

Opta Minerals Inc.

Consolidated Financial Statements

December 31, 2009 and 2008

Expressed in Thousands of U.S. Dollars

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

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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 |
|--|------------------|-------------------|
| Assets | | |
| Current | | |
| 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 |
| | 28,596 | 35,552 |
| Property, Plant and Equipment (note 5) | 17,796 | 16,664 |
| Intangible and Other Assets (note 6) | 31,691 | 32,464 |
| Goodwill (notes 7 and 17) | 6,019 | 14,160 |
| Future Income Taxes (note 11) | 2,779 | 2,406 |
| | \$ 86,881 | \$ 101,246 |
| Liabilities | | |
| Current | | |
| 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 |
| | 16,438 | 19,720 |
| Long Term Debt (note 8) | 18,912 | 20,594 |
| Other Long Term Liabilities (note 9) | 1,387 | 3,095 |
| Future Income Taxes (note 11) | 2,674 | 2,849 |
| Future Income Taxes on Intangible Assets (note 12) | 9,213 | 9,695 |
| | 48,624 | 55,953 |
| Commitments and Contingencies (note 22) | | |
| Shareholders' Equity | | |
| Capital Stock (note 13) | | |
| 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 |
| Contributed Surplus (note 13) | 1,950 | 1,665 |
| Accumulated Other Comprehensive Income | 3,502 | 4,379 |
| Retained Earnings | 15,193 | 21,662 |
| | 18,695 | 26,041 |
| | 38,257 | 45,293 |
| | \$ 86,881 | \$ 101,246 |

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 Undernoted 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 |
|---|-------------------|-----------------|
| Net Earnings (Loss) | \$ (6,469) | \$ 2,478 |
| Other Comprehensive Income | | |
| 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) |
| Comprehensive Income (Loss) | (7,346) | 3,376 |
| Comprehensive income (loss) attributable to non-controlling interest | (264) | - |
| Comprehensive Income (Loss) Attributable to Opta Minerals Inc. | \$ (7,082) | \$ 3,376 |

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 |
| Retained Earnings - End of Year | \$ 15,193 | \$ 21,662 |

| | Cumulative Translation Adjustments | Unrealized Loss on Financial Derivatives | Total |
|--|--|--|-----------------|
| Accumulated Other Comprehensive Income (Loss) – 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) |
| Accumulated Other Comprehensive Income (Loss) – 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 |
| Accumulated Other Comprehensive Income (Loss) – December 31, 2009 | \$ 4,419 | \$ (917) | \$ 3,502 |

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 |
|---|----------------|----------------|
| Cash Provided By (Used in) - | | |
| Operating Activities | | |
| 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 |
| | 2,995 | 5,231 |
| 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) |
| | 10,543 | 1,937 |
| Financing Activities | | |
| 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) |
| | (9,291) | (86) |
| Investing Activities | | |
| 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) |
| | (1,856) | (2,848) |
| Foreign Exchange Gain on Cash Held in Foreign Currency | 8 | 38 |
| Decrease in Cash and Cash Equivalents | (596) | (959) |
| Cash and Cash Equivalents | | |
| Beginning of Year | 1,377 | 2,336 |
| End of Year | \$ 781 | \$ 1,377 |
| Additional Cash Flows Information: | | |
| 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
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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.

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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 |
| <hr/> | <hr/> |
| Purchase price | \$ 1,302 |

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) |
| <hr/> | <hr/> |
| | \$ 1,302 |

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.

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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 |
| | \$ 17,181 | \$ 22,223 |

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 |
| | \$ 30,829 | \$ 13,033 | \$ 17,796 |

| | 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 |
| | \$ 27,494 | \$ 10,830 | \$ 16,664 |

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.

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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 |
| | \$ 37,532 | \$ 5,841 | \$ 31,691 |

| | 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 |
| | \$ 36,392 | \$ 3,928 | \$ 32,464 |

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.

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7. Goodwill

| | 2009 | 2008 |
|--|------------------|------------------|
| Goodwill – Beginning of Year | \$ 14,160 | \$ 10,606 |
| 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) |
| Goodwill – End of Year | \$ 6,019 | \$ 14,160 |

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 | - |
| | 23,407 | 24,691 |
| Less: current portion | 4,495 | 4,097 |
| | \$ 18,912 | \$ 20,594 |

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.

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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 |

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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.

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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) |
| | \$ (242) | \$ 1,034 |

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 |
| | % (3.6) | % 29.4 |

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) |
| | 1,433 | (322) |
| Valuation allowance | (1,328) | (121) |
| | \$ 105 | \$ (443) |
| Future income tax assets – long-term | 2,779 | 2,406 |
| Future income tax liabilities – long-term | (2,674) | (2,849) |
| | \$ 105 | \$ (443) |

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.

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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 |
| December 31, 2009 | 18,023,193 | 17,612 |

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 |
| Balance – December 31, 2009 | \$ 1,950 |

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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 |
| | \$ 66,301 | \$ 81,319 |

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

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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.

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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) | - | - |
| | \$ (23,766) | \$ (2,215) | \$ (27,235) | \$ (3,876) |

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).

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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.

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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).

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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.

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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).

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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.

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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 |

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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.
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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 |
| Total revenue from external customers | 41,212 | 21,314 | - | 62,526 |
| 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 |
| Net loss for the year | | | | (6,205) |
| Total assets as at December 31, 2009 | 56,661 | 28,121 | 2,099 | 86,881 |
| 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 |
| Goodwill and intangible assets as at December 31, 2009 | 34,105 | 3,605 | - | 37,710 |
| 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.

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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.

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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:
 - l) 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.

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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.