
(thousands)	\$	\$
Current taxes		_
Recognition of non-capital losses	(753)	-
Deferred taxes	-	-
Income tax recovery	(753)	-
Major items causing the Company's effective income tax rate to differ from the Canadian 31 %) were as follows:	statutory rate of 28	.25% (2010-
December 31	2011	2010
_(thousands)	\$	\$
Loss from continuing operations before income taxes	(99,548)	(54,673)

Loss from continuing operations before income taxes	(99,548)	(54,673)
Expected income tax benefit based on statutory rate	(28,122)	(16,949)
Adjustments to benefit resulting from:		
Stock-based compensation	39	2,788
Other non-deductible expenses	8	8
Non-deductible interest	1,462	1,032
Impact of tax rates in foreign jurisdictions	2,948	4,153
Impact of change in foreign exchange rates	(366)	(751)
Rate differential between current and deferred rates	(1,401)	849
Tax filing adjustments	-	2,281
Tax effect of unrecognized temporary differences	24,679	6,589
Provision for income taxes	(753)	-

The 2011 statutory tax rate of 28.25% differs from the 2010 statutory tax rate of 31% because of the reduction in both federal and Ontario substantively enacted tax rates.

The tax benefit of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings.

Deductible Temporary Differences

	December 31	December 31	January 1
	2011	2010	2010
(thousands)	\$	\$	\$
Non-capital losses carried forward	11,340	39,576	38,292
Share issuance costs	3,484	5,637	5,600
Reforestation costs	5,176	4,818	-
MagPetroleum disposition	1,028	1,028	1,028
Resource-related deductions	7,191	7,084	7,852
Project impairment charges	1,103	2,336	1,340
Loan modification expense	2,180	-	-
Property write-downs	97,636	32,951	25,292
Capital Assets	946	1,044	500
Eligible capital expenditures	59	59	59
	130,143	94,533	79,963

At December 31, 2011, the Company had unclaimed Canadian non-capital losses of approximately \$4.6 million (2010 - \$36.1 million, January 1, 2010 - \$25.8 million) expiring in 2031. The non-capital losses incurred prior to the acquisition of the majority of the Company's common shares by Evergreen will not be available to offset taxable income in future periods. However, if it is determined that the pre-acquisition tax losses were incurred in carrying on a business that is the same or similar to that carried on by the Company subsequent to the acquisition, the losses may be offset against future income derived from the same or similar business. The pre-acquisition tax losses amount to \$42.2 million and expire between 2025 and 2030.

In addition, the Company's Barbados subsidiaries have non-capital losses of approximately \$9.5 million (2010 - \$11.3 million, January 1, 2010 - \$10.5 million) expiring over nine years.

18. Commitments, contingencies and guarantees

As at December 31, 2011, 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. 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 as follows:

_(thousands)	\$
2012	131
2013	109
2014	109
2015	109
2013 2014 2015 2016	109_

Pending litigation

The Company is contingently liable for payment of the amount of US\$5 million to a former employee of the Company in respect of services provided by the former employee to Interco S.A.M. and PdC, in the event that (a) Interco S.A.M., the company that sold the shares of PdC to MagIndustries, fails to pay such amount, which it has been adjudged liable to pay pursuant to the final decision of the arbitrator in the matter of the former employee v. MagIndustries Corp., Interco S.A.M., et al.; and (b) demand for such payment by the former employee. As at the date hereof, the Company has no knowledge of the status of payment by Interco S.A.M. and has not received a demand for payment from the former employee.

The Company has received a statement of claim for breach of contract with a former financial advisor with respect to services rendered in the transaction with Evergreen. The counterparty is claiming \$4.1 million and the Company has made an offer to settle for \$1.1 million. No settlement has yet been reached.

Management believes that adequate provision has been recorded in the accounts. Although it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

19. Shareholders' equity

Share capital consists of the following:

	December 31	December 31	
	2011	2010	
(thousands)	\$	\$	
Common shares	365,830	364,425	
Warrants	6,358	12,606	
Contributed surplus	52,527	39,849	
	424,715	416,880	

Common shares

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

	Number of	Amount
(thousands)	shares	\$
Balance December 31, 2009	360,522,462	333,070
Exercise of options	340,000	82
Original fair value of options issued	-	39
Issued by short form prospectus (notes (a) and (b))	95,910,000	31,234
Private placement (see Advisor Warrants below)	1	-
Balance, December 31, 2010	456,772,463	364,425
Exercise of options	3,400,000	854
Original fair value of options issued	-	421
Income tax recovery	-	130
Balance, December 31, 2011	460,172,463	365,830

- (a) On February 24, 2010, the Company issued 50,000,000 common shares at a price of CAD\$0.40 per common share to raise gross proceeds of CAD\$20.0 million (\$19.2 million). Pursuant to an over-allotment option granted to the agents of the offerings an additional 7,500,000 common shares were issued on February 24, 2010 for gross proceeds of CAD\$3.0 million (\$2.9 million). Expenses of the offering, including agents' commissions, were CAD\$1.3 million (\$1.3 million).
- (b) On November 23, 2010, the Company issued 33,400,000 common shares at a price of CAD\$0.30 per common share to raise gross proceeds of CAD\$10.02 million (\$9.8 million). Pursuant to an over-allotment option granted to the agents of the offerings, an additional 5,010,000 common shares were issued concurrently for gross proceeds of CAD\$1.5 million (\$1.5 million). Expenses of the offering, including agents' commissions, were CAD\$0.9 million (\$0.9 million).

Options

As at December 31, 2011, all common shares 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") were either exercised or expired. 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 10 years.

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

	December 31, 2011		December 31	1, 2010
		Weighted-		Weighted-
		average		average
		exercise		exercise
	Options	price	Options	price
	#	CAD\$	#	CAD\$
Outstanding, beginning of year	14,700,000	0.71	19,065,000	1.44
Granted (a)	-	-	6,625,000	0.50
Exercised	(3,400,000)	0.24	(340,000)	0.24
Expired	(11,300,000)	0.85	(10,650,000)	1.87
Outstanding, end of year	-	-	14,700,000	0.71
Options exercisable, end of year	-	-	12,050,000	0.76

(a) On April 17, 2010, the Company granted a total of 6,625,000 stock options. These options vested in five equal installments over a period of 12 months commencing on the date of grant, had an exercise price of CAD\$0.50 per share and a term of five years. The fair value of the options granted during 2010 amounted to \$1.8 million and was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 2.6%, expected dividend yield of nil, expected volatility of 98.3% and expected life of 3.9 years. The weighted average of the options granted during the year is \$0.29 per option.

Advisor Warrants

On July 5, 2010, the Company issued 12,500,000 common share purchase warrants to BMO Nesbitt Burns Inc. ("BMO Nesbitt"), with each warrant entitling the holder to acquire one common share of the Company at an exercise price of CAD\$0.50. Each warrant is exercisable for 18 months following the date of execution by the Company of the definitive documentation for the debt financing being sourced by China National Complete Plant Import & Export Company Limited.

The fair value of the warrants issued during the year amounted to \$0.9 million and was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions: risk-free interest rate of 1.45%, expected dividend yield of nil, expected volatility of 92% and expected life term of 1.1 years. The fair value of the warrants granted is \$0.08 per warrant.

On December 21, 2010, the Company entered into a letter of intent with TSC Capital Ltd. ("TSC") in respect of a proposed investment by TSC in the Company. Pursuant to the letter of intent, the Company agreed to issue one common share at a price of CAD\$0.32 to TSC together with 113,481,000 common share purchase warrants, with each warrant entitling the holder to acquire one common share of the Company at an exercise price of CAD\$0.32 at any time until the first anniversary of the date of granting of the warrant. These warrants expired unexercised on December 21, 2011.

The fair value of the warrants amounted to \$6.3 million and was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 1.45%, expected

dividend yield of nil, expected volatility of 92% and expected life of 1.0 year. The fair value of the warrants granted is \$0.06 per warrant.

In March 2011, the Company signed an advisory agreement with BMO Nesbitt where the Company and BMO Nesbitt agreed to cancel the 12,500,000 common share warrants previously issued to BMO Nesbitt and replace them with 12,500,000 common share purchase warrants for BMO to acquire one common share of the Company per warrant at an exercise price of CAD\$0.50 with each warrant exercisable for 18 months following a "Transaction". "Transaction" is defined as a transaction or series of transactions in which one or more persons or entities acquires, directly or indirectly, at least 33 1/3% of any of the shares, assets, revenues, income or businesses of the Company or otherwise gains control of the Company by way of an offer to acquire outstanding shares of the Company or otherwise, a sale of all or substantially all of the Company's assets, any merger, amalgamation, plan of arrangement, reorganization or other business combination, the issue by the Company to one or more other persons of securities of the Company in numbers sufficient to constitute an acquisition of control, or any acquisition of control of the Company, directly or indirectly.

The following table summarizes information about the Company's warrants outstanding at December 31, 2011:

		2011		10
		Exercise price		Exercise
Description	Warrants	range	Warrants	price range
Outstanding, beginning of year	132,603,875	CAD\$2.40	6,622,875	CAD\$2.40
				\$0.32 to
Granted	-	-	125,981,000	\$0.50
		CAD\$0.32 to		
Expired	(113,481,000)	\$2.40	-	-
		CAD\$0.50 to		CAD\$0.32 to
Outstanding, end of year	19,122,875	\$2.40	132,603,875	\$2.40

The details of warrants outstanding at December 31, 2011 are as follows:

Exercise		Number of warrants	Remaining
price per share	Expiry date	outstanding	contractual life
CAD\$0.50	December 22, 2012	12,500,000	1.0 years
CAD\$2.40	December, 20, 2012	6,622,875	1.0 years
		19,122,875	

Contributed surplus

	2011	2010
	\$	\$
Balance, beginning of year	39,849	38,069
Stock-based compensation expense	140	1,819
Transfer to common shares on exercise of stock options	(421)	(39)
Shareholder Loan Conversion Feature (a)	7,594	-
Transfer of expired warrants	6,248	-
Income tax recovery	(883)	-
Balance, end of year	52,527	39,849

(a) Shareholder Loan Conversion Feature

The Shareholder Loan is convertible at Evergreen's option into 295,770,211 common shares. The fair market value of the first part of the loan of CAD\$44 million at the grant date was estimated to be \$39.8 million using the Black-Scholes

option pricing model with the following weighted-average assumptions: risk-free interest rate of 0.95%, expected dividend yield of nil, expected volatility of 68% and expected life of 0.8 years. The second part of the loan of CAD\$6 million was fair valued using a discount rate of 14% with the residual value being allocated to the Conversion Feature, which approximates its fair value on the Black-Scholes option model.

20. Segmented operating information

Reportable segments are identified by the end product or services of the segment. MagForestry operates in Pointe-Noire in the ROC. All MagForestry sales consist of 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.

December 31, 2011	MagForestry	MagMinerals	MagMetals	Corporate	Total
(thousands)	\$	\$	\$	\$	\$
Sales	16,402	-	-	-	16,402
Cost of sales*	(13,332)	-	-	-	(13,332)
Project expenditures	-	(5,916)	-	-	(5,916)
Reforestation costs	(5,176)	-	-	-	(5,176)
Expenses	(6,269)	-	(27)	(15,314)	(21,610)
Timber revaluation	690	-	-	-	690
Loss on note retirement	-	-	-	(2,340)	(2,340)
Net loss on conversion feature and modification					
of loan	-	-	-	(2,180)	(2,180)
Options expense	-	-	-	(140)	(140)
Impairment charge	(10,408)	(54,277)			(64,685)
Depreciation and amortization	-	(63)	(7)	(509)	(579)
Deferred income tax recovery	-	-	-	753	753
Interest income	-	1	-	51	52
Foreign exchange gain (loss)	20	546	(1)	(1,299)	(734)
Net loss from continuing operations	(18,073)	(59,709)	(35)	(20,978)	(98,795)

^{*}Including shipping of \$3.3 million and depreciation and amortization of \$3.5 million.

December 31, 2010	MagForestry	MagMinerals	MagMetals	Corporate	Total
(thousands)	\$	\$	\$	\$	\$
Sales	27,745	-	-	-	27,745
Cost of sales*	(28,217)	-	-	-	(28,217)
Project expenditures	_	(6,595)	(22)	-	(6,617)
Reforestation costs	(4,818)		· -	-	(4,818)
Expenses *	(10,486)	-	(59)	(10,181)	(20,726)
Timber revaluation	3,141				3,141
Options expense	-	-	-	(8,995)	(8,995)
Impairment charge	(10,422)		(5,853)		(16,275)
Depreciation and amortization	_	(63)	(3)	(569)	(635)
Interest income	1	3	-	17	21
Foreign exchange gain (loss)	(18)	(110)	2	829	703
Net loss from continuing operations	(23,074)	(6,765)	(5,935)	(18,899)	(54,673)

^{*}Including shipping of \$8.9 million and depreciation and amortization of \$4.3 million.

^{*}Including shipping contract settlement of \$4 million.

MagForestry MagMinerals

MagMetals

Corporate

Total

(thousands)	\$	\$	\$	\$	\$
Property, plant and equipment	7,487	84,675	-	3,764	95,926
Evaluation and exploration	-	8,904	-	-	8,904
Total assets	22,226	108,431	-	4,193	134,850
Total liabilities	3,272	904	-	49,289	53,465
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December 31, 2010	MagForestry	MagMinerals	MagMetals	Corporate	Total
(thousands)	\$	\$	\$	\$	\$
Property, plant and equipment	20,612	87,752	-	4,612	112,976
Evaluation and exploration	-	58,547	-	-	58,547
Total assets	34,288	157,508	-	14,727	206,523
Total liabilities	3,587	1,605	_	31,623	36,815
	5,567	1,003		31,023	50,015

All amounts are for continuing operations.

December 31, 2011

21. Supplemental cash flow information

(thousands)	2011 \$	2010 \$
Interest paid	5,176	4,559
Income taxes paid	-	
Net change in non-cash working capital balances: (thousands)	2011	2010
Accounts receivable and prepaid expenses	(1,725)	729
Inventories	(1,188)	61
Accounts payable and accrued laibilities	1,621	16
	(1,292)	806

22. Financial instruments and risk management

Categories of financial assets and liabilities

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 statements of financial position, are classified into the following categories:

(thousands)	Classification	December 31 2011 \$	December 31 2010 \$	January 1 2010 \$
Financial assets				_
Cash, cash equivalents and restricted cash (1)	Held-for-trading, Fair value through earnings	2,070	10,013	25,081
Accounts receivable and employee loan (1)	Loans and receivables	4,722	2,926	3,655
Financial liabilities				
Bank indebtedness (1)	Held-for-trading, Fair value through earnings Other financial liabilities	(337)	(864)	(1,001)
Accounts payable and accrued liabilities (1)	Other mancial natmues	(7,632)	(6,065)	(18,636)
Corporate notes (2)	Amortized cost	-	(29,787)	(28,763)
Shareholder loan (2)	Amortized cost	(45,389)	-	_
Net financial liabilities		(46,566)	(23,777)	(19,664)

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management 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 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 primarily operates in the ROC, 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-U.S dollar forecast operating costs on a case-by-case basis. Future revenue from forecast potash sales is likely to be denominated in U.S dollars. The majority of the Company's forecast operating costs is in U.S 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 monetary assets and liabilities at December 31, 2011 is as follows:

	Assets	Liabilities
(thousands)	\$	\$
US dollars	3,977	11
Euros	1,845	5,444
Canadian dollars	966	47,860
South African rand	4	43
	6,792	53,358

Sensitivity

Based on the financial instruments held at December 31, 2011, had the U.S dollar weakened/strengthened by 10% against these foreign currencies, with all other variables held constant, the Company's post-tax loss for the year would have been \$0.1 million higher/lower and other comprehensive income would have been \$4.9 million higher/lower, both as a result of foreign exchange gains/losses on translation of non-U.S dollar denominated financial instruments as detailed above.

(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 future wood fibre sales and forecast future potash or electricity sales. The Company does not manage commodity price risk through the use of derivative instruments.

Sensitivity

As at December 31, 2011, a change in the value of potash or wood fibre would not change the recognized value of any of the Company's financial instruments.

(iii) Cash flow fair value interest rate risk

The Company does not have significant variable interest bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the funds invested in the Company's 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 Company. 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 creditworthy customers and, where necessary, credit risk is effectively eliminated or substantially reduced by using bank instruments to secure payment. Creditworthiness may be determined using external credit rating agencies.

(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.

As at December 31, 2011, MagIndustries had a working capital deficit of \$38.6 million and had 460,172,463 common shares outstanding on an undiluted basis. Provided Evergreen converts the Shareholder Loan to shares or extends the maturity of the Shareholder Loan, the Company would have sufficient resources to continue to maintain current licenses

and to continue with current operations. Development of the MagMinerals potash project as described above is subject to raising additional equity and debt for the project financing. If these financings are not each completed successfully, the Company would consider joint ventures with equity partners and/or the sale of individual projects as well as the issuance of additional common shares

(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 following methods and assumptions were used to estimate fair value of each category of financial instruments:

- (1) Carrying values of cash, cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities approximate their fair values due to their short-term nature and thus have not been classified within the fair value hierarchy.
- (2) The fair value of the corporate notes is the price at which the Company has offered to redeem the Notes on October 6, 2011.
- (3) The financial instruments which comprise the receivables and payables of the discontinued operations of MagEnergy are classified as loans and receivables and other financial liabilities, respectively, and have been measured at fair value. The Company uses considerable judgment in determining the fair value of these instruments due to their unique nature, long term and country risk in the DRC and would therefore consider these a Level III in the fair value hierarchy.

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.

23. 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.

As at December 31, 2011, total managed capital was \$126.4 million, compared to shareholders' equity of \$81.0 million and Shareholder Loan of \$45.4 million.

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 is invested in liquid and highly rated financial instruments, such as money market funds with major Canadian and Caribbean financial institutions.

24. Related party transactions

In addition to the Shareholder Loan (note 15), the Company is controlled by Evergreen, which owns 77.6% of the Company's common shares. The remaining 22.4% of the common shares are widely held. The following transactions were carried out with Evergreen:

December 31,	2011	2010
(thousands)	\$	\$
Purchases paid for by Evergreen on behalf of MagIndustries	91	-
Purchases paid for by MagIndustries on behalf of Evergreen	14	-

Year-end balances arising from purchases of goods/services (other than the loan described in note 15):

December 31,	2011	2010
(thousands)	\$	\$
Due to Evergreen	(91)	-
Due from Evergreen	14	-

These balances arise mainly from purchase transactions and are due on demand. The balances bear no interest.

Evergreen also provides the Company with the use of its office space and facilities in China. There is currently no charge to the Company for this use.

Key management personnel

Key management includes members of the Board of Directors of the Company and executive officers, as they have the collective authority and responsibility for planning, directing and controlling the Company. The compensation expense for key management for services is as follows:

	2011	2010
(thousands)	\$	\$
Salaries and other short-term employee benefits	1,872	1,292
Termination benefits	-	1,209
Payments due upon change of control of the Company	1,677	-
	3,549	2,501