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# Driving Growth & Sustainability

Fiscal 2009 has been a challenging year for Opta Minerals amid the global economic decline and slow recovery. Operating in such a difficult environment, the Company's management responded quickly to adapt production, reduce costs, improve cash flow and strengthen the balance sheet. The Company performed well in light of a number of market related challenges. The Company's revenues decreased 33% for the year ended December 31, 2009 from \$93.4 million in 2008 to \$62.6 million. The Company does not provide revenue or earnings guidance; however we do expect the results of 2010 to reflect improvement concurrent with the global economic environment. As the market conditions improve, we will be well positioned to fully participate in the market recovery. In the meantime, we continue aggressive efforts to maximize liquidity and reduce costs and will take additional actions as market conditions warrant.

The Company is continuing its active program of developing and acquiring new products and services that expand our target markets, while leveraging our existing infrastructure and expertise. During 2009 we completed the construction of a new abrasives and industrial minerals facility located in Freeport Texas. We are currently building another abrasive and industrial facility in Tampa Bay, Florida. We continue to offer one of the broadest ranges of industrial minerals and abrasives in the industry and provide custom product configurations to customers.

Improving profitability, liquidity and the broadening of our geographic coverage will continue to be the top priorities in 2010. We will continue to achieve this over the next several years by continuing aggressive sales and product development, executing cost reduction programs to improve product margins, mitigating currency and raw material price fluctuations. We understand that there are no constants in business and to succeed we must constantly adapt to change and to our customers' needs.

At Opta Minerals, we continue to understand that earning the trust of investors over the long term comes not only from good corporate governance, but also from a commitment to integrity, accountability and improved shareholder value. We have adopted comprehensive governance principles, including the creation of structures and implementation of processes, that enable our Board of Directors to carry out their responsibilities effectively.

I have the pleasure of working with an exceptional business team whose commitment to executing our growth & sustainability strategy has positioned the Company to fully leverage our resources and infrastructure.

This report along with the accompanying consolidated financial statements is respectfully submitted to you on behalf of the Board of Directors of Opta Minerals Inc.

Sincerely,

(Signed) DAVID KRUSE  
David Kruse  
President and Chief Executive Officer.

## Financial Highlights

(IN 000'S OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)

	For the three months ended December 31		For the year ended December 31	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Consolidated</b>				
Revenue	16,716	17,365	62,526	93,423
Gross profit	3,484	(98)	13,081	18,427
Selling, general and administrative expenses	2,067	2,443	9,106	10,997
EBITDA <sup>1</sup>	2,011	(1,532)	6,190	9,550
EBIT <sup>2</sup>	962	(2,495)	(4,859)	5,601
Provision for (recovery of) income taxes	6	(799)	(242)	1,034
Net earnings (loss) for the period	616	(2,224)	(6,205)	2,478
Tangible Net Worth <sup>3</sup>			9,760	8,364
<b>Per Share</b>				
Earnings (loss) (basic and fully diluted)	\$0.04	(\$0.12)	(\$0.34)	\$0.14
Cash generated from (used in) operations	\$0.16	\$0.12	\$0.59	\$0.11
Cash generated from (used in) operating activities <sup>4</sup>	\$0.09	(\$0.12)	\$0.17	\$0.29
Shareholders' equity			\$2.12	\$2.52
Number of shares outstanding – weighted average (dilutive)	18,020,213	17,998,697	18,013,670	18,007,880
Number of shares outstanding – period end	18,023,193	18,003,459	18,023,193	18,003,459
<b>Ratios<sup>5</sup></b>				
Debt to Equity			0.70:1	0.72:1
Current Ratio			1.74:1	1.80:1
Return on Assets			(6.6)%	2.5%
Return on Equity			(14.9)%	5.7%

<sup>1</sup> Earnings before interest, income taxes, depreciation and amortization. See discussion on Non-GAAP measures in management's discussion and analysis found elsewhere in this report.

<sup>2</sup> Earnings before interest and income taxes. See discussion on Non-GAAP measures in management's discussion and analysis found elsewhere in this report.

<sup>3</sup> We calculate Tangible Net Worth as Shareholders' Equity less goodwill and intangibles net of non tax deductible future tax liabilities related to intangibles.

<sup>4</sup> Cash generated from operating activities excluding changes in non-cash working capital divided by the weighted average number of shares outstanding.

<sup>5</sup> Formulas for Ratios can be found in the Glossary to this Report.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2009

# Management's Discussion and Analysis

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## **Introduction**

The following is a discussion of the consolidated financial position, results of operations and cash flows of Opta Minerals Inc. for the three and twelve months ended December 31, 2009 and 2008, prepared in accordance with Canadian generally accepted accounting principles. All amounts are in U.S. dollars unless otherwise stated.

### **We, us, our, Company and Opta**

In this document, “we”, “us”, “our”, “Company” and “Opta” refer to Opta Minerals Inc., its business segments and subsidiaries.

### **Review and approval by the Board of Directors**

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on March 4, 2010. This MD&A includes Opta’s operating and financial results for the year ended December 31, 2009 and 2008 and should be read in conjunction with our audited consolidated financial statements and notes thereto which are available on SEDAR’s web site [www.sedar.com](http://www.sedar.com).

### **Other important company documents**

The following Opta Minerals public documents include additional information that will be of interest to investors:

- Prior Year Annual Reports;
- Annual Information Form;
- Management Information Circular; and
- Interim reports.

These documents are available on SEDAR’s web site at [www.sedar.com](http://www.sedar.com).

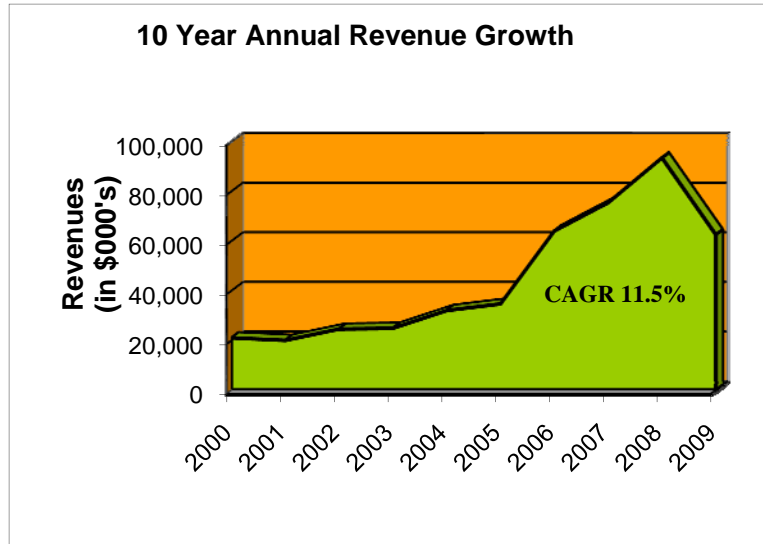
### **Forward Looking Statements**

Certain information included herein may contain “forward-looking statements” which reflect the current expectations of management of the Company regarding the Company’s future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as “may”, “would”, “could”, “should”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “aim”, “endeavour”, “seek”, “predict”, “potential” and similar expressions have been used to identify these forward-looking statements. These statements reflect management’s current beliefs with respect to future events and are based on information currently available to management of the Company. Forward-looking statements involve significant risks, uncertainties and assumptions. Many factors could cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, cancellations of or the failure to renew purchase orders; production and delivery issues; quality, pricing and availability of raw materials; compliance with environmental regulations; exchange rate fluctuations, as well as, other risks identified in the “Risk Factors” section of the Company’s Annual Information Form and other public filings (copies of which may be obtained at [www.sedar.com](http://www.sedar.com)). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by this Management Discussion and Analysis. These factors should be considered carefully and the reader should not place undue reliance on the forward-looking statements. Although any forward-looking statements contained in this report are based upon what management currently believes to be reasonable assumptions, the Company cannot assure readers that actual results, performance or achievements will be consistent with these forward-looking statements, and management’s assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this Management Discussion and Analysis.

## 1. Our Company

### 1.1. Overview of the Business

Opta Minerals Inc. (TSX: OPM) is a vertically integrated provider of custom process optimization solutions and related materials for use primarily in the steel, foundry, loose abrasive cleaning and municipal water filtration industries. Until 2009, the Company experienced solid growth through a combination of internal growth and successfully integrated strategic acquisitions to become one of the leading regional suppliers of industrial minerals and silica-free loose abrasives in a number of select markets in North America and Europe. Notwithstanding the decline in business activities during 2009, this growth is evidenced by the Company's Compound Annual Revenue Growth Rate<sup>1</sup> ("CAGR") of 11.5% for the 10 year period ended December 31, 2009.



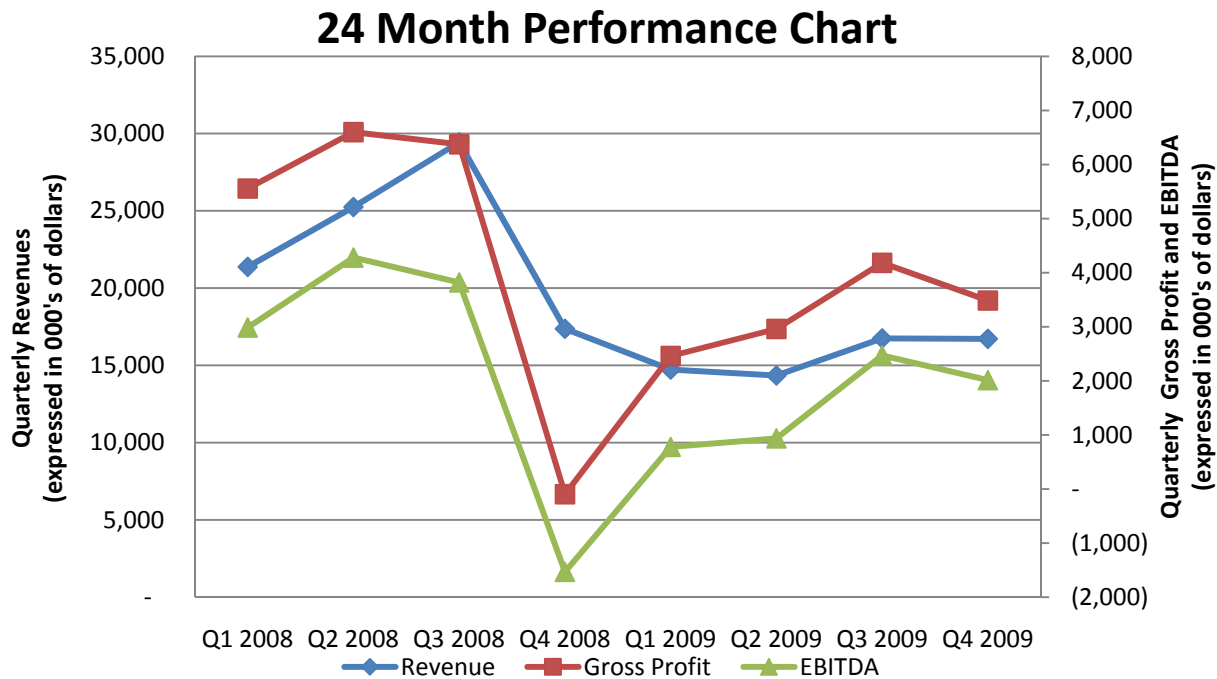
The Company currently has offices, production and distribution facilities in Ontario, Quebec, Louisiana, South Carolina, Virginia, Maryland, Michigan, Indiana, New York, Texas, Florida, Slovakia and France and one of the broadest product lines in the industry. Recognizing that the fragmentation and lack of consolidation among suppliers in its industry has provided a strategic growth opportunity, the Company intends to capitalize on this opportunity to become one of the leading global suppliers of industrial minerals and silica-free loose abrasives.

<sup>1</sup> CAGR is a Non GAAP Measure used by management in assessing the performance of the Company. Please see section 8 of this report for a description of the calculation of the Company's CAGR.

## 2. How we performed

### 2.1. Performance Highlights and Outlook

Global economic conditions and slow recovery over the past five quarters have been some of the most challenging the Company has ever experienced. Operating in such a difficult environment, the Company's management has responded quickly to adapt production, cut costs, improve cash flow and strengthen the balance sheet. Included in these measures were several facility closures, credit facility renegotiations and a workforce reduction, including an adjustment to the cost sharing of health benefits with employees. These efforts have reduced staffing levels companywide by 33% since January 1, 2008 and, along with additional cost saving initiatives implemented during 2009, are expected to reduce annual operating costs by \$6.0 million. Approximately 52% of the annual operating cost savings are attributed to permanent salaried workforce reductions. During the latter part of the year, management had seen some signs of recovery and, as a result, began increasing production at some facilities. There remains continued uncertainty surrounding steel and abrasive consuming industries such as automotive, construction, infrastructure and shipyard activity making it difficult to forecast beyond a short horizon.



Results for the year ended December 31, 2009 are significantly below the comparable period in 2008 as a result of the dramatic slowdown in industrial activity that began in the fourth quarter of 2008. However, quarterly results for the Company have gradually improved since the three months ended December 31, 2008. Cash provided by operating activities increased from \$1,937,000 for the year ended December 31, 2008 to \$10,543,000 in 2009.

Other significant events for the year are as follows:

#### **New Facilities in Freeport, Texas and Tampa Bay, Florida**

The Company has two new production and warehouse facilities in Freeport, Texas and Tampa Bay, Florida. Both locations are in leased facilities and will produce products within our abrasive products manufacturing and distribution segment. Both start up locations, Freeport commenced production during the third quarter of 2009 and Tampa Bay commenced the distribution of abrasive products during the fourth quarter of 2009 and expects to commence production of its own abrasive products during the second quarter of 2010.

#### **Restructuring and Cost Saving Measures**

During the year, the Company implemented cost-saving measures to realign operations with customer demand. Included in these measures was a workforce reduction and an adjustment to the cost sharing of employee health benefits. The restructuring efforts have reduced annual operating costs by approximately \$6 million compared to the beginning of 2008.

#### **Consolidation of the Operations in Quebec**

During the year, the Company consolidated its three production and distribution operations located in Quebec into one facility in Laval, Quebec. As part of the plan, the owned building and warehouse in Lachine, Quebec was sold for proceeds of \$651,000 and the Company negotiated an early lease termination agreement for the other.

#### **Goodwill Impairment Charge**

Goodwill represents the excess of the purchase price over the fair value assigned to identifiable assets and liabilities acquired. The Company performed its annual impairment test of goodwill on September 30, 2009. Management determined that there were external market conditions and other circumstances that suggested the carrying value of the goodwill of certain segments may exceed their fair value. The external market conditions included a decrease in operating results as compared to the prior year and a lower than previously anticipated future operating income growth due to the slow recovery in the global economy. After performing the annual impairment test, management determined that the carrying value of the goodwill of certain operating units exceeded their fair value and, as a result, the Company recorded a non-cash impairment charge of \$7,198,000 related to the operations in Ontario, Quebec and New York which are recorded in the abrasive products manufacturing and distribution segment and to the previous acquisitions of Bimac Inc. and MCP Mg-Serbien SAS recorded in the mill and foundry products and services segment.

#### **Non-controlling Interest of MCP Mg-Serbien SAS**

Subsequent to the 2008 acquisition of MCP Mg-Serbien SAS (MCP), its unconsolidated losses triggered a statutory requirement in France to increase the capital stock. On December 22, 2009, the Company fulfilled its obligation to increase the value of its shareholdings and, at the same time, the non-controlling interest declined to increase its prorata share of the shareholdings. As a result, the non-controlling interest's shares were cancelled and the Company increased its ownership in MCP to 100%. Non-controlling interest has been credited by \$264,000 with an offsetting reduction to retained earnings. Subsequent to this transaction, the legal entity was renamed Opta Minerals Europe SAS.

#### **Attica New York Sale of Assets**

On January 29, 2009, substantially all of the property, plant and equipment comprising the Company's facility in Attica, New York, were sold in exchange for a release of the Company's obligations under an existing lease and service agreement. The non-monetary proceeds of \$793,000 have been recorded as an intangible asset and represent the future benefits to the Company. The operations in Attica were previously reported in the abrasive products manufacturing and distribution operations segment. The difference between the future savings as a result of the termination of the lease and service agreements and the net book value of the assets disposed in the amount of \$423,000 and a write-off of the goodwill associated with the Attica, New York facility in the amount of \$162,000 resulted in a gain of \$208,000 which is recorded in other income and expenses.

## 2.2. Selected Financial Data

The following is a summary of financial information for the periods indicated.

(expressed in thousands of dollars, except gross margin percentage)	For the three months ended December 31,		For the year ended December 31,		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Income Statement Data</b>	(unaudited)				
<b>Revenue</b>	\$	\$	\$	\$	\$
Mill and foundry products and services	11,324	12,716	41,212	71,104	51,766
Abrasive products manufacturing and distribution operations	<u>5,392</u>	<u>4,649</u>	<u>21,314</u>	<u>22,319</u>	<u>23,599</u>
<b>Total revenue</b>	<b>16,716</b>	<b>17,365</b>	<b>62,526</b>	<b>93,423</b>	<b>75,365</b>
<b>Gross profit</b>	<b>3,484</b>	<b>(98)</b>	<b>13,081</b>	<b>18,427</b>	<b>17,822</b>
Gross profit %	20.8%	(0.6%)	20.9%	19.7%	23.6%
Selling, general and administrative expenses	<u>2,067</u>	<u>2,443</u>	<u>9,106</u>	<u>10,997</u>	<u>9,635</u>
<b>Earnings before the following:</b>	<b>1,417</b>	<b>(2,541)</b>	<b>3,975</b>	<b>7,430</b>	<b>8,187</b>
Interest expense (net)	340	528	1,588	2,089	1,648
Amortization of intangible assets	477	413	1,844	1,719	1,381
Stock compensation expense	75	97	285	301	170
Other (income) expenses	(68)	-	237	59	417
Foreign exchange gain	<u>(35)</u>	<u>(556)</u>	<u>(466)</u>	<u>(250)</u>	<u>(239)</u>
<b>Earnings (loss) before income taxes, goodwill impairment and non-controlling interest</b>	<b>628</b>	<b>(3,023)</b>	<b>487</b>	<b>3,512</b>	<b>4,810</b>
Provision for (recovery of) income taxes	6	(799)	(242)	1,034	1,462
<b>Earnings (loss) before goodwill impairment and non-controlling interest</b>	<b>622</b>	<b>(2,224)</b>	<b>729</b>	<b>2,478</b>	<b>3,348</b>
Goodwill impairment	=	=	7,198	=	=
<b>Earnings (loss) before non-controlling interest</b>	<b>622</b>	<b>(2,224)</b>	<b>(6,469)</b>	<b>2,478</b>	<b>3,348</b>
Non-controlling interest share of net earnings (loss)	6	=	(264)	=	=
<b>Net earnings (loss)</b>	<b>616</b>	<b>(2,224)</b>	<b>(6,205)</b>	<b>2,478</b>	<b>3,348</b>

Selected Financial Data – Continued	For the three months ended December 31		For the year ended December 31		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(unaudited)				
Basic net earnings (loss) per share	\$0.04	\$(0.12)	(\$0.34)	\$0.14	\$0.19
Diluted net earnings (loss) per share	\$0.04	\$(0.12)	(\$0.34)	\$0.14	\$0.19
Weighted average shares used in computing basic net earnings per share calculation	<u>18,020,213</u>	<u>17,998,697</u>	<u>18,013,670</u>	<u>17,993,191</u>	<u>17,297,731</u>
Weighted average shares used in computing diluted net earnings per share calculation	<u>18,020,213</u>	<u>17,998,697</u>	<u>18,013,670</u>	<u>18,007,880</u>	<u>17,470,437</u>

**Balance Sheet Data (unaudited)**  
(expressed in thousands of dollars)

	<u>As at</u>		
	<u>2009</u> \$	<u>2008</u> \$	<u>2007</u> \$
Cash and cash equivalents	781	1,377	2,336
Working capital	12,158	15,832	15,177
Total assets	86,881	101,246	98,232
Bank indebtedness and long-term debt (including current portion)	26,762	32,488	36,507
Shareholders' equity excluding non controlling interest	38,257	45,293	41,557

**Quarterly Results of Operations**

The following table sets out selected financial information for each of the eight most recent quarters ended December 31, 2009. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements for the years ended December 31, 2009 and 2008.

	<u>Quarters Ended</u>							
	<u>Dec 31,</u> <u>2009</u>	<u>Sept 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>	<u>Mar 31,</u> <u>2009</u>	<u>Dec 31,</u> <u>2008</u>	<u>Sept 30,</u> <u>2008</u>	<u>June 30,</u> <u>2008</u>	<u>Mar 31,</u> <u>2008</u>
	(unaudited - expressed in thousands of dollars)							
<b>Revenue</b>	\$16,716	\$16,745	\$14,339	\$14,726	\$17,365	\$29,440	\$25,248	\$21,370
<b>EBITDA<sup>1</sup></b>	2,011	2,467	935	777	(1,532)	3,818	4,278	2,986
<b>Net earnings (loss) for the period</b>	616	(6,416)	(79)	(326)	(2,224)	1,673	1,930	1,099
<b>Basic and diluted earnings (loss) per share</b>	\$0.04	(\$0.36)	\$0.00	(\$0.02)	(\$0.12)	\$0.09	\$0.11	\$0.06

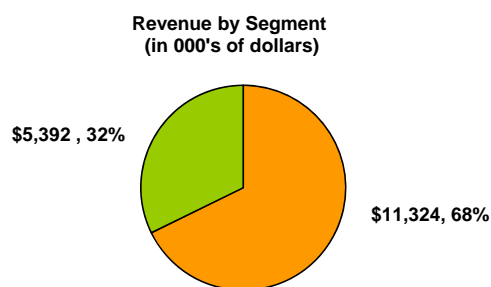
<sup>1</sup> EBITDA is a Non GAAP measure used by management to measure performance. Please see section 8 of this report for a discussion on the calculation of EBITDA.

### **2.3. Three months ended December 31, 2009 compared to three months ended December 31, 2008**

The Company's revenues decreased 3.7% to \$16,716,000 for the three months ended December 31, 2009 from \$17,365,000 for the three months ended December 31, 2008. The following is an analysis of Company Wide Revenues and Performance by Segment.

#### *Company Wide Revenues*

One of the Company's strengths is its geographic reach as a result of having multiple production and distribution facilities in Canada, the U.S. and Europe. These facilities have been grouped into two separate segments in the Company's financial statements based on the nature of their primary customer base. The segments are: mill and foundry products and services and abrasive products manufacturing and distribution operations. While the majority of each facility's revenues are derived primarily from one of the aforementioned segments, its customers' needs can include both abrasive products and foundry and steel products. As a result, management believes Company wide sales of abrasive products, and foundry and steel products and services provides useful information to stakeholders regarding the Company's ability to leverage the strength of its geographic reach and its ability to provide customers with a broad product offering. Company wide sales of abrasive products were \$4,304,000 for the three months ended December 31, 2009, an increase of 11.8% from sales of \$3,849,000 for the three months ended December 31, 2008. The increase is primarily driven by demand for metallurgical slag. Company wide sales of steel mill and foundry products and services were \$11,488,000 during the three months ended December 31 2009, a decrease of 5.0% from fourth quarter 2008 sales of \$12,091,000. Although volumes are ahead when compared to the same period in 2008, the sales price of magnesium is down on a year over year basis. The remaining variance in revenues between the three months ended December 31, 2009 and 2008 relates to sales of other industrial minerals, products and services. Other products and services decreased 35.2% from \$1,424,000 for the three months ended December 31, 2008 to \$924,000 for the same period ended December 31, 2009.



- Mill and foundry products and services
- Abrasive products manufacturing and distribution operations

#### *Performance by Segment*

Revenues within the mill and foundry products and services segment decreased by \$1,392,000 or 10.9% for the three months ended December 31, 2009 to \$11,324,000 as compared to \$12,716,000 for the same period in 2008. The results for the segment reflect an increase in production volumes for steel and foundry customers of the Company offset by lower selling prices related to the cost of magnesium during the quarter.

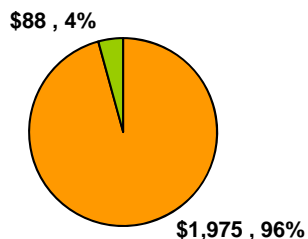
Revenues within the abrasive products manufacturing and distribution operations segment increased 16.0% from \$4,649,000 for the three months ended December 31, 2008 to \$5,392,000 during the same period in 2009 as a result of increased demand for abrasive slag.

Gross profit increased by \$3,582,000 to \$3,484,000 or 20.8% of revenue for the three months ended December 31, 2009, compared to (\$98,000) or (0.6)% of revenue for the same period in 2008. The increase is largely due to the raw magnesium inventory write down in the fourth quarter of 2008 in the amount of \$2,840,000 and, excluding the impact of the write down, gross profit has increased \$742,000.

Excluding the impact of the prior year inventory write down, the gross profit at the Company's mill and foundry products and services segment increased by \$853,000 from \$2,063,000 or 16.2% of revenue in 2008 to a gross profit of \$2,916,000 or 25.8% of revenue in 2009. The quarter's results in the mill and foundry segment were significantly impacted by the increase in demand for product from major steel mill customers as a result of their increased production. Gross profits within the Company's abrasive products manufacturing and distribution operations segment decreased \$111,000 during the quarter from \$679,000 or 14.6% of revenue in 2008 to \$568,000 or 10.5% of sales in 2009.

Selling, general and administrative expenses decreased \$376,000 from \$2,443,000 or 14.1% of revenues for the three months ended December 31 2008 to \$2,067,000 or 12.4% of revenues in 2009. The decrease relates to lower professional fees incurred, as well as, reduced employee costs as a result of cost reduction measures put in place by management during the year.

**Earnings before income taxes, interest, depreciation and amortization ("EBITDA")  
(in 000's of dollars)**



- Mill and foundry products and services
- Abrasive products manufacturing and distribution operations

Earnings (loss) before income taxes, interest, depreciation and amortization ("EBITDA")<sup>1</sup> for the three months ended December 31, 2009 was \$2,011,000 versus (\$1,532,000) for the three months ended December 31, 2008. EBITDA for the mill and foundry products and services segment increased by \$4,483,000 to \$1,975,000 for the three months ended December 31, 2009 when compared to the same period in 2008. The abrasive products manufacturing and distribution operations segment had EBITDA of \$88,000 for the three months ended December 31, 2009 compared to \$438,000 for the same period in 2008.

The effective income tax rate for the three months ended December 31, 2009 was 1.0% compared to 26.4% for the comparable period in 2008. The change in rate is substantially due to statutory rate differences in other jurisdictions.

Net earnings for the three months ended December 31, 2009 was \$616,000 or \$0.04 per diluted common share as compared to a net loss of (\$2,224,000) or (\$0.12) per diluted common share for the same period in 2008.

**2.4. Twelve months ended December 31, 2009 compared to twelve months ended December 31, 2008**

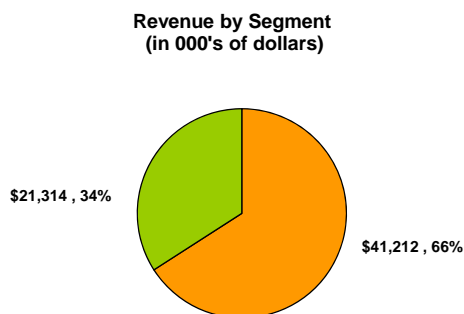
The Company's revenues decreased 33.1% for the year ended December 31, 2009 from \$93,423,000 for the twelve months ended December 31, 2008 to \$62,526,000 in 2009. The following is an analysis of Company Wide Revenues and Performance by Segment.

*Company Wide Revenues*

One of the Company's strengths is its geographic reach as a result of having multiple production and distribution facilities in Canada, the U.S. and Europe. These facilities have been grouped into two separate segments in the Company's financial statements based on the nature of their primary customer base. The segments are: mill and foundry products and services and abrasive products manufacturing and distribution operations. While the majority of each facility's revenues are derived primarily from one of the aforementioned segments, its customers' needs can include both abrasive products and foundry and steel products. As a result, management believes Company wide sales of abrasive products, and foundry and steel products and services provides useful information to stakeholders regarding the Company's ability to leverage the strength of its geographic reach and its ability to provide customers with a broad product offering. Company wide sales of abrasive products were \$17,766,000 for the year ended December 31, 2009, a decrease of 4.4% from sales of \$18,580,000 for the year ended December 31, 2008. The decrease is primarily driven by decreased sales of steel grit, steel shot and glass beads.

<sup>1</sup> EBITDA is a Non GAAP measure used by management to measure performance. Please see section 8 of this report for a discussion on the calculation of EBITDA.

Company wide sales of steel mill and foundry products and services were \$40,801,000 for the year ended December 31, 2009, a decrease of 40.3% from \$68,350,000 for the year ended December 31, 2008. There was a dramatic decline in production volumes that occurred at mills and foundries during the current period as a result of a decrease in demand for steel in the global marketplace. The remaining variance in revenues between the twelve months ended December 31, 2009 and 2008 relates to sales of other industrial minerals, products and services. Other products and services decreased 39.0% from \$6,493,000 for the twelve months ended December 31, 2008 to \$3,959,000 for the same period ended December 31, 2009.



- Mill and foundry products and services
- Abrasive products manufacturing and distribution operations

*Performance by Segment*

Revenues within the mill and foundry products and services segment decreased by \$29,892,000 or 42.0% for the year ended December 31, 2009 to \$41,212,000 as compared to \$71,104,000 for the same period in 2008. The results for MCP Mg-Serbien, the company acquired in 2008 is included in this segment. Excluding the results of this acquisition, segment revenues from legacy operations decreased by 41.7% for the year ended December 31, 2009 compared to the year ended December 31, 2008. The results for the segment reflect the significant overall decline in production volumes experienced by steel and foundry customers of the company during the year.

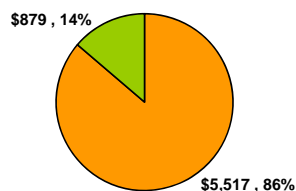
Revenues within the abrasive products manufacturing and distribution operations segment also decreased from \$22,319,000 for the year ended December 31, 2008 to \$21,314,000 during the same period in 2009.

Gross profit decreased by \$5,346,000 to \$13,081,000 or 20.9% of revenue for the year ended December 31, 2009, compared to \$18,427,000 or 19.7% of revenue for the same period in 2008. Excluding the impact of the write down related to magnesium inventory in the prior year in the amount of \$2,840,000, the year over year decline in gross profit was \$8,186,000.

Excluding the aforementioned inventory write down of raw magnesium in the prior year, the 2009 gross profit at the Company's mill and foundry products and services segment decreased by \$6,587,000 from \$16,463,000 or 23.2% of revenue in 2008 to a gross profit of \$9,876,000 or 24.0% of revenue in 2009. The period's results in the mill and foundry segment were significantly impacted by the economic slowdown and a decrease in demand for product from major steel mill customers who have idled plants to reduce production. Gross profit within the Company's abrasive products manufacturing and distribution operations segment decreased by \$1,599,000 from \$4,804,000 or 21.6% of revenue in 2008 to \$3,205,000 or 15.0% of revenue in 2009. The decrease is primarily due to lower demand for abrasive products in the southern United States.

Selling, general and administrative expenses decreased \$1,891,000, from \$10,997,000 or 11.8% of revenue for the year ended December 31, 2008 to \$9,106,000 or 14.6% of revenue in 2009. Approximately \$366,000 relates to the first nine months of costs incurred by MCP acquired in the third quarter of 2008. Excluding MCP, the decrease of \$2,257,000 relates to lower professional fees incurred, as well as, reduced employee costs resulting from cost reduction measures put in place by management during the last 5 quarters.

**Earnings before income taxes, interest, depreciation and amortization ("EBITDA")**  
(in 000's of dollars)



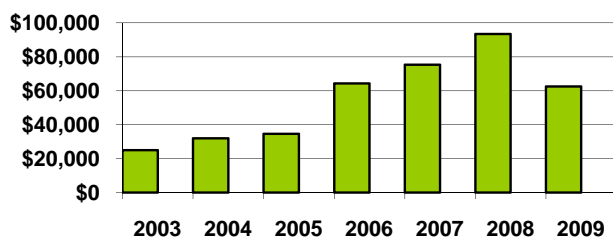
- Mill and foundry products and services
- Abrasive products manufacturing and distribution operations

Earnings (loss) before income taxes, interest, depreciation and amortization ("EBITDA")<sup>1</sup> for the year ended December 31, 2009 was \$6,190,000 vs. \$9,550,000 for the twelve months ended December 31, 2008. EBITDA for the mill and foundry products and services segment decreased by \$1,962,000 to \$5,517,000 for the year ended December 31, 2009 when compared to the same period in 2008. The abrasive products manufacturing and distribution operations segment had EBITDA of \$879,000 for the year ended December 31, 2009 compared to \$4,016,000 for the same period in 2008.

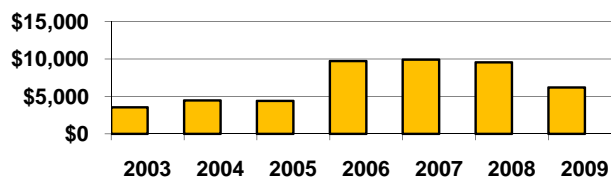
Other income and expenses for the year ended December 31, 2009 in the amount of \$237,000 is comprised of \$353,000 in restructuring severance costs, \$44,000 in lease termination costs related to the consolidation of the operations in Quebec and \$48,000 in costs related to the disposal of assets held for sale offset by a gain on sale of fixed assets in the amount of \$208,000. On January 29, 2009, substantially all of the fixed assets comprising the Company's facility in Attica, New York were sold in exchange for a release of the Company's obligations under an existing lease and service agreement. The transaction resulted in a gain on sale of assets in the amount of \$208,000.

The effective income tax rate for the year ended December 31, 2009 was (3.6%) compared to 29.4% for the comparable period in 2008. The change in rate is substantially due to the non-taxable permanent differences generated by the goodwill impairment charge.

**Consolidated Revenue**  
(in 000's of dollars)



**Consolidated net earnings before income taxes, interest depreciation and amortization ("EBITDA")**  
(in 000's of dollars)



The net loss for the year ended December 31, 2009 was (\$6,205,000) or (\$0.34) per diluted common share as compared to net earnings of \$2,478,000 or \$0.14 per diluted common share for the same period in 2008.

<sup>1</sup> EBITDA is a Non GAAP measure used by management to measure performance. Please see section 8 of this report for a discussion on the calculation of EBITDA.

### 3. Capital Structure and Financing

#### 3.1. Capital Structure

Maintaining our financial flexibility is one of our long-term goals and is imperative to several of the growth initiatives included in our strategic plan. We regularly review our funding plan and capital structure to ensure that we have sufficient funding options to provide us with the financial flexibility to implement the growth initiatives and meet the targets of our Strategic Plan. The current economic slowdown has had a significant effect on our capital structure. We remain focused on cash flow generation to rebalance our capital structure and remain in compliance with bank requirements regarding our debt. During the year ended December 31, 2009, we generated significant cash from cost reduction initiatives and working capital reductions including a substantial reduction in inventory and prepaid expenses.

During 2009, the Company's credit facilities were amended to increase flexibility. Certain bank covenant ratios were eased to provide the Company with ample room to address upcoming market uncertainties. In addition, the Company expanded its credit facilities in France by \$2,500,000 through the assistance of an Export Development Canada guarantee. The line of credit in France will help the Company's European operations expand their product offering to include finished goods made from our facility in Laval Quebec.

We ended the year 2009 with:

- \$781,000 of cash and cash equivalents;
- \$3,355,000 of bank indebtedness;
- 19.2% of our long-term debt due in the next 12 months;
- Long-term debt and bank indebtedness at 135% of total capitalization<sup>1</sup>;

For the year ended December 31, 2009, 2008, 2007 our capital structure was as follows:

#### Capital Structure (% of total structure)

	Period Ended		
	December 31, 2009	December 31, 2008	December 31, 2007
Shareholders' Equity	48.9%	48.6%	44.8%
Bank indebtedness	4.3%	8.3%	6.4%
Long-term debt	29.9%	26.4%	32.8%
Future income taxes	3.4%	3.0%	3.0%
Future income taxes on intangible assets <sup>(1)</sup>	11.8%	10.4%	10.7%
Other long-term liabilities	1.8%	3.3%	2.3%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) As at December 31, 2009, approximately \$9,213,000 (December 31, 2008 - \$9,695,000) of the Company's future tax liabilities relate to intangibles acquired as part of the Newco, Bimac and Magtech acquisitions. Despite the fact that these intangibles are not deductible for statutory tax purposes and would have a value of \$0 in the event of liquidation, Canadian generally accepted accounting principles require a future tax liability to be established for any finite life intangibles acquired.

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<sup>1</sup> Capitalization is defined as market price per common share multiplied by total number of issued shares.

## Equity

The book value of Common Shares at December 31, 2009 was \$2.12 per share compared to \$2.52 at December 31, 2008.

### Shares outstanding

#### Common Shares

	Period Ended December 31,	
	2009	2008
Shares outstanding at the beginning of the period	18,003,459	17,984,200
Shares issued under plans <sup>(1)</sup>	19,734	19,259
<b>Shares outstanding at end of the period</b>	<b>18,023,193</b>	<b>18,003,459</b>

(1) We issue shares under employee stock purchase and stock option plans.

The common shares outstanding as at March 22, 2010 are 18,027,074.

### Long term debt and bank indebtedness

As at December 31, 2009, the Company had \$26,762,000 in long-term debt and bank indebtedness owing to third parties versus \$32,488,000 at December 31, 2008. At December 31, 2009, the Company's financing agreements with the Bank of Nova Scotia includes a Cdn \$15,000,000 revolving term operating facility, a Cdn \$14,043,000 revolving term acquisition facility, and a Cdn \$12,500,000 term facility that matures in 2012. In addition to its arrangements with the Bank of Nova Scotia, the Company has a promissory note payable to the former shareholders of Rossborough in the amount of \$1,500,000, and a further non-interest bearing promissory note of \$663,000.

## 3.2. Funding Program

### Funding requirements

We fund our capital expenditures, working capital requirements, acquisitions and financing needs such as debt repayments from a combination of sources. For the year ended December 31, 2009, the primary sources of funding were:

- \$1,377,000 cash on hand at the beginning of 2009;
- \$795,000 from increasing total long-term debt;
- \$25,000 from the issuance of common shares under the employee share purchase plan; and
- \$651,000 proceeds from disposal of a warehouse facility in Quebec
- \$10,543,000 in cash flow from operating activities.

### Summary of Cash flows

(expressed in thousands of dollars)	For the Three Months Ended December 31		For the Year Ended December 31		
	2009	2008	2009	2008	2007
Net cash provided by (used in):	(unaudited)				
	\$	\$	\$	\$	\$
Operating activities	2,957	2,124	10,543	1,937	1,838
Investing activities	(510)	(1,289)	(1,856)	(2,848)	(8,683)
Financing activities	(2,825)	(3,174)	(9,291)	(86)	8,320
Foreign exchange (loss) gain on cash held in foreign currency	(2)	55	8	38	7

### **3.3. Three months ended December 31, 2009 compared to the three months ended December 31, 2008**

#### *Operating activities and working capital*

Cash generated by operating activities for the three months ended December 31, 2009 was \$2,957,000 compared to cash generated of \$2,124,000 for the same period in 2008. Positive operating cash flows for the quarter were primarily due to positive operating results plus a reduction of working capital, particularly inventory, other current assets and accounts payable that occurred in the fourth quarter of 2009.

#### *Investing Activities*

Cash used in investing activities was \$510,000 for the three months ended December 31, 2009 as compared to \$1,289,000 in the comparable period in 2008. Approximately \$270,000 of the \$510,000 in capital investments during the quarter relates to capital expenditures incurred for new operations in Tampa, Florida and Freeport, Texas. The remaining amount relates to maintenance capital spent during the quarter. The Company continues to invest in capital improvements designed to maintain facilities, reduce operating costs or comply with regulatory requirements at its various locations.

#### *Financing Activities*

Cash used by financing activities was \$2,825,000 for the three months ended December 31, 2009, which was for the repayment of long term debt and bank indebtedness.

### **3.4. Twelve months ended December 31, 2009 compared to twelve months ended December 31, 2008**

#### *Operating activities and working capital*

Cash generated by operating activities for the twelve months ended December 31, 2009 was \$10,543,000 compared to \$1,937,000 generated for the same period in 2008. Positive cash flows for the year were primarily due to positive cash results from operations plus a reduction of working capital, particularly inventory, that occurred during the year as the Company realigned its purchasing patterns to adjust for the decline in sales volumes.

#### *Investing Activities*

Cash used in investing activities was \$1,856,000 for the year ended December 31, 2009 as compared to \$2,848,000 in the comparable period in 2008. Approximately \$1,607,000 of the investment pertains to capital expenditures incurred during the year for new operations in Tampa, Florida and Freeport, Texas. The remaining amounts relate to maintenance capital spent during the quarter. This was partially offset by cash received from the disposition of a warehouse facility in Lachine, Quebec for \$651,000.

#### *Financing Activities*

Cash used by financing activities was \$9,291,000 for the year ended December 31, 2009. The most significant financing transactions recorded during the year relates to repayment of \$1,500,000 of a promissory note and accrued interest due to former shareholders of Magnesium Technologies Corporation and principle repayments on existing credit facilities and long-term debt offset by a draw on the Company's acquisition facility for certain equipment purchased for the Company's Freeport, Texas location.

### 3.5. Financial Ratios

The following table shows the changes in financial ratios over the past year.

	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Ratio of long term debt and bank indebtedness to equity	0.70:1	0.72:1	0.88:1
Ratio of long term debt <sup>(1)</sup> and bank indebtedness to total capitalization	1.34:1	0.96:1	0.43:1
Ratio of current assets to current liabilities	1.74:1	1.80:1	1.80:1
Interest coverage <sup>(2)</sup>	2.6 times	3.5 times	4.8 times
Tangible Net Worth <sup>(3)</sup>	\$9,760,000	\$8,364,000	\$8,044,000

(1) Long-term debt includes current portion.

(2) We calculate interest coverage using 12 month earnings before interest, income taxes, non controlling interest, and amortization of intangible assets.

(3) We calculate Tangible Net Worth as Shareholders' Equity less goodwill, intangibles net of non tax deductible future tax liabilities related to intangibles.

### 3.6. Funding Costs

The table below shows total funding costs for long term debt. The figures include the impact of changes in the borrowing currency, which is part of our interest rate risk management program.

	<b>For the three months ended December 31,</b>		<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Interest expense</b>					
Interest expense pertaining to long term debt	\$200,000	\$386,000	\$1,054,000	\$1,521,000	\$1,213,000
Interest expense pertaining to bank indebtedness	140,000	142,000	534,000	568,000	435,000
<b>Effective blended cost of debt</b>	<b>5.3%</b>	<b>5.6%</b>	<b>5.3%</b>	<b>5.6%</b>	<b>6.0%</b>

## 4. Contractual Obligations and Commitments

The Company has the following contractual obligations over the next five fiscal years and thereafter:  
(expressed in thousands of dollars)

<u>Contractual Obligations</u>	<b>Payments Due by Period</b>						
	<b>Total</b>	<b>1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$8,544	\$8,544	\$-	\$-	\$-	\$-	\$-
Long term debt	23,407	4,495	2,963	2,939	2,745	2,732	7,533
Preferred shares	44	44	-	-	-	-	-
Operating leases	5,326	1,601	1,419	935	816	372	183
<b>Total contractual obligations</b>	<b>\$37,321</b>	<b>\$14,684</b>	<b>\$4,382</b>	<b>\$3,874</b>	<b>\$3,561</b>	<b>\$3,104</b>	<b>\$7,716</b>

Pursuant to the Bimac purchase agreement, additional contingent consideration not to exceed \$3,850,000 may be payable based on the achievement of certain predetermined earnings targets between October 1, 2006 and September

30, 2016. To date, a cumulative total of \$1,040,000 has been paid. The previously recorded contingent consideration in the amount of \$1,110,000 has been reversed as the goodwill impairment test performed by the Company indicated that the accrual for contingent consideration was not virtually certain. Any future payments with respects to additional consideration will be recorded against goodwill.

## **5. Transactions with Related Parties**

1) Pursuant to the appointment of a new director on May 12, 2008, the following transactions and balances are classified as related party:

a) Long-term debt

Included in long-term debt as of December 31, 2009 is a promissory note in the amount of \$1,500,000 (December 31, 2008 - \$3,000,000) with annual installments of \$1,500,000 plus interest at 5.6%. The promissory note and accrued interest are payable to the former shareholders of Magnesium Technologies Corporation. As a result of the previous shareholdings, the director receives 26.5% of the total payment.

b) Additional consideration paid on prior acquisitions

Pursuant to the purchase agreement of the outstanding shares of Bimac Inc., additional consideration, not to exceed \$3,850,000, may be payable based on the achievement of certain pre-determined earnings targets to September 2016. As a result of the previous shareholdings, the director receives 61.7% of the annual payment. Based on the calculations for the year ended December 31, 2009, the payment in 2009 is \$nil (2008 - \$514,000)

## **6. Risks and Uncertainties**

The Company approaches the management of risk strategically, in order to prudently preserve shareholder value. You should carefully consider the risks described in other information contained in our filings with Canadian securities regulatory agencies, including our audited consolidated financial statements and the notes thereto and the Annual Information Form. These and other information relating to the Company can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com). These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks actually occur, our business, financial condition, liquidity or results of operations could be materially harmed.

## **7. Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses and disclosure of gain and loss contingencies at the date of the consolidated financial statements. The estimates and assumptions made require judgement on the part of management and are based on the Company's historical experience and various other factors that are believed to be reasonable in the circumstances. Management continually evaluates the information that forms the basis of estimates and assumptions as the business of the Company and the business environment generally changes. The use of estimates is pervasive throughout the Company's consolidated financial statements.

We periodically review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures are accurate and informative relative to the current economic and business environment. As part of this process, we have reviewed our selection, application and communication of critical accounting policies and financial disclosures. We note that we have determined that our critical accounting policies relating to our core ongoing business are primarily those disclosed below. Other important accounting policies are described in note 2 of our annual consolidated financial statements as at December 31, 2009 and 2008 and for the years then ended.

### ***Revenue Recognition***

Revenues from the Company's operations are recognized when the following four criteria have been satisfied:

- Persuasive evidence of an arrangement exists, such as an executed service agreement or other relevant documentation;
- When services are delivered. For the sale of abrasives and industrial minerals, the Company considers services delivered upon shipment of materials and transfer of title to the customer. For recycling activities, services are considered to be delivered after materials have been processed and the resulting non-hazardous recycled material is either sold or shipped to third parties or is disposed of;
- The price to the customer is either fixed or determinable; and
- Collectability is reasonably assured.

### ***Accounts Receivable***

The Company's accounts receivable primarily include amounts due from its customers. The carrying value of each account is carefully monitored with a view to assessing the likelihood of collection. An allowance for doubtful accounts is provided for as an estimate of losses that could result from customers defaulting on their obligation to the Company. In assessing the amount of reserve required, a number of factors are considered including the age of the account, the credit worthiness of the customer, payment terms, the customer's historical payment history and general economic conditions. Because the amount of the reserve is an estimate, the actual amount collected could differ from the carrying value of the receivable.

### ***Inventory***

Inventory is the Company's largest current asset. Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. The Company assesses the net realizable value of its inventory on a regular basis by reviewing, on an item-by-item basis, the realizable value of its inventory, net of anticipated selling costs. If it is management's judgment that the selling price of an item must be lowered below its cost in order for it to be sold, then the carrying value of the related inventory is written down to its realizable value. Declines in replacement cost below carrying values for raw material inventories do not require a write down if the finished goods in which they are incorporated are expected to be sold at or above cost. A number of factors are taken into consideration in assessing realizable value including the quantity on hand, age and expiration, historical sales, consumer demand and preferences. Depending on market conditions, the actual amount received on sale could differ from management's estimate.

### ***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired. The Company assesses at least annually whether there has been an impairment loss in the carrying value of goodwill based on the fair value of its reporting units.

Should the carrying amount of goodwill exceed its estimated fair value, an impairment loss would be recognized at that time and be charged to the statement of earnings. The Company has assessed the carrying value of goodwill for possible impairment and has recorded a goodwill impairment charge for the year ended December 31, 2009 in the amount of \$7,198,000.

## Intangible Assets

The Company's finite life intangible assets are amortized on a straight line basis as follows:

Customer relationships	8 – 25 years
Profit sharing agreements	15 years
Long-term supply contract	Over the contract period of 10 years
Patents	Over the useful life of the patent
Other finite life intangible asset	6 years

## Income Taxes

The Company uses the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not those future income taxes will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or recoverable for the period plus or minus the change in future income tax assets and liabilities during the period.

## 8. Non-GAAP Measures

The following measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP):

- EBIT (earnings before interest and income taxes)
- EBITDA (earnings before interest, income taxes, depreciation and amortization);
- Compound Annual Growth Rate

A reconciliation of EBIT and EBITDA to the most comparable GAAP measure (net earnings) is provided as follows:

	Quarters Ended								Years Ended	
	Dec 31, 2009	Sept 30, 2009	June 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008	Mar 31, 2008	Dec 31, 2009	Dec 31, 2008
	(unaudited)								(expressed in thousands of dollars)	
	(expressed in thousands of dollars)								(expressed in thousands of dollars)	
<b>Net earnings (loss) for the period</b>	<b>\$616</b>	<b>\$(6,416)</b>	<b>\$(79)</b>	<b>\$(326)</b>	<b>\$(2,224)</b>	<b>\$1,673</b>	<b>\$1,930</b>	<b>\$1,099</b>	<b>\$(6,205)</b>	<b>\$2,478</b>
Interest expense	340	431	393	424	528	501	494	566	1,588	2,089
Provision (recovery) for income taxes	6	290	(229)	(309)	(799)	642	853	338	(242)	1,034
Depreciation	572	495	389	551	550	561	564	555	2,007	2,230
Amortization of intangible assets	477	469	461	437	413	441	437	428	1,844	1,719
Goodwill impairment	-	7,198	-	-	-	-	-	-	7,198	-
<b>EBITDA (loss)<sup>(1)</sup></b>	<b>2,011</b>	<b>2,467</b>	<b>935</b>	<b>777</b>	<b>(1,532)</b>	<b>3,818</b>	<b>4,278</b>	<b>2,986</b>	<b>6,190</b>	<b>9,550</b>
Depreciation, amortization of intangible assets and goodwill impairment	1,049	8,162	850	988	963	1,002	1,001	983	11,049	3,949
<b>EBIT (loss)<sup>(2)</sup></b>	<b>962</b>	<b>(5,695)</b>	<b>85</b>	<b>(211)</b>	<b>(2,495)</b>	<b>2,816</b>	<b>3,277</b>	<b>2,003</b>	<b>(4,859)</b>	<b>5,601</b>

Notes:

(1) The term “EBITDA” refers to earnings before deducting interest expense, provision for income taxes, depreciation and amortization. The Company believes that EBITDA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation. EBITDA is not a recognized measure under Canadian GAAP, and accordingly, investors are cautioned that EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with Canadian GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating EBITDA may differ from other issuers and accordingly, EBITDA may not be comparable to similar measures presented by other issuers.

(2) The term “EBIT” refers to earnings before deducting interest expense and provision for income taxes. The Company believes that EBIT is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed. EBIT is not a recognized measure under Canadian GAAP, and accordingly, investors are cautioned that EBIT should not be construed as an alternative to net earnings or loss determined in accordance with Canadian GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating EBIT may differ from other issuers and accordingly, EBIT may not be comparable to similar measures presented by other issuers.

Compound Annual Revenue Growth Rate (“CAGR”) - The year-over-year growth rate of the Company’s revenue over a specified period of time. The compound annual revenue growth rate is calculated by taking the nth root of the total percentage revenue growth rate, where n is the number of years in the period being considered.

## **9. Derivative Instruments**

Commencing in 2007, we began to use derivative financial instruments to manage our exposure to changes in interest rates. We do not use derivatives to speculate, but rather as a risk management tool. During 2007, the Company entered into an interest rate swap with a notional amount of Cdn \$17,200,000 for a term of 5 years. The swap fixes the Company’s effective interest rate on this amount at 5.25% plus a margin based on certain financial ratios of the Company. To manage the credit and market risks associated with derivative financial instruments, we:

- deal only with counterparties that are highly rated financial institutions; and
- restrict the amount of hedging we can transact with any one counterparty.

If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any realized or unrealized gain or loss on the derivative instrument. In accounting for this cash flow hedge, changes in fair value of this swap is included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. For all cash flow hedges, to the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Our credit exposure to hedges and other derivatives is the current replacement value of any contracts that are in a gain position. For the year ended December 31, 2009, our exposure from interest rate swap contracts was a gain net of income tax equal to \$374,000.

## **10. Recent Developments in Accounting Standards and Recently Issued Accounting Pronouncements**

We have disclosed these matters in note 2 of the consolidated financial statements.

## **11. International Financial Reporting Standards (IFRS)**

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for the fiscal years beginning on or after January 1, 2011. As a result, the conversion will be applicable to the Company's reporting for the first quarter of 2011. At this time, the financial information for the current and comparative periods will be prepared under IFRS. The transition to IFRS will impact accounting, financial reporting, internal controls over financial reporting, information systems and processes. We are preparing our transition plan under three distinct phases:

**Phase 1 – Diagnostic Assessment:** This phase consisted of a high level assessment to identify key areas of Canadian GAAP and IFRS differences that are most likely to impact the Company's reporting. This assessment has been completed and has resulted in an analysis of the IFRS standards with regards to both priority and complexity to ensure that adequate time and resources are provided for the transition.

**Phase 2 – Analysis:** This phase will commence in Q1 2010 and involves a detailed assessment of the impact of the IFRS standards on accounting, reporting and information technology. This phase includes the review of accounting policy choices that are permissible under IFRS.

**Phase 3 – Execution:** This phase involves executing the work from phase two by making changes to business and accounting processes and supporting information systems as well as the formal documentation of the final approved accounting policies and procedures compliant with IFRS. A quantification of anticipated business impacts will be undertaken as well as drafting the pro-forma financial statement formats and disclosures that are required under IFRS. This phase is expected to be completed in Q4 2010.

## **12. Internal Control over Financial Reporting**

No changes were made in our disclosure controls and procedures or the internal control over financial reporting during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Both the disclosure controls and procedures and the internal control over financial reporting have been evaluated as effective during the year ended and as at December 31, 2009.

## **13. Additional Information**

Additional information relating to the Company, including its Annual Information Form, is filed on SEDAR, available for review at [www.sedar.com](http://www.sedar.com).

**FORM 52-109F1  
CERTIFICATION OF ANNUAL FILINGS  
FULL CERTIFICATE**

I, David Kruse, President and Chief Executive Officer of Opta Minerals Inc., certify the following:

1. I have reviewed the AIF, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Opta Minerals Inc. (the "issuer") for the financial year ended December 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control Integrated Framework (COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
- 5.2 **ICFR - material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A

6. **Evaluation:** The issuer's other certifying officer(s) and I have
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
    - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
    - (ii) N/A.
7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: March 22, 2010



David Kruse  
President and Chief Executive Officer  
Opta Minerals Inc.

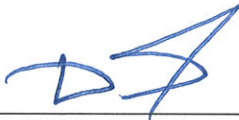
**FORM 52-109F1  
CERTIFICATION OF ANNUAL FILINGS  
FULL CERTIFICATE**

I, David Ascott, Chief Financial Officer and Secretary of Opta Minerals Inc., certify the following:

1. I have reviewed the AIF, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Opta Minerals Inc. (the "issuer") for the financial year ended December 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
  - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.
- 5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control Integrated Framework (COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
- 5.2 **ICFR - material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A

6. **Evaluation:** The issuer's other certifying officer(s) and I have
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
    - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
    - (ii) N/A.
7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: March 22, 2010



---

David Ascott  
Chief Financial Officer, Secretary  
Opta Minerals Inc.

# Opta Minerals Inc.

Consolidated Financial Statements  
December 31, 2009 and 2008  
Expressed in Thousands of U.S. Dollars

RSM Richter LLP is an independent member firm of RSM International,  
an affiliation of independent accounting and consulting firms.

**Opta Minerals Inc.**  
**Consolidated Financial Statements**  
**December 31, 2009 and 2008**

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RSM Richter LLP  
Chartered Accountants

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www.rsmrichter.com

## Auditors' Report

To the Shareholders of  
**Opta Minerals Inc.**

We have audited the consolidated balance sheets of Opta Minerals Inc. as at December 31, 2009, and December 31, 2008, and the consolidated statements of earnings (loss), comprehensive income (loss), retained earnings and accumulated other comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*RSM Richter LLP*

Chartered Accountants  
Licenced Public Accountants

Toronto, Ontario  
February 3, 2010

**Opta Minerals Inc.**  
**Consolidated Balance Sheets**  
**As At December 31, 2009 and 2008**  
**Expressed in Thousands of U.S. Dollars**

	2009	2008
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 781	\$ 1,377
Accounts receivable	9,422	9,133
Inventories (note 4)	17,181	22,223
Prepaid expenses and other current assets	628	1,793
Assets held for sale (note 5)	-	664
Income taxes recoverable	584	362
	<b>28,596</b>	<b>35,552</b>
<b>Property, Plant and Equipment (note 5)</b>	<b>17,796</b>	<b>16,664</b>
<b>Intangible and Other Assets (note 6)</b>	<b>31,691</b>	<b>32,464</b>
<b>Goodwill (notes 7 and 17)</b>	<b>6,019</b>	<b>14,160</b>
<b>Future Income Taxes (note 11)</b>	<b>2,779</b>	<b>2,406</b>
	<b>\$ 86,881</b>	<b>\$ 101,246</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (note 8)	3,355	7,797
Accounts payable and accrued liabilities	8,544	7,788
Current portion of long-term debt (note 8)	4,495	4,097
Current portion of preference shares (note 10)	44	38
	<b>16,438</b>	<b>19,720</b>
<b>Long Term Debt (note 8)</b>	<b>18,912</b>	<b>20,594</b>
<b>Other Long Term Liabilities (note 9)</b>	<b>1,387</b>	<b>3,095</b>
<b>Future Income Taxes (note 11)</b>	<b>2,674</b>	<b>2,849</b>
<b>Future Income Taxes on Intangible Assets (note 12)</b>	<b>9,213</b>	<b>9,695</b>
	<b>48,624</b>	<b>55,953</b>
<b>Commitments and Contingencies (note 22)</b>		
<b>Shareholders' Equity</b>		
<b>Capital Stock (note 13)</b>		
Authorized unlimited number of common shares and preference shares without par value		
Issued -		
18,023,193 (December 31, 2008 - 18,003,459) common shares	17,612	17,587
<b>Contributed Surplus (note 13)</b>	<b>1,950</b>	<b>1,665</b>
<b>Accumulated Other Comprehensive Income</b>	<b>3,502</b>	<b>4,379</b>
<b>Retained Earnings</b>	<b>15,193</b>	<b>21,662</b>
	<b>18,695</b>	<b>26,041</b>
	<b>38,257</b>	<b>45,293</b>
	<b>\$ 86,881</b>	<b>\$ 101,246</b>

See accompanying notes

Approved by the Board of Directors

\_\_\_\_\_  
(signed) "Jeremy Kendall" Director

\_\_\_\_\_  
(signed) "Victor Hepburn" Director

Opta Minerals Inc.  
Consolidated Statements of Earnings (Loss)  
For the Years Ended December 31, 2009 and 2008  
Expressed in Thousands of U.S. Dollars (except per share amounts)

	2009	2008
Revenue	\$ 62,526	\$ 93,423
Cost of Goods Sold (note 4)	49,445	74,996
Gross Profit	13,081	18,427
Selling, General and Administrative Expenses	9,106	10,997
Earnings Before Underrated Items, Income Taxes, Goodwill Impairment and Non-controlling Interest	3,975	7,430
Interest expense on long-term debt	1,054	1,521
Interest expense	534	568
Amortization of intangible assets	1,844	1,719
Stock compensation expense (note 16)	285	301
Other expenses (note 18)	237	59
Foreign exchange gain	(466)	(250)
	3,488	3,918
Earnings Before Income Taxes, Goodwill Impairment and Non- controlling Interest	487	3,512
Provision for (recovery of) income taxes (note 11)	(242)	1,034
Earnings Before Goodwill Impairment and Non-controlling Interest	729	2,478
Goodwill impairment (note 17)	7,198	-
Net Earnings (Loss)	(6,469)	2,478
Net loss attributable to non-controlling interest	(264)	-
Net Earnings (Loss) Attributable to Opta Minerals Inc.	\$ (6,205)	\$ 2,478
Earnings (loss) per share for the year - Basic and diluted (note 20)	\$ (0.34)	\$ 0.14

See accompanying notes

**Opta Minerals Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**For the Years Ended December 31, 2009 and 2008**  
**Expressed in Thousands of U.S. Dollars**

	2009	2008
<b>Net Earnings (Loss)</b>	<b>\$ (6,469)</b>	<b>\$ 2,478</b>
<b>Other Comprehensive Income</b>		
Unrealized (loss) gain on translation of foreign operations	(453)	2,274
Transfer of realized gain on translation of foreign operations	(798)	(292)
Unrealized gain (loss) on financial derivative (note 15)	374	(1,084)
<b>Comprehensive Income (Loss)</b>	<b>(7,346)</b>	<b>3,376</b>
Comprehensive income (loss) attributable to non-controlling interest	(264)	-
<b>Comprehensive Income (Loss) Attributable to Opta Minerals Inc.</b>	<b>\$ (7,082)</b>	<b>\$ 3,376</b>

See accompanying notes

**Opta Minerals Inc.**

**Consolidated Statements of Retained Earnings and Accumulated Other Comprehensive Income (Loss)**

**For the Years Ended December 31, 2009 and 2008**

**Expressed in Thousands of U.S. Dollars**

	2009	2008
Retained Earnings - Beginning of Year	\$ 21,662	\$ 19,184
Impact of the cancellation of shares held by minority interest (note 3 (A))	(264)	-
Net earnings (loss) attributable to Opta Minerals Inc.	(6,205)	2,478
<b>Retained Earnings - End of Year</b>	<b>\$ 15,193</b>	<b>\$ 21,662</b>

	Cumulative Translation Adjustments	Unrealized Loss on Financial Derivatives	Total
<b>Accumulated Other Comprehensive Income (Loss)</b> - December 31, 2007	\$ 3,688	\$ (207)	\$ 3,481
Unrealized gain on translation of foreign operations	2,274	-	2,274
Transfer of realized gain on translation of foreign operations	(292)	-	(292)
Unrealized loss on financial derivative	-	(1,084)	(1,084)
<b>Accumulated Other Comprehensive Income (Loss)</b> - December 31, 2008	5,670	(1,291)	4,379
Unrealized loss on translation of foreign operations	(453)	-	(453)
Transfer of realized gain on translation of foreign operations	(798)	-	(798)
Unrealized gain on financial derivative	-	374	374
<b>Accumulated Other Comprehensive Income (Loss)</b> - December 31, 2009	<b>\$ 4,419</b>	<b>\$ (917)</b>	<b>\$ 3,502</b>

See accompanying notes

**Opta Minerals Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2009 and 2008**  
**Expressed in Thousands of U.S. Dollars**

	2009	2008
<b>Cash Provided By (Used in) -</b>		
<b>Operating Activities</b>		
Net earnings (loss) for the year	\$ (6,469)	\$ 2,478
Items not affecting cash:		
Amortization of property, plant and equipment	2,007	2,230
Amortization of intangible assets	1,844	1,719
Goodwill impairment (note 17)	7,198	-
Other expenses	(96)	-
Stock compensation expense (note 16)	285	301
Future income taxes (note 11)	(1,044)	(1,248)
Realized foreign exchange gain on foreign operations	(798)	(292)
Net loss on disposal of property, plant and equipment	68	43
	<b>2,995</b>	<b>5,231</b>
Changes in non-cash working capital		
Accounts receivable	65	972
Inventories	6,201	(1,769)
Prepaid expenses and other current assets	1,219	96
Accounts payable and accrued liabilities	284	(2,373)
Income taxes recoverable	(221)	(220)
	<b>10,543</b>	<b>1,937</b>
<b>Financing Activities</b>		
Proceeds from issuance of common shares - net of issuance costs (note 13)	25	59
(Decrease) increase in bank indebtedness	(5,463)	2,544
Proceeds from long-term debt (note 8)	795	4,750
Repayment of long-term debt (note 8)	(4,648)	(7,439)
	<b>(9,291)</b>	<b>(86)</b>
<b>Investing Activities</b>		
Acquisition of property, plant and equipment	(2,507)	(1,376)
Proceeds on disposal of property, plant and equipment	651	58
Additional consideration paid on acquisitions	-	(525)
Acquisition of companies, net of cash acquired (note 3)	-	(1,005)
	<b>(1,856)</b>	<b>(2,848)</b>
<b>Foreign Exchange Gain on Cash Held in Foreign Currency</b>	<b>8</b>	<b>38</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(596)</b>	<b>(959)</b>
<b>Cash and Cash Equivalents</b>		
Beginning of Year	1,377	2,336
End of Year	\$ 781	\$ 1,377
<b>Additional Cash Flows Information:</b>		
Interest paid	\$ 1,677	\$ 2,163
Income taxes paid	986	2,371

See accompanying notes

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

### 1. Basis of Presentation and Nature of Operations

The consolidated financial statements include the accounts of Opta Minerals Inc. (the "Company") and its wholly-owned subsidiaries, Opta Minerals (USA) Inc.; Virginia Materials Inc. (Virginia Materials); International Materials & Supplies Inc. (International Materials); Temisca Inc. (Temisca); Magnesium Technologies Corporation (Magtech); MTI 01-2006 Inc.; OPM 01-2006 Inc.; Bimac, Inc. (Bimac), Newco, a.s. (Newco), Opta Minerals a.s., Opta Minerals AB and Opta Minerals Europe S.A.S. (formerly known as "MCP Mg-Serbian S.A.S"). All significant intercompany accounts and transactions have been eliminated on consolidation.

Opta Minerals Inc. is a vertically integrated provider of custom process optimization solutions and related materials for use primarily in the steel, foundry, loose abrasive cleaning, and municipal water industries and recycles inorganic materials under special permits from government authorities at both its Waterdown, Ontario and Norfolk, Virginia sites. The Company services much of the east coast of North America, with production facilities in Texas, Florida, Louisiana, South Carolina, Virginia, Maryland, New York, Indiana, Michigan, Ontario and Quebec and services locations in Europe with its production facilities in Kosice, Slovakia and Romans, France. The Company also generates revenue from the sale of specialty sands sourced, processed and packaged from the Company's quarry in St. Bruno de Guigues, Quebec, as well as from the sale of related products and services. The Company's assets, operations and employees are located in the United States, Canada and Europe.

### 2. Summary of Significant Accounting Policies

#### Revenue Recognition

Revenue from the Company's operations is recognized when the following four criteria have been satisfied:

- persuasive evidence of an arrangement exists, such as an executed service agreement or other relevant documentation;
- when services are delivered. For the sale of abrasives and industrial minerals, the Company considers services to be delivered upon shipment of materials and transfer of title to the customer. For recycling activities, services are considered to be delivered after materials have been processed, and the resulting non-hazardous recycled material is either sold or shipped to third parties or is disposed of;
- the price to the customer is either fixed or determinable; and
- collectibility is reasonably assured.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with a maturity at acquisition of less than 90 days.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Inventories

Raw materials and finished goods inventories are recorded at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis.

### Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization.

Amortization is provided on property, plant and equipment on both a declining balance and a straight-line basis as follows: 3% to 12% for buildings and leasehold improvements, 14% to 20% for machinery and equipment and 10% to 33% for office furniture and equipment. Amortization is calculated from the time the asset is put into use.

### Asset retirement obligations

On an annual basis the Company reviews its assets and lease commitments to determine if there are any asset retirement obligations and associated asset retirement costs to accrue. Management has determined that no such accruals are required.

### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and intangible assets acquired at the date of acquisition. Goodwill is not amortized and the Company assesses at least annually whether there has been an impairment loss in the carrying value of goodwill based on the fair value of its reporting units. The impairment test is carried out in two steps.

In the first step, the carrying amount of a reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not required. The fair value of the reporting unit is based on management's estimates of future discounted cash flows.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase consideration.

Should the carrying amount of goodwill exceed its estimated fair value, an impairment loss would be recognized at that time and charged to the consolidated statement of earnings.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Intangible and other assets

The Company's finite life intangible and other assets are amortized on a straight-line basis as follows:

Customer relationships	8-25 years
Profit sharing agreements	7-15 years
Long-term supply contracts	Over the period of 10 years
Patents	Over the useful life of patent
Other finite life intangible asset	6 years

### Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including property, plant and equipment and intangible assets with finite lives, when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

### Share-based compensation

The Company applies the fair value method of accounting for share-based compensation awards granted to officers, directors, employees and consultants of the Company. The fair value of the award at the time of granting is recognized as compensation expense on a straight-line basis over the vesting period with an offsetting amount recorded to contributed surplus. The amount of the compensation cost recognized at any date at least equals the value of the portion of the options vested at that date. When stock options are exercised, the consideration paid by employees, together with the related amount in contributed surplus, is credited to capital stock. The Company had not incorporated an estimated forfeiture rate for grants under the Plan that will not vest, rather, the Company accounts for actual forfeitures as they occur.

### Foreign currency translation

All of the Company's operations are considered self-sustaining operations. The assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Unrealized gains or losses resulting from translating self-sustaining operations are accumulated and reported as a currency translation adjustment in accumulated other comprehensive income.

Revenues and expenses of the Company arising from foreign currency transactions are translated using the exchange rate in effect at the transaction dates. Monetary assets and liabilities are translated using the rate in effect at the consolidated balance sheet dates. Related exchange gains and losses are included in the determination of earnings.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Income taxes

The Company uses the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the year plus or minus the change in future income tax assets and liabilities during the year.

### Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### Financial instruments

The Company revalues certain of its financial assets and liabilities, including derivatives designated in qualifying hedging relationships and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date. The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

Classification choices for financial assets include:

- a) held-for-trading - measured at fair value with changes in fair value recorded in net earnings;
- b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired;
- c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and
- d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Financial instruments, cont'd

Classification choices for financial liabilities include:

- a) held-for-trading - measured at fair value with changes in fair value recorded in net earnings; and
- b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized.

Subsequent measurement for these assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held-for-trading as long as its fair value is reliably determinable. The Company's financial assets and liabilities are generally classified and measured as follows:

Assets/liabilities	Category	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness – operating line	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt – term facility	Other liabilities	Amortized cost
Long-term debt – acquisition facility	Other liabilities	Amortized cost
Long-term debt – promissory notes	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost
Preferred shares	Other liabilities	Amortized cost

Transaction costs related to all financial instruments are expensed as incurred. The Company also elected to use "trade date" accounting for regular way purchases and sales of financial assets.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Management has determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Hedges

The Company entered into a cash flow hedge in 2007. The hedge pertains to an interest rate swap contract that was entered into in order to manage the Company's exposure to interest rate risks. The fair value of this contract is included in other long-term liabilities. The changes in fair value of this contract are included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. For all cash flow hedges, to the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings and classified with other financing expenses.

The fair value of the hedging derivative is estimated based on the standard swap valuation methodology. That is, the value of the swap is calculated as the difference between the present values of the future cash flows associated with the floating-receive leg and the fixed pay leg.

The estimated fair values of the swap at inception and December 31, 2009 was a loss of \$254 and \$1,387, respectively based on the calculation above. The fair value estimates are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions.

The Company enters into interest rate swap contracts with approved creditworthy counterparties to manage the Company's current and anticipated exposure to interest rate risks. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the consolidated balance sheets. The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

As at December 31, 2009, the Company had contracts that exchanged a net notional amount of Cdn. \$17,200 from floating to fixed rate of 5.25% plus a margin based upon certain financial ratios of the Company, until August 2012. Accordingly, for the year ended December 31, 2009, interest expense does not include any net payments relating to interest rate swaps. This contract hedges the Company's net balance sheet interest rate sensitivity position.

### Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. The dilutive effect of outstanding options on earnings per share is calculated based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of stock options are assumed to purchase common shares and are used to increase the denominator used in the calculation of diluted earnings per share.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Recently Adopted Accounting Pronouncements

On January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook accounting standards:

- a) CICA Handbook Section 3064 "Goodwill and Intangible Assets". The standard establishes new recognition and measurement criteria for the accounting of goodwill and intangible assets. This change in accounting policy has been adopted retrospectively with restatement. As a result of adopting this new standard, the Company has determined that these changes had no material effect on its consolidated financial statements.
- b) CICA Handbook Section 1582 "Business Combinations". This new standard replaces CICA Handbook Section 1581 "Business Combinations" and establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations". This standard has been early adopted and the Company has determined that its adoption has no material effect on its consolidated financial statements.
- c) CICA Handbook Section 1601 "Consolidated Financial Statements" and CICA Handbook Section 1602 "Non-Controlling Interests". These new standards replace CICA Handbook Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements". These standards have been early adopted and, as a result, the Company has recognized the non-controlling interest of its investment in MCP-Mg Serbien SAS based on the results from operations from January 1, 2009.
- d) CICA Handbook Section 1625 "Comprehensive Revaluation of Assets and Liabilities", has been amended as a result of issuing Sections 1582, 1601 and 1602. This standard has been early adopted and the Company has determined that its adoption has no material effect on its consolidated financial statements.
- e) CICA Handbook Section 3251 "Equity", has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This standard has been early adopted and the Company has determined that its adoption has no material effect on its consolidated financial statements.
- f) Emerging Issues Committee Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC 173) requires an entity's own credit risk and the credit risk of the counterparty be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is effective for the Company for financial statements beginning on January 1, 2009. The Company has determined that the impact of the adoption of this change has no material effect on its consolidated financial statements.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 2. Summary of Significant Accounting Policies, cont'd

### Recently Adopted Accounting Pronouncements, cont'd

- g) Effective January 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" which has been amended to change the categories into which a debt instrument is required or permitted to be classified, change the impairment model for held-to-maturity financial assets to the incurred credit loss model in Section 3025 "Impaired Loans", and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The Company has determined that these amendments have no material effect on its consolidated financial statements.

Also, effective July 1, 2009, the Company has adopted the amendment to CICA Handbook Section 3855, concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Company has determined that this amendment has no material effect on its consolidated financial statements.

- h) Effective January 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3862 "Financial Instruments – Disclosures", which has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The Company has determined that these amendments have no material effect on its consolidated financial statements. The disclosures required by these changes are in note 15.

### Recently Issued Accounting Pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued the following accounting standards:

- a) CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Company for its interim and annual financial statements beginning on January 1, 2011.
- b) EIC 175 "Multiple Deliverable Revenue Arrangements", has been issued to address some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EIC 175 provides guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Also, there are new disclosure requirements. These changes are effective for the Company for its annual financial statements beginning on January 1, 2011.
- c) In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011.

The Company is currently evaluating the impact of adopting the above accounting standards.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

### 3. Business Acquisitions

#### A. Acquisition of MCP-Mg. Serbien SAS

On July 9, 2008, the Company acquired 67% of the outstanding common shares of MCP-Mg Serbien SAS (MCP) of France. The total purchase price of \$1,302 is comprised as follows:

Cash	\$ 1,150
Acquisition costs	152
<u>Purchase price</u>	<u>\$ 1,302</u>

MCP operates a production facility in Roman-sur-Isere, France, producing and selling ground magnesium products. The results of MCP were consolidated with those of the Company effective July 9, 2008 and are included in the mill and foundry products and services segment.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Net assets acquired:	
Cash	\$ 297
Accounts receivable	142
Inventories	868
Prepaid expenses and other current assets	453
Property, plant and equipment	325
Future income taxes	57
Goodwill	4,512
Accounts payable and accrued liabilities	(5,342)
Income taxes payable	(10)
<u></u>	<u>\$ 1,302</u>

Subsequent to the acquisition of MCP, its unconsolidated losses triggered a statutory requirement in France to increase the capital stock. On December 22, 2009, the Company fulfilled its obligation to increase the value of its shareholdings and, at the same time, the non-controlling interest declined to increase their prorata share of the shareholdings. As a result, the non-controlling interest's shares were cancelled and Opta increased its ownership in MCP to 100%. Non-controlling interest has been credited by \$264 with an offsetting reduction to retained earnings.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

### 3. Business Acquisitions, cont'd

#### B. Additional consideration paid on prior acquisitions

On October 4, 2006, the Company acquired the outstanding shares of Bimac Inc. Pursuant to the purchase agreement, additional consideration not to exceed \$3,850 may be payable based on the achievement of certain pre-determined earnings targets between October 1, 2006 and September 30, 2016. An amount of \$2,150 was recognized as contingent consideration at acquisition based upon management's estimates. During the year ended December 31, 2009, \$nil (2008 - \$514) of contingent consideration has been paid resulting in a cumulative total of \$1,040. Any future adjustments with respect to additional consideration will be recorded against goodwill (note 17).

On May 10, 2005, the Company acquired certain assets of an abrasive production plant in Attica, New York. Additional purchase consideration was payable on occurrence of certain events. On January 29, 2009, the Company was released from its obligations under the lease and service agreements in exchange for substantially all of the property, plant and equipment comprising the facility in Attica, New York (note 6). As at that date, there is no future requirement to pay additional consideration.

On April 1, 2004, the Company acquired the outstanding shares of Distribution A&L for Cdn. \$500 including acquisition costs. Pursuant to the purchase agreement, additional contingent consideration of up to Cdn. \$500 could be payable if certain predetermined profit targets are achieved by the business during the period between April 1, 2004 and June 30, 2009. During the 6 months ended June 30, 2009, \$nil (2008 - \$nil) of contingent consideration was paid resulting in a cumulative total of Cdn. \$56.

### 4. Inventories

	2009	2008
Raw materials	\$ 11,659	\$ 14,147
Finished goods	5,522	8,076
	<b>\$ 17,181</b>	<b>\$ 22,223</b>

Included in the cost of goods sold reported by the Company is an expense related to inventory of \$45,169 (2008 - \$62,507). Results for the year ended December 31, 2009, included an inventory write down of \$nil (2008 - \$2,840) pertaining to an adjustment to net realizable value of the Company's magnesium based raw materials.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

#### 5. Property, Plant and Equipment

	Cost	Accumulated Amortization	2009 Net Carrying Amount
Land	\$ 2,657	\$ -	\$ 2,657
Buildings and leasehold improvements	7,046	1,976	5,070
Machinery and equipment	20,255	10,462	9,793
Office furniture and equipment	871	595	276
	<u>\$ 30,829</u>	<u>\$ 13,033</u>	<u>\$ 17,796</u>

	Cost	Accumulated Amortization	2008 Net Carrying Amount
Land	\$ 2,390	\$ -	\$ 2,390
Buildings and leasehold improvements	6,515	1,567	4,948
Machinery and equipment	17,895	8,834	9,061
Office furniture and equipment	694	429	265
	<u>\$ 27,494</u>	<u>\$ 10,830</u>	<u>\$ 16,664</u>

Included in machinery and equipment is an amount of \$1,613 (2008 - \$964) that represents construction in progress at year-end and is not yet being amortized.

During the year ended December 31, 2009, the Company consolidated its Quebec production and distribution operations into one facility located in Laval, Quebec. As part of the plan, the owned building and warehouse in Lachine previously recorded as assets held-for-sale was sold for proceeds of \$651 resulting in a loss of \$48 recorded in other expenses (note 18). The assets were previously disclosed in the mill and foundry products and services segment.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

#### 6. Intangible and Other Assets

	Cost	Accumulated Amortization	2009 Net Carrying Amount
Customer relationships	\$ 35,050	\$ 5,168	\$ 29,882
Profit sharing agreements	1,088	281	807
Other finite life intangible assets	948	136	812
Long-term supply contract	300	135	165
Patents	146	121	25
	<u>\$ 37,532</u>	<u>\$ 5,841</u>	<u>\$ 31,691</u>

	Cost	Accumulated Amortization	2008 Net Carrying Amount
Customer relationships	\$ 34,901	\$ 3,540	\$ 31,361
Profit sharing agreements	1,088	209	879
Long-term supply contract	257	89	168
Patents	146	90	56
	<u>\$ 36,392</u>	<u>\$ 3,928</u>	<u>\$ 32,464</u>

On January 29, 2009, substantially all of the property, plant and equipment comprising the Company's facility in Attica, New York, were sold in exchange for a release of the Company's obligations under an existing lease and service agreement. The non-monetary proceeds of \$793 have been recorded as an intangible asset and represent the future benefits to the Company. The operations in Attica were previously reported in the abrasive products manufacturing and distribution operations segment.

The difference between the future savings as a result of the termination of the lease and service agreements and the net book value of the assets disposed in the amount of \$423 and a write-off of the goodwill associated with the Attica, New York facility in the amount of \$162 (note 7) resulted in a gain of \$208 which is recorded in other income and expenses.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

#### 7. Goodwill

	2009	2008
<b>Goodwill – Beginning of Year</b>	<b>\$ 14,160</b>	<b>\$ 10,606</b>
Additional consideration paid on prior acquisitions	-	11
Acquisition of MCP (note 3)	-	4,512
Termination of lease and service agreements (note 6)	(162)	-
Goodwill impairment (note 17)	(8,308)	-
Effect of foreign exchange	329	(969)
<b>Goodwill – End of Year</b>	<b>\$ 6,019</b>	<b>\$ 14,160</b>

#### 8. Long-Term Debt and Banking Facilities

Long-term debt consists of the following:

	2009	2008
Term loan facility with quarterly instalments of Cdn. \$312 plus interest, payable monthly.	\$ 8,830	\$ 8,980
Drawings on acquisition facility with quarterly instalments of Cdn. \$295 plus interest, payable monthly.	8,887	7,939
Drawings on acquisition facility with quarterly instalments of \$105 plus interest, payable monthly.	3,475	3,896
Promissory note payable with annual instalments of \$1,500 plus interest at 5.6%, payable annually. (note 19)	1,500	3,000
Non-interest bearing promissory note with annual instalments of \$250.	663	876
Term loan payable with monthly instalments of Cdn. \$14 on account of principal and interest.	52	-
	<b>23,407</b>	<b>24,691</b>
Less: current portion	4,495	4,097
	<b>\$ 18,912</b>	<b>\$ 20,594</b>

On July 30, 2009, the Company and its lenders negotiated certain amendments to its banking facilities that were retroactively effective for the interim period ended June 30, 2009. The amendments include an increase in the interest rate premium charged on outstanding balances, which is based on certain financial ratios of the Company, as well as amendments to certain financial covenant thresholds.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

### 8. Long-Term Debt and Banking Facilities, cont'd

The terms of the credit agreement are as follows:

a) Term loan facility

The Company's term loan facility is Cdn. \$12,500 and has been fully drawn in Canadian dollars. The facility matures on August 20, 2012 and is renewable at the option of the lender and the Company. Funds were drawn through both bankers' acceptances and direct advances. Interest on the bankers' acceptances and on the direct advances is payable monthly at the bankers' acceptance rate and prime plus a margin based on certain financial ratios of the Company.

b) Line of credit facility

The Company's line of credit facility is Cdn. \$15,000 (2008 – Cdn. \$15,000). As at December 31, 2009, Cdn. \$4,686 (2008 – Cdn. \$10,569) of this facility has been utilized, including letters of credit in the amount of Cdn. \$1,160 (2008 – Cdn. \$1,072). Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including prime, U.S. dollar base rate, bankers' acceptances or LIBOR plus a margin based on certain financial ratios of the Company.

c) Revolving acquisition facility

In conjunction with the amendments to the banking facilities on July 30, 2009, the revolving acquisition facility's maximum availability was reduced from Cdn. \$20,000 (U.S. - \$19,029) to Cdn. \$14,043 (U.S. - \$13,362). The facility is available to finance future acquisitions and capital expenditures. The facility is subject to certain draw restrictions. Principal is payable in quarterly equal instalments of one fortieth of the drawdown amount. The facility is revolving for one year with a 5 year term-out option. Any remaining outstanding principal under this facility is due upon maturity. Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including prime, U.S. dollar base rate, bankers' acceptances or LIBOR plus a margin based on certain financial ratios of the Company.

The line of credit facility, along with the unused portion of the revolving acquisition facility, is subject to annual extensions. The credit facilities described above are collateralized by a first priority security against substantially all of the Company's assets in both Canada and the United States. The promissory notes are subordinated to the term loan, line of credit facility and revolving acquisition facility.

The Company's promissory note payment in the amount of \$1,500 due February 16, 2010 has been deferred and is recorded in the current portion of long-term debt.

During 2009 the Company expanded its credit facility in France with an operating line of credit in the amount of \$2,500. The operating line is secured by an Export Development Canada guarantee and as at December 31, 2009, an amount of \$nil was outstanding on the facility.

The long-term debt detailed above requires minimum payments as follows:

2010	\$ 4,495
2011	2,963
2012	2,939
2013	2,745
2014	2,732
Thereafter	7,533
	<hr/>
	\$ 23,407

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 9. Other Long-Term Liabilities

Other long-term liabilities are comprised of:

	2009	2008
Contingent consideration (notes 3 and 17)	\$ -	\$ 1,110
Interest rate swap derivative (note 15)	1,387	1,985
	\$ 1,387	\$ 3,095

## 10. Preference Shares

	2009	2008
46,412 (2008 – 46,412) H preference shares	\$ 44	\$ 38
Less: current portion of preference shares	44	38
	\$ -	\$ -

### H Preference Shares

The Company is required to redeem the H preference shares issued by Temisca, its subsidiary, plus unpaid interest thereon calculated at 3% if certain financial ratios are achieved by Temisca. Upon acquisition of Temisca on October 31, 2000, the Company assigned a fair value of Cdn. \$427 to all outstanding H preference shares based on the Company's anticipated date of redemption at a discount rate of 8%. Since the acquisition of Temisca, the Company has redeemed 380,260 H preference shares at prices ranging from Cdn. \$0.33 to Cdn. \$1.00 per share. During the year, \$nil (2008 - \$nil) H preference shares were redeemed by the Company.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

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## 11. Income Taxes

The components of the provision for (recovery of) income taxes are as follows:

	2009	2008
Current	\$ 802	\$ 2,282
Future	(1,044)	(1,248)
	<b>\$ (242)</b>	<b>\$ 1,034</b>

The effective income tax rate on consolidated earnings is influenced by the items detailed below:

	2009	2008
Canadian statutory income tax rates	% 33.0	% 33.0
Goodwill impairment charge	(36.6)	-
Non-deductible stock compensation expense	(1.3)	2.2
Non-deductible foreign exchange losses	-	7.6
Statutory rate differences in other jurisdictions	14.3	(19.8)
Manufacturing and processing credits	0.5	(2.7)
Valuation reserve	(9.5)	3.4
Other	(4.0)	5.7
	<b>% (3.6)</b>	<b>% 29.4</b>

Future income tax assets (liabilities) of the Company are as follows:

	2009	2008
Differences in property, plant and equipment basis	\$ (2,130)	\$ (2,129)
Differences in accumulated other comprehensive income	384	554
Differences in share issuance costs	10	112
Non-capital and capital loss carry-forwards	3,393	1,501
Other	(224)	(360)
	<b>1,433</b>	<b>(322)</b>
Valuation allowance	(1,328)	(121)
	<b>\$ 105</b>	<b>\$ (443)</b>
Future income tax assets – long-term	2,779	2,406
Future income tax liabilities – long-term	(2,674)	(2,849)
	<b>\$ 105</b>	<b>\$ (443)</b>

As at December 31, 2009, the Company has recognized the tax benefit of available non-capital losses, net of a valuation allowance, in the amount of \$2,065 (2008 - \$1,380). As at December 31, 2009, the Company had accumulated \$9,627 in non-capital and capital losses which, if not utilized, will expire between 2014 and 2028. The benefit of non-capital losses has been recognized based on projections of future taxable income and the amount of the benefit of these losses ultimately realized is subject to change.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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## 12. Future Income Taxes on Intangible Assets

The Company has recorded future income tax liabilities in the amount of \$9,213 (2008 - \$9,695) in relation to intangible assets acquired as part of the Magtech, Bimac and Newco acquisitions. Although the amortization of the intangible assets is not deductible for statutory tax purposes, a future tax liability has been established for the acquired finite life intangibles.

No amount of the future income tax liability upon liquidation of the intangible assets is payable to a tax authority, unless the intangibles were sold separately from the business.

## 13. Capital Stock and Contributed Surplus

- a) The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preference shares in series.

	Number of common shares	\$
December 31, 2007	17,984,200	17,528
Employee stock purchase plan	19,259	59
December 31, 2008	18,003,459	17,587
Employee stock purchase plan	19,734	25
<b>December 31, 2009</b>	<b>18,023,193</b>	<b>17,612</b>

The Company established an Employee Stock Purchase Plan ("ESPP") during 2005, pursuant to which 500,000 common shares have been reserved for issuance. The ESPP allows qualifying employees to buy the Company's stock at a discount to the market price. During 2009, 19,734 (2008 - 19,259) common shares were purchased under the ESPP for proceeds of \$25 (2008 - \$59).

- b) The movement in contributed surplus is as follows:

Balance – December 31, 2007	\$ 1,364
Stock compensation expense (note 16)	301
Balance – December 31, 2008	1,665
Stock compensation expense (note 16)	285
<b>Balance – December 31, 2009</b>	<b>\$ 1,950</b>

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

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#### 14. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a conservative capital structure. The Company's capital structure is not subject to any capital requirements imposed by a regulator and is composed of:

	2009	2008
Shareholders' equity	\$ 38,257	\$ 45,293
Bank indebtedness	3,355	7,797
Long-term debt (including current portion) (note 8)	23,407	24,691
Future income (asset) liability (note 11)	(105)	443
Other long-term liabilities	1,387	3,095
	<b>\$ 66,301</b>	<b>\$ 81,319</b>

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue or reacquire shares, acquire or dispose of assets, and adjust the amount of cash and cash equivalents balances relative to bank debt and bank indebtedness.

As part of existing debt agreements, three key financial covenants are monitored on an ongoing basis by management to ensure compliance with the agreements as follows:

- tangible net worth calculation defined as shareholders' equity less goodwill and intangible assets net of their applicable future income tax liability;
- funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization); and
- working capital ratio, defined as current assets divided by current liabilities.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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#### 14. Capital Risk Management, cont'd

	2009	2008
Shareholders' equity	\$ 38,257	\$ 45,293
Goodwill	(6,019)	(14,160)
Intangible and other assets	(31,691)	(32,464)
Future income taxes on intangible assets (note 12)	9,213	9,695
Tangible net worth	\$ 9,760	\$ 8,364
Bank indebtedness	3,355	7,797
Current portion of long-term debt	4,495	4,097
Long-term debt	18,912	20,594
Funded debt	26,762	32,488
Net earnings (loss)	(6,205)	2,478
Provision for (recovery of) income taxes	(242)	1,034
Interest expense on long-term debt	1,054	1,521
Interest expense	534	568
Amortization of property, plant and equipment	2,007	2,230
Amortization of intangible assets	1,844	1,719
Goodwill impairment (note 17)	7,198	-
EBITDA	6,190	9,550
Funded debt to EBITDA	4.32	3.40
Current assets	28,596	35,552
Current liabilities	16,438	19,720
Working capital ratio	1.74	1.80

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors including general industry conditions. The annual budget is approved by the board of directors.

As at December 31, 2009, the Company is in compliance with the financial covenants of the credit facilities.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 15. Financial, Other Instruments and Hedging

### a) Fair Value

The following table presents the carrying amount and the fair value of the Company's financial instruments and non-financial derivatives. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgement.

	December 31, 2009		January 1, 2009	
	Fair Value	Carrying Value	Category	Carrying Value
Cash and cash equivalents	\$ 781	\$ 781	HFT	\$ 1,377
Account receivable	9,422	9,422	L&R	9,133
Bank indebtedness	3,355	3,355	OFL	7,797
Accounts payable and accrued liabilities	8,544	8,544	OFL	7,788
Current portion of long-term debt	4,495	4,495	OFL	4,097
Long-term debt	18,912	18,912	OFL	20,594
Current portion of preference shares	44	44	OFL	38
Other long-term liabilities				
-Interest rate swap derivative	1,387	1,387	OFL	1,985
-Contingent goodwill payment	-	-	OFL	1,110

Financial instruments category guide:

HFT	Held-for-trading
L&R	Loans and receivable
OFL	Other financial liabilities

Changes in fair value of commodity contracts and exchange traded derivatives are included in cost of goods sold.

As of December 31, 2009, all the inputs used to fair value the interest rate swap were Level 2.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 15. Financial, Other Instruments and Hedging, cont'd

### b) Risks and risk management

#### i) Interest rate risk

The following table identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

	December 31, 2009		December 31, 2008	
	Interest sensitive	Non-interest sensitive	Interest sensitive	Non-interest sensitive
Cash and cash equivalents	\$ 781	\$ -	\$ 1,377	\$ -
Bank indebtedness	(3,355)	-	(7,797)	-
Long-term debt – term loan	(8,830)	-	(8,980)	-
Long-term debt – acquisition facilities	(12,362)	-	(11,835)	-
Promissory notes	-	(2,163)	-	(3,876)
Term loans	-	(52)	-	-
	<b>\$ (23,766)</b>	<b>\$ (2,215)</b>	<b>\$ (27,235)</b>	<b>\$ (3,876)</b>

The interest sensitive component above has been substantially placed with bankers' acceptances in the amount of Cdn. \$23,565. These banker's acceptance notes have been renewed at 30 day intervals since their initial renewal in August 2008 and are currently at an interest rate of 0.5% plus a margin based on certain financial ratios of the Company. The remaining interest sensitive component accrues interest at the borrower's option based on various reference rates including prime, U.S. dollar base rate or LIBOR plus a margin based upon certain financial ratios of the Company.

The Company uses derivative financial instruments to manage exposure to changes in interest rates. During 2007, the Company entered into an interest rate swap with a notional amount of Cdn. \$17,200 for a term of 5 years. The swap fixes the Company's effective interest rate on this amount at 5.25% plus a margin based on certain financial ratios of the Company. To manage the credit and market risks associated with derivative financial instruments, the Company:

- deals only with counterparties that are highly rated financial institutions; and
- restricts the amount of hedging that can be transacted with any one counterparty.

A one percent annualized change in interest rates would affect the Company's earnings, cash flow and financial position by an amount of \$74 (2008 - \$100).

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 15. Financial, Other Instruments and Hedging, cont'd

### b) Risks and risk management, cont'd

#### i) Interest rate risk, cont'd

If the Company sells or terminates a hedged item, or it matures before the related hedging instrument is terminated, any realized or unrealized gain or loss on the derivative instruments is recognized in earnings. In accounting for this cash flow hedge, changes in fair value of this swap are included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. For all cash flow hedges, to the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. The Company's credit exposure to hedges and other derivatives is the current replacement value of any contracts that are in a gain position. For the year ended December 31, 2009, the Company's exposure from interest rate swap contracts resulted in a gain net of income tax equal to \$374 (2008 – loss net of income tax of \$1,084) included in the results of other comprehensive income.

#### ii) Credit risk

The Company's exposure to concentrations of credit risk is limited. The Company places its cash and cash equivalents with institutions of high creditworthiness, and the Company's accounts receivable are not subject to high concentrations of credit risk. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

As of the balance sheet date, approximately 60% (December 31, 2008 - 53%) of the Company's consolidated accounts receivable are current, while 9% (December 31, 2008 - 8%) of accounts receivable are over 60 days past due. The results are net of allowance for doubtful accounts in the amount of \$415 (2008 - \$72).

The Company adjusts trade accounts receivable balances through a provision for doubtful accounts, to the expected realizable value as soon as the account is determined not to be fully collectible, with such adjustments charged to earnings. When a receivable balance is considered uncollectible it is written off against the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts based on a customer-by-customer evaluation of the collectibility of the trade receivable balances, taking into account amounts which are past due, the customer's payment history and any available information indicating a customer could be experiencing liquidity problems.

All individual customer balances that are deemed to be impaired have been adequately covered by the allowance for doubtful accounts as at the balance sheet dates.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 15. Financial, Other Instruments and Hedging, cont'd

### b) Risks and risk management, cont'd

#### III) Foreign exchange risk

The Company operates on an international basis, which gives rise to the risk that results of operations and cash flows may be adversely impacted by exchange rate fluctuations on transactions denominated in a foreign currency. Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates. The Company does not use derivative instruments to manage this risk.

The Company's Canadian operations are exposed to exchange rate changes between the U.S. dollar and the Canadian dollar, and the Euro and Canadian dollar. The Company's primary U.S. dollar exposure in Canada relates to the revaluation into Canadian dollars of its U.S. dollar denominated working capital and long-term debt. As of December 31, 2009, fluctuations of +/- 5% would have an effect on earnings before income taxes of approximately +/- \$535 (2008 - +/- \$150). The Company's primary Euro exposure in Canada relates to the revaluation into Canadian dollars of its Euro denominated intercompany receivables. As of December 31, 2009, fluctuations of +/- 5% would have an effect on earnings before income taxes of approximately +/- \$75 (2008 - +/- \$108).

The Company's U.S. and European operations have minimal exposure to exchange rate fluctuations as substantially all of their transactions are denominated in the U.S. dollar and Euro, respectively. On January 1, 2009, the Slovak Koruna was replaced by the Euro as the functional currency of Slovakia.

The Company's reporting currency is U.S. dollars. All of the Company's operations are considered self-sustaining operations. The assets and liabilities of the self-sustaining operations are translated at exchange rates prevailing during the year. Unrealized gains and losses resulting from translating self-sustaining operations are accumulated and reported as a currency translation adjustment in accumulated other comprehensive income. As of December 31, 2009, fluctuations in the exchange rate between the U.S. dollar and Canadian dollar of +/- 5% would have an effect of other comprehensive income of approximately +/- \$476 (2008 - +/- \$542) and fluctuations in the exchange rate between the U.S. dollar and Euro of +/- 5% would have an effect on other comprehensive income of approximately +/- \$681 (2008 - +/- \$1,022).

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 15. Financial, Other Instruments and Hedging, cont'd

### b) Risks and risk management, cont'd

#### IV) Liquidity risk

The following table summarizes the Company's contractual maturity for its financial liabilities:

	1 Year	2 Years	3 Years	4 years	5 Years	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	8,544	-	-	-	-	-	8,544
Long-term debt	4,495	2,963	2,939	2,745	2,732	7,533	23,407
	13,039	2,963	2,939	2,745	2,732	7,533	31,951

In addition to the above, as at December 31, 2009, the Company has recorded \$1,387 as other long-term liabilities relating to the interest rate swap derivative.

### c) Collateral

The Company has charged substantially all assets of the Company and certain of its subsidiaries as security for borrowings.

## 16. Stock Compensation Expense

The Company has reserved 1,555,000 common shares for issuance under the Company's stock option plan to officers, directors, employees and consultants of the Company. Options were granted at the discretion of the Board of Directors as follows:

Date of grant	Options granted	Exercise price Cdn.
February 3, 2005	340,000	\$ 3.84
October 27, 2005	7,500	3.05
February 20, 2006	95,000	3.20
July 28, 2006	12,000	3.15
July 28, 2006	108,000	3.20
September 5, 2007	250,000	4.20
November 22, 2007	25,000	4.74
April 25, 2008	15,000	3.67
July 16, 2008	470,000	4.00

For all options granted up to and including July 28, 2006, the options vest 20% immediately and 20% per annum over a four-year period. These options expire ten years following the date of grant.

For all options granted thereafter, the options vest evenly over a five-year period. These options expire 5 years and 60 days following the date of grant.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

#### 16. Stock Compensation Expense, cont'd

The exercise price of each option equals the market price of the Company's capital stock at the date of grant except for the 108,000 options granted on July 28, 2006 and for the 470,000 granted on July 16, 2008. The exercise price of these options was greater than the market price at the date of grant. The weighted average fair value per share at these grant dates was \$1.25 and \$2.00 respectively.

The Company recorded stock compensation expense using the fair value method. Fair value is determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. During the year, \$285 (2008 - \$301) was recognized in stock-based compensation expense relating to vested options. There were no option grants during the year ended December 31, 2009 and the weighted average fair value of the options granted during the year ended December 31, 2008 was \$2.00. When options are exercised, the proceeds received by the Company together with the fair value amount in contributed surplus are credited to capital stock. As at December 31, 2009, 10,500 (2008 - 10,500) options have been exercised.

The weighted average fair value of each option granted was estimated on the grant date with the following weighted average assumptions:

Assumptions:

Expected dividend yield	nil
Expected volatility	41%
Risk-free interest rate	3.28%
Expected option life	7.2 years

Details of changes in employee/director stock options are as follows:

	Number of Options	Weighted average exercise price Cdn.
Outstanding options – December 31, 2007	812,300	\$ 3.80
Granted	485,000	3.99
Forfeited	(50,300)	3.54
Outstanding options – December 31, 2008	1,247,000	3.88
Forfeited	(179,000)	3.88
Outstanding options – December 31, 2009	1,068,000	3.89
Exercisable options – December 31, 2009	612,945	\$ 3.79

The weighted average remaining contractual life of options outstanding at December 31, 2009 is 4.3 years (2008 - 5.3 years).

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 17. Goodwill Impairment

Goodwill represents the excess of the purchase price over the fair value assigned to identifiable assets and liabilities acquired. The Company performed its annual impairment test of goodwill on September 30, 2009. Management determined that there were external market conditions and other circumstances that suggested the carrying value of the goodwill of certain segments may exceed their fair value. The external market conditions included a decrease in operating results as compared to the prior year and a lower than previously anticipated future operating income growth due to the slow recovery in the global economy. The annual impairment test determined that the carrying value of the goodwill of certain operating units exceeded their fair value and, as a result, the Company recorded a non-cash impairment charge of \$7,198 related to the locations in Ontario, Quebec and New York which are recorded in the Abrasive Products Manufacturing and Distribution segment and to the previous acquisitions of Bimac Inc. and MCP Mg-Serbien SAS recorded in the Mill and Foundry Products and Services segment. The goodwill impairment is comprised of the following:

	2009	2008
Goodwill impairment before the following item	\$8,308	\$ -
Reversal of accrual	(1,110)	-
Goodwill impairment	\$7,198	\$ -

In respect of the acquisition of Bimac Inc. (note 3 (B)), the remaining accrual, recorded in other long-term liabilities, was \$1,110. The goodwill impairment test performed by the Company indicated that the remaining accrual is not virtually certain and, accordingly, has been reversed. Any future payments with respect to additional consideration will be recorded against goodwill.

## 18. Other Expenses

	2009	2008
Costs related to the disposal of assets held for sale (note 5)	\$ 48	\$ 59
Restructuring severance costs	353	-
Gain on disposal of property, plant and equipment (note 6)	(208)	-
Lease termination costs	44	-
	\$ 237	\$ 59

The restructuring severance costs were incurred as part of managements' cost reduction program as a reaction to the economic impact on the Company's human resource requirements. All costs have been incurred and paid as at December 31, 2009.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 19. Related Party Transactions and Balances

The Company has entered into the following related party transactions and balances:

- a) Pursuant to the appointment of a new director on May 12, 2008, the following transactions and balances are classified as related party:

I) Long-term debt

Included in long-term debt (note 8) is a promissory note in the amount of \$1,500 (2008 - \$3,000) with annual instalments of \$1,500 plus interest at 5.6%. The promissory note and accrued interest are payable to the former shareholders of Magtech. As a result of the previous shareholdings, during the year, the director received interest in the amount of \$26 (2008 - \$48), representing 26.5% of the total payment.

II) Additional consideration paid on prior acquisitions

Pursuant to the acquisition of Bimac, additional consideration, not to exceed \$3,850, may be payable to the former shareholders of Bimac based on the achievement of certain pre-determined earnings targets to September 2016. As a result of the previous shareholdings, the director receives 61.7% of any additional consideration payments. During the year ended December 31, 2009, \$nil (2008 - \$514) of contingent consideration has been paid.

- b) The Company has transactions with its parent company SunOpta Inc. on an infrequent basis. For the year ended December 31, 2009, \$nil (2008 - \$26) has been incurred for services provided by SunOpta Inc. These transactions were carried out in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.
- c) The Company rents a facility to SunOpta Bioprocess Inc., a company under common control, and received rent revenue in the amount of \$22 during the year ended December 31, 2009 (2008 - \$nil).

Recorded in accounts receivable are advances due from SunOpta Inc. in the amount of \$nil (December 31, 2008 - \$27).

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 20. Earnings (Loss) per Share

Earnings (loss) per share are calculated using the weighted average number of shares outstanding. The weighted average number of shares used in the basic earnings per share calculations amounted to 18,013,670 for the year ended December 31, 2009 (2008 - 17,993,191).

The following table reconciles the net earnings and the number of shares for the basic and diluted earnings per share calculations:

	Net earnings (loss) attributed to common shareholders	Weighted average number of shares	2009 Per share Amount
Basic	\$ (6,205)	18,013,670	\$ (0.34)
Dilutive effect of stock options	-	-	-
	\$ (6,205)	18,013,670	\$ (0.34)

	Net earnings attributed to common shareholders	Weighted average number of shares	2008 Per share Amount
Basic	\$ 2,478	17,993,191	\$ 0.14
Dilutive effect of stock options	-	14,689	-
	\$ 2,478	18,007,880	\$ 0.14

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 21. Segmented Information

### Industry Segments

The Company operates in two industry segments.

a) Mill and foundry products and services operations

The Company's mill and foundry products and services operations segment processes and distributes industrial minerals and silica-free abrasives for the steel and foundry industries. Industrial minerals are used in a large range of applications for both the steel and foundry industries. Magnesium and lime are used in the desulphurization process. Bentonites are used for binders in foundry molding sands. Refractory minerals such as chromite and zircon are used to produce cores for high temperature metal casting as well as raw material and alloy agents.

This segment includes the Company's manufacturing, distribution and sales facilities in Walkerton, Indiana; Milan, Michigan; Brantford, Ontario; Lachine, Quebec; Kosice, Slovakia and Romans, France.

b) Abrasive products manufacturing and distribution operations

The Company's abrasive products manufacturing and distribution operations segment processes, distributes and recycles silica-free abrasives, roofing shingle granules and other industrial minerals for the marine, bridge, roofing and other abrasive cleaning; construction and water filtration industries.

This segment includes the Company's manufacturing operations in Norfolk Virginia; Baltimore, Maryland; Hardeeville, South Carolina; New Orleans, Louisiana; Freeport, Texas; Tampa Bay, Florida; Keeseville New York; Waterdown, Ontario and Laval and St. Bruno de Guigues, Quebec.

The prior year comparative amounts have been reclassified to conform to the current period's presentation.

Inter-segment revenues are recorded at transaction prices which approximate cost. The Company's assets, operations and employees are located in Canada, the United States and Europe.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

### 21. Segmented Information, cont'd

#### Industry Segments, cont'd

The Company accounts for intersegment sales and transfers at the exchange amount, which approximates cost.

	2009			
	Mill and foundry Products and services	Abrasive Products manu- facturing and Distribution operations	Unallocated	Total
External revenue by market				
Canada	\$ 7,708	\$ 5,447	\$ -	\$ 13,155
U.S	24,482	15,537	-	40,019
Europe	8,874	-	-	8,874
Other	148	330	-	478
<b>Total revenue from external customers</b>	<b>41,212</b>	<b>21,314</b>	<b>-</b>	<b>62,526</b>
Segment loss before interest expense and income taxes	(1,749)	(3,097)	(277)	(5,123)
Interest expense on long-term debt				(1,054)
Interest expense				(534)
Recovery of income taxes				242
Non-controlling interest share of net loss	264	-	-	264
<b>Net loss for the year</b>				<b>(6,205)</b>
<b>Total assets as at December 31, 2009</b>	<b>56,661</b>	<b>28,121</b>	<b>2,099</b>	<b>86,881</b>
Amortization of property, plant and equipment	1,081	855	71	2,007
Amortization of intangible assets	1,820	24	-	1,844
Goodwill impairment	4,101	3,097	-	7,198
<b>Goodwill and intangible assets as at December 31, 2009</b>	<b>34,105</b>	<b>3,605</b>	<b>-</b>	<b>37,710</b>
Expenditures on property, plant and equipment	\$ 204	\$ 2,194	\$ 109	\$ 2,507

External revenue by market is attributed to countries based on location of the customer.

Included in the mill and foundry products and services segment is revenue from one customer (2008 - two customers), that individually exceeds 10% of the Company's revenue.

Opta Minerals Inc.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

21. Segmented Information, cont'd

	2008			
	Mill and foundry Products and services	Abrasive Products manu- facturing and Distribution operations	Unallocated	Total
External revenue by market				
Canada	\$ 12,935	\$ 5,267	\$ -	\$ 18,202
U.S.	44,603	17,005	-	61,608
Europe	13,490	9	-	13,499
Other	76	38	-	114
Total revenue from external customers	71,104	22,319	-	93,423
Segment earnings (loss) before interest expense and income taxes	4,707	2,962	(2,068)	5,601
Interest expense on long-term debt				(1,521)
Interest expense				(568)
Provision for income taxes				(1,034)
Net earnings for the year				2,478
Total assets as at December 31, 2008	70,806	27,198	3,242	101,246
Amortization of property, plant and equipment	1,101	1,006	123	2,230
Amortization of intangible assets	1,671	48	-	1,719
Goodwill and intangible assets as at December 31, 2008	39,859	6,765	-	46,624
Expenditures on property, plant and equipment	\$ 760	\$ 547	\$ 69	\$ 1,376

External revenue by market is attributed to countries based on location of the customer.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 21. Segmented Information, cont'd

### Geographic segments

The Company's assets, operations and employees are located in Canada, the United States and Europe.

	2009			
	Canada	U.S	Europe	Total
Property, plant and equipment	\$ 7,672	\$ 9,327	\$ 797	\$ 17,796
Goodwill and intangible assets	1,030	22,402	14,278	37,710
Total assets	19,997	47,389	19,495	86,881

	2008			
	Canada	U.S	Europe	Total
Property, plant and equipment	\$ 6,185	\$ 9,568	\$ 911	\$ 16,664
Goodwill and intangible assets	2,291	25,425	18,908	46,624
Total assets	23,003	51,353	26,890	101,246

## 22. Commitments and Contingencies

- a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.
- b) The Company believes, with respect to both its operations and real property, that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.
- c) The Company has the following outstanding letters of credit:
  - i) An irrevocable letter of credit for \$833 has been placed with the Ontario Ministry of Environment as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

## Opta Minerals Inc.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars (except per share amounts)

## 22. Commitments and Contingencies, cont'd

- II) An irrevocable letter of credit for \$223 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
- III) Additional letters of credit totalling \$48 have been placed with third parties as security on transactions occurring in the ordinary course of operations.
- d) Future commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

2010	\$ 1,601
2011	1,419
2012	935
2013	816
2014	372
Thereafter	183
	<hr/>
	\$ 5,326

## 23. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current year's financial statement presentation.

## **Glossary**

### **Capitalization**

Market price per common share (December 31, 2009 – Cdn. \$1.16) multiplied by total number of outstanding shares of 18,023,193 (December 31, 2008 – 18,003,459), divided by the U.S. dollar exchange rate at the end of the period.

### **Cash generated from Operations**

Cash provided by (used in) operating activities less change in non-cash working capital

### **Current Ratio**

Current assets divided by current liabilities

### **Debt to Equity**

Total debt divided by shareholders' equity

### **Earnings before interest, income taxes, depreciation and amortization (EBITDA)**

Earnings before deducting interest expense, provision for income taxes, depreciation and amortization

### **Earnings before interest and income taxes (EBIT)**

Earnings before deducting interest expense and provision for income taxes.

### **Interest coverage Ratio**

Interest for the twelve months period divided by earnings before interest, income taxes and amortization of intangible assets.

### **Long term debt and bank indebtedness to capitalization ratio**

Total long term debt (including current portion) plus bank indebtedness divided by Capitalization

### **Return on Assets**

Net earnings for the 12 month period divided by the average total assets for the 12 month period

### **Return on Equity**

Net earnings for the 12 month period ended divided by the average shareholders' equity for the 12 month period

## **DIRECTORS AND OFFICERS**

### **Directors**

**Jeremy Kendall**<sup>(2)</sup>

Chairman of the Board of the Company and Chairman of SunOpta Inc.

**Steven Bromley**

President and Chief Executive Officer, SunOpta Inc.

**Victor Hepburn**<sup>(1) (2)</sup>

Consultant & Corporate Director

**David Kruse**

President and Chief Executive Officer, Opta Minerals Inc.

**Donald Loeb**<sup>(1) (2)</sup>

Co-founder and Chairman of Avanti Properties Group

**Bernard Rumbold**

Consultant and Entrepreneur

**Austin Beutel**<sup>(1)</sup>

Chairman, Oakwest Corporation Ltd.

Note: Numbering denotes committee membership

### **Officers**

**David Kruse**

President and Chief Executive Officer

**Martin Caouette**

Vice President and General Manager,  
Eastern Division

**David Rumble**

Vice President and General Manager,  
Central Division

**Paul Uguccione**

Vice President and General Manager of the Magnesium  
Technology Group

**David Ascott**

Chief Financial Officer & Secretary

**Sylvain Levert**

Vice President of Operations

### **Board Committee's**

<sup>(1)</sup> **Audit Committee**

Chairman, Victor Hepburn

<sup>(2)</sup> **Corporate Governance Committee**

Chairman, Donald Loeb

Complete disclosure on Opta Minerals corporate governance is provided in the Company's Management Information Circular which is available on the Canadian Securities Administrators' SEDAR website at [www.sedar.com](http://www.sedar.com) or in the investor relations website of Opta Minerals Inc. at [www.optaminerals.com](http://www.optaminerals.com).

## **SHAREHOLDER AND CORPORATE INFORMATION**

### **Home Office**

**Opta Minerals Inc.**  
407 Parkside drive  
P.O. Box 260  
Waterdown, Ontario  
L0R 2H0  
Canada

### **Exchange Listings**

**Toronto Stock Exchange:**  
Common Shares (OPM)

### **Registrar and Transfer Agent**

**Equity Transfer & Trust Company**  
Suite 400, 200 University Avenue  
Toronto, Ontario M5H 4H1  
Tel: (416) 361-0930  
Fax: (416) 361-0470  
E-Mail: [info@equitytransfer.com](mailto:info@equitytransfer.com)

### **Shareholder and Corporate Information.**

**David Kruse**  
President and Chief Executive Officer

**David Ascott**  
Chief Financial Officer and Secretary

### **Auditors**

RSM Richter LLP  
Chartered Accountants

### **Annual General Meeting**

Location: The National Club  
Tudor Room  
303 Bay Street,  
Toronto, Ontario  
Canada

Date: Thursday May 20, 2010  
Time: 9:00 am EDT  
(Toronto time)

### **Bankers**

Scotiabank  
TowneBank  
Wells Fargo