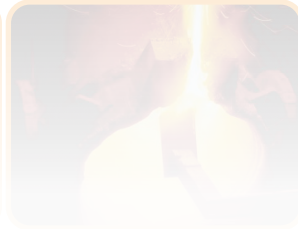


# Opta Minerals Inc.



**2007 Annual Report**

Financial Highlights.....	2
President’s Message.....	3
Management's Discussion and Analysis.....	4
Consolidated Financial Statements .....	23
CEO Certification .....	61
CFO Certification .....	62
Glossary .....	63
Directors and Officers.....	64
Shareholders and Corporate Information.....	65

## Financial Highlights

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

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Consolidated</b>		
Revenue	75,365	64,313
Gross profit	17,822	15,959
Selling, general and administrative expenses	9,635	8,051
EBITDA <sup>1</sup>	9,899	9,707
EBIT <sup>2</sup>	6,458	7,041
Provision for income taxes	1,462	1,980
Net earnings for the year	3,348	3,541
<b>Per Share</b>		
Earnings (basic and fully diluted)	0.19	0.21
Cash generated from operations <sup>3</sup>	0.35	0.39
Cash generated from (used in) operating activities	0.11	0.42
Shareholders' equity	2.40	2.01
Number of shares outstanding – weighted average	17,297,737	16,957,639
Number of shares outstanding – year ended December 31	17,984,200	16,964,539
<b>Ratios<sup>4</sup></b>		
Debt to Equity	0.88:1	0.64:1
Current Ratio	1.77:1	1.75:1
Return on Assets	3.4%	4.8%
Return on Equity	8.1%	10.4%

<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> Cash generated from (used in) operating activities less changes in non-cash working capital divided by the weighted average number of shares outstanding. See discussion on Non-GAAP measures in management's discussion and analysis found elsewhere in this report.

<sup>4</sup> Formulas for Ratios can be found in the Glossary to this Annual Report.

## **President's Message** **Driving Growth**

Fiscal 2007 has been an exciting year for Opta Minerals and the Company performed well in light of a number of market related challenges. The Company's revenues increased 17.2% for the year ended December 31, 2007 from \$64,313,000 in 2006 to \$75,365,000. A significant portion of this growth pertains to a full years results being included in consolidated earnings for companies acquired in 2006, being partially offset by revenue weakness in the Company's Canadian abrasive and foundry products markets and lower sales volumes to several of the Company's significant U.S. based desulfurization product customers. We remain committed to a blended approach to Company growth that includes both acquisition and organic sources.

### **A Strong Year of Growth & Challenges**

During the year Opta acquired 100% of the outstanding common shares of Newco a.s.. Newco operates a production facility in Kosice, Slovakia producing magnesium desulphurization products similar to those Opta currently produces in North America. The addition of Newco further increases Opta's position in the industrial minerals business and further expands its current position as a key service provider to the steel industry. The acquisition of Newco during the year complements existing operations which supply a wide range of desulphurization products in both the United States and Canada from operations in Indiana and Ontario. It was also very strategic as it positions Opta Minerals to serve existing European markets and establishes a platform for further growth in a fast growing economic region in the world.

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. We continue to offer one of the broadest ranges of industrial minerals and abrasives in the industry and can provide custom product configurations to customers that provide solutions for every type of application. In 2007 we completed a three year exclusive North American supply agreement for a high quality nickel slag from Greece. This agreement runs through the end of 2010 and is an important new product offering to Opta's customers given the high demand and scarce supply for slag based abrasives in the North American market. Initial uses of the product by customers has proven that this is an excellent loose abrasive and roofing granule media, and we have successfully been selling the product at our operations in Norfolk, Baltimore, and Hardeeville, with plans to expand to Opta's other locations in the near future.

We have expanded our geographic reach and product lines with the acquisition of an abrasive production facility in Laval, Quebec. Located in a 39,000 square foot facility under lease, these assets are ideally suited to produce abrasive media for blasting purposes, as well as garnet for abrasive, waterjet and water filtration applications. The plant began commercial production in May and we expect continued strong internal growth in upcoming years.

We experienced a number of challenges this year including weakness in the Company's Canadian abrasive and foundry products markets and lower sales volumes to several of the Company's significant U.S. based desulfurization product customers. In addition the increase in the strength of the Canadian dollar adversely affected earnings as a significant portion of our selling, general and administrative costs are incurred in Canada.

There is no doubt that 2007 was a successful year in terms of building our financial base. Improved profitability and the broadening of our geographic coverage continue to be top priorities in 2008. We will continue to achieve this over the next several years by making strategic acquisitions, continuing aggressive sales and product development, executing cost reduction programs to improve product margins, and 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 the 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 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.

# Management's Discussion and Analysis

## **Table of Contents**

Introduction .....	5
1. Our Company .....	6
1.1. Overview of the Business .....	6
2. Our Strategy .....	6
2.1. Opta's Strategic Objective .....	6
2.2. Strategic Plans .....	6
3. How we performed in 2007.....	7
3.1. Performance Highlights and Significant Events .....	7
3.2. Selected Annual and Quarterly Data.....	8
3.3. Year ended December 31, 2007 compared to Year ended December 31, 2006.....	10
4. Capital Structure and Financing .....	12
4.1. Capital Structure .....	12
4.2. Funding Program .....	14
4.3. Financial Ratios .....	16
4.4. Funding Costs .....	17
5. Contractual Obligations and Commitments .....	17
6. Transactions with Related Parties .....	17
7. Risks and Uncertainties.....	17
8. Critical Accounting Policies and Estimates .....	17
9. Non-GAAP Measures .....	19
10. Derivative Instruments .....	20
11. Disclosure Controls and Procedures .....	21
12. Internal Controls over Financial Reporting.....	21
13. Recent Developments in Accounting Standards .....	21
14. Recently issued accounting pronouncements.....	22
15. Additional Information .....	22

## **Introduction**

The following is a discussion of the consolidated financial position, results of operations and cash flows of Opta Minerals Inc. for the year ended December 31, 2007 and 2006, prepared in accordance with Canadian generally accepted accounting principles.

### **Change in Reporting Currency**

As of April 1, 2007, the Company converted to reporting its results in U.S. dollars as approximately 70% of the Company's revenues are generated from operations based in the United States of America. Accordingly, all amounts expressed in this Management Discussion and Analysis 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 February 21, 2008. This MD&A includes Opta's operating and financial results for the year ended December 31, 2007 and 2006 and should be read in conjunction with our audited consolidated financial statements and notes thereto appearing elsewhere in this report.

### **Other important company documents**

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

- 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).

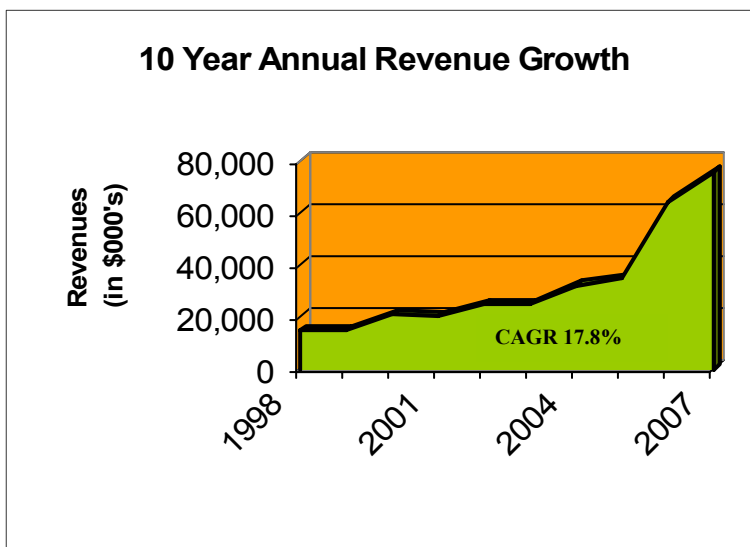
### **Forward Looking Statements**

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 the 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 report and, other than as required by law, the Company does not intend, and does not assume any obligation, to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

## 1. Our Company

### 1.1. Overview of the Business

Opta Minerals Inc. (TSX: OPM) is a vertically integrated producer, manufacturer, distributor and recycler of industrial minerals, silica-free loose abrasives, and specialty sands and related products for use primarily in the steel, foundry, loose abrasive cleaning, roof shingle granules and municipal water filtration industries. The Company has 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. This growth is evidenced by the Company's Compound Annual Revenue Growth Rate<sup>1</sup> ("CAGR") of 17.8% for the 10 year period Ended December 31, 2007.



The Company currently has offices, production and distribution facilities in Ontario, Quebec, Louisiana, South Carolina, Virginia, Maryland, Ohio, Michigan, Indiana, New York and Kosice, Slovakia 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 it with 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. In order to achieve this objective, the Company intends to accelerate its revenue and market share growth over the next several years by making a number of additional strategic acquisitions, through geographic expansion and through continued development of new products and services.

## 2. Our Strategy

### 2.1. Opta's Strategic Objective

In order to leverage our corporate strengths and institute a platform for sustainable, profitable business growth, we develop company-wide long-term strategic plans. Fiscal 2007 represented the final year of our 2004–2007 strategic plan, which outlined strategic imperatives for our Company and shaped the initiatives executed by management during that period. We have renewed this strategic plan that will guide our efforts in the foreseeable future. Our new Strategic Plan is based upon a comprehensive review of our business performance and factors influencing our future ability to successfully grow and compete. The new plan builds on our progress over the last four years, refining our focus on the initiatives that will help us to meet our key performance metrics.

### 2.2. Strategic Plans

We expect to leverage existing assets, human resources and technical expertise to build on our company's current status as a leading regional supplier and become one of the leading Global suppliers of industrial minerals and silica free abrasives. We expect to execute our growth strategy via the following strategic initiatives:

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<sup>1</sup> CAGR is a Non GAAP Measure used by management in assessing the performance of the Company. Please see section 9 of this report for a description of the calculation of the Company's CAGR.

1. Continuing to identify, pursue and complete strategic acquisitions in the Company's target markets and to successfully integrate and rationalize acquired operations to boost revenues and profit margins;
2. Continuing our active program of developing and acquiring new products and services that expand the Company's target markets while leveraging its existing infrastructure and expertise;
3. Broadening our geographic coverage by establishing or acquiring new distribution and production facilities in Europe, Asia, Atlantic and Western Canada and in the Southern and Midwestern States;
4. Expanding our internal processing capabilities through modest capital expenditures designed to improve throughput; and
5. Prudent management of expenditures, in a manner corresponding to revenues, and ensuring a disciplined cost structure that supports our goal of top and bottom line growth.

### **3. How we performed in 2007**

#### **3.1. Performance Highlights and Significant Events**

During the year ended December 31, 2007, the Company had the following performance highlights and significant events:

- Net earnings of \$3,348,000 a decrease of 5.5% over 2006 results. Net earnings were negatively impacted by \$275,000 (net of applicable income taxes) in other financing costs pertaining to the refinancing of credit facilities with the Bank of Nova Scotia and the establishment of an interest rate swap on a portion of the Company's variable rate debt. Earnings before interest, income taxes, depreciation and amortization<sup>1</sup> ("EBITDA") increased 2.0% from \$9,707,000 in 2006 to \$9,899,000 in 2007.
- Acquisition of Newco a.s. ("Newco") of Kosice, Slovakia. For fiscal 2006 Newco recorded revenues of approximately U.S. \$6.8 million selling its proprietary desulphurization and refractory products. Each product is produced to the specific requirements of the customers that Newco services within the European steel industry. The acquisition expands Opta's business capabilities into Europe and complements existing operations which supply a wide range of desulphurization products in both the United States and Canada from operations in Indiana and Ontario.
- Acquisition of the production assets of an industrial minerals processing facility in Laval, Quebec. Located in a 39,000 square foot facility under lease, these assets are ideally suited to produce abrasive media for blasting purposes, as well as garnet for abrasive, waterjet and water filtration applications.
- The commencement of commercial production of desulfurization products at the Company's Waterdown facility.
- The refinancing of credit facilities with the Bank of Nova Scotia, adding approximately \$18 million U.S. in available financing. The new credit facilities agreement includes an operating line of credit in the amount of Cdn \$12.5 million; a term loan facility in the amount of Cdn \$12.5 million and an acquisition facility in the amount of Cdn \$20.0 million. The operating line of credit and term loan facilities have been partially utilized to retire the existing bank debt and for general corporate purposes, while the acquisition facility was drawn upon to complete the acquisition of Newco. These increased facilities will provide Opta Minerals with the resources necessary to continue its strong growth through acquisitions, the building of new facilities in strategic locations and investments in growing markets.

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<sup>1</sup> EBITDA is a non GAAP measure used by management to measure performance. Please see section 9 of this report for a discussion on the calculation of EBITDA.

- The Company continued the development and introduction of new products into the marketplace. Bringing new products to market continues to be a very important component of the Company's growth strategy. In 2007 Opta introduced a high quality nickel slag from Greece into the North American market. This is an important new product offering to Opta's customers given the high demand and scarce supply for slag based abrasives in North America. Initial uses of the product by customers has proven that this is an excellent loose abrasive and roofing granule media, and we have successfully been selling the product at our operations in Norfolk, Baltimore, and Hardeeville, with plans to expand to Opta's other locations in the near future.

### 3.2. Selected Annual and Quarterly 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>2007</u> (unaudited)	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Income Statement Data</b>					
<b>Revenue</b>	\$	\$	\$	\$	\$
Mill and foundry products and services	14,013	11,057	51,766	39,741	7,105
Abrasive products manufacturing and distribution operations	<u>6,015</u>	<u>5,015</u>	<u>23,599</u>	<u>24,572</u>	<u>27,554</u>
<b>Total revenue</b>	<b>20,028</b>	<b>16,072</b>	<b>75,365</b>	<b>64,313</b>	<b>34,659</b>
<b>Gross profit</b>	<b>4,185</b>	<b>4,124</b>	<b>17,822</b>	<b>15,959</b>	<b>7,515</b>
Gross margin %	20.9	25.7	23.6	24.8	21.7
Selling, general and administrative expenses	<u>2,620</u>	<u>2,302</u>	<u>9,635</u>	<u>8,051</u>	<u>3,842</u>
<b>Earnings before the following:</b>	<b>1,565</b>	<b>1,822</b>	<b>8,187</b>	<b>7,908</b>	<b>3,673</b>
Interest expense (net)	495	424	1,648	1,520	401
Amortization of intangible assets	446	303	1,381	925	35
Stock compensation expense	52	35	170	170	584
Other financing costs	280	-	417	=	=
Foreign exchange (gain) loss	(61)	(34)	(239)	(228)	(108)
<b>Earnings before income taxes</b>	<b>353</b>	<b>1,094</b>	<b>4,810</b>	<b>5,521</b>	<b>2,761</b>
Provision for income taxes	<u>118</u>	<u>430</u>	<u>1,462</u>	<u>1,980</u>	<u>1,216</u>
<b>Net earnings for the period</b>	<b><u>235</u></b>	<b><u>664</u></b>	<b><u>3,348</u></b>	<b><u>3,541</u></b>	<b><u>1,545</u></b>

Selected Annual and Quarterly Data – Continued	For the Three Months Ended December 31		For the Years Ended December 31		
	<u>2007</u> (unaudited)	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Basic net earnings per share	\$0.01	\$0.04	\$0.19	\$0.21	\$0.09
Diluted net earnings per share	\$0.01	\$0.04	\$0.19	\$0.21	\$0.09
Weighted average shares used in computing basic net earnings per share calculation	<u>17,982,216</u>	<u>16,962,533</u>	<u>17,297,737</u>	<u>16,957,639</u>	<u>16,279,534</u>
Weighted average shares used in computing diluted net earnings per share calculation	<u>18,176,978</u>	<u>16,983,251</u>	<u>17,470,437</u>	<u>16,960,656</u>	<u>16,279,534</u>

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

	<u>As at December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$
Cash and cash equivalents	2,336	854	3,506
Working capital	14,632	10,584	18,224
Total assets	98,232	73,993	41,340
Bank indebtedness and long-term debt (including current portion)	36,507	21,997	6,892
Shareholders' equity	41,557	34,148	30,435

**Quarterly Results of Operations**

The following table sets out selected financial information for each of the eight most recent quarters ended December 31, 2007. 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, 2007 and 2006. Only normal recurring adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results.

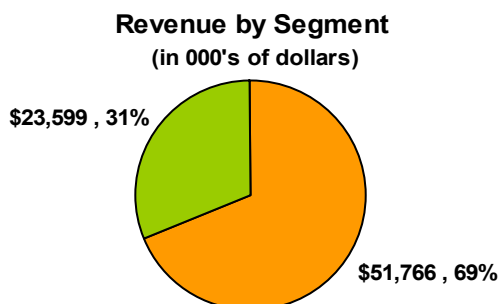
	<u>Quarters Ended</u>							
	<u>Dec. 31,</u> <u>2007</u>	<u>Sept 30,</u> <u>2007</u>	<u>June 30,</u> <u>2007</u>	<u>Mar 31,</u> <u>2007</u>	<u>Dec 31,</u> <u>2006</u>	<u>Sept 30,</u> <u>2006</u>	<u>June 30,</u> <u>2006</u>	<u>Mar 31,</u> <u>2006</u>
	(unaudited - expressed in thousands of U.S. dollars)							
<b>Revenue</b>	20,028	20,485	18,390	16,462	16,072	16,743	18,414	13,084
<b>EBITDA</b>	1,883	3,016	2,796	2,204	2,308	2,745	3,243	1,411
<b>Net earnings (loss) for the period</b>	235	1,258	1,150	705	664	1,031	1,445	401
<b>Basic and diluted earnings per share</b>	\$0.01	\$0.07	\$0.07	\$0.04	\$0.04	\$0.06	\$0.09	\$0.02

### 3.3. Year ended December 31, 2007 compared to Year ended December 31, 2006

The Company's revenues increased 17.2% for the year ended December 31, 2007 from \$64,313,000 in 2006 to \$75,365,000. Approximately \$3,450,000 of the increase relates to the acquisitions of Newco and the production facility in Laval Quebec. A further \$8,566,000 of the increase in revenues relate to a full year of results being included in earnings from the 2006 acquisitions of Magnesium Technologies Corporation ("Rossborough") and Bimac Inc. ("Bimac").

#### *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 and 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 facilities 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 and roofing granules were \$18,339,000, a decrease of 2.7% over 2006 sales of \$18,854,000. A substantial portion of this decrease is due to a decline in demand for abrasive products in the Company's Canadian locations partially offset by increased demand and pricing at the Company's U.S. based abrasive operations. Company wide sales of steel mill and foundry products and services were \$51,646,000, an increase of 28.0% over 2006 sales of \$40,348,000. Substantially all of this increase relates to the acquisition of Newco in 2007 and the full year results for Bimac and Magtech that were acquired during 2006. Excluding these acquisitions Company wide sales of foundry and steel mill products and services remained consistent with 2006. The remaining variance in revenues between the 12 month periods ended December 31, 2007 and 2006 relates to sales of other industrial minerals, products and services. Other products and services provided company wide increased 5.3% from \$5,111,000 in 2006 to \$5,380,000 in 2007



- 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 increased by \$12,025,000 or 30.3% to \$51,766,000 compared to \$39,741,000 in 2006. The results for the companies acquired in 2006 and 2007 are included in this segment. In addition, approximately \$893,000 of the increase pertained to mill and foundry products and services that were included in the abrasive products manufacturing and distribution segment in 2006 prior to the relocation of these products and

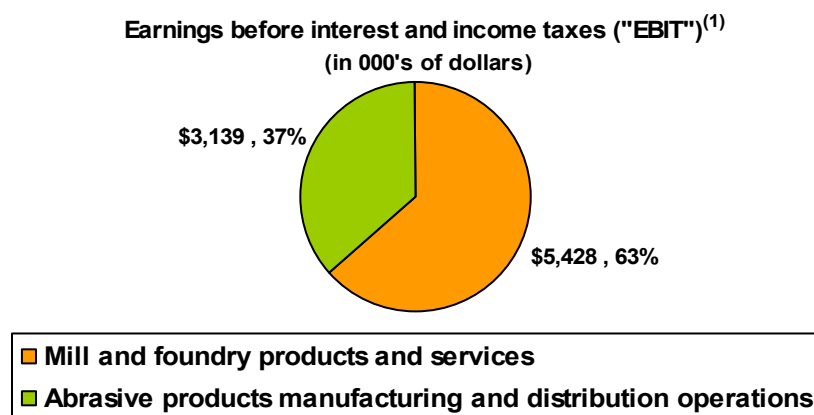
services to the Brantford facility which is included in the mill and foundry products and services segment. Excluding the results of these acquisitions and the reallocation of products between segments, segment revenues from legacy operations decreased 1.0%.

Revenues within the abrasive products manufacturing and distribution operations segment decreased \$973,000 or 4.0% to \$23,599,000 in 2007 versus \$24,572,000 in 2006. Approximately \$893,000 of the variance in segment results pertains to revenues of steel mill and foundry products that were transferred to the Company's Brantford facility during 2006 and 2007 and are now included in the mill and foundry products and services segment. Demand for abrasive materials at the Company's Waterdown and St-Germain-de-Grantham facilities decreased \$1,540,000, while demand for construction sands from the Company's Temisca facility declined \$208,000. Demand for products produced at the Waterdown and Temisca facilities vary greatly between periods depending on construction activity. Revenues at the St-Germain-de-Grantham operations have declined by approximately \$918,000, while earnings from operations have remained consistent as management has rationalized operations and implemented several profit improvement projects

over the period. These decreases were partially offset by strong demand and increased pricing at the Company's U.S. based abrasive operations, and revenues generated from Opta's new plant in Laval, Quebec.

Gross profit increased by \$1,863,000 to \$17,822,000 or 23.6% of revenues for the year ended December 31, 2007 compared to \$15,959,000 or 24.8% of sales for the same period in 2006. For the year ended December 31, 2007 gross profits at the Company's mill and foundry products and services segment increased by \$2,713,000 from \$10,063,000 or 25.3% of revenues in 2006 to \$12,776,000 or 24.7% of revenues in 2007. The increase is primarily due to \$4,267,000 in additional gross profits from companies acquired in 2006 & 2007 as well as the transfer of certain foundry products from the Company's Waterdown facility (reported in the abrasive products manufacturing and distribution segment) to its Brantford facility (reported in the Company's mill and foundry products and services segment) offset by a decrease in sales volume of foundry products in Canada and lower demand for magnesium blending services provided to steel mill customers. Gross profits within the Company's abrasive products manufacturing and distribution operations segment decreased by \$915,000 from \$5,967,000 or 24.3% of revenue in 2006 to \$5,052,000 or 21.4% of sales in 2007. The decrease is primarily due to a decline in demand for abrasive products in Canada, approximately \$90,000 in startup costs associated with the Laval Quebec facility, the appreciation of the Canadian dollar, and the transfer of certain foundry products from the Company's Waterdown facility (reported in the abrasive products manufacturing and distribution segment) to its Brantford facility (reported in the Company's mill and foundry products and services segment). These declines were partially offset by a \$249,000 increase in gross profit from the Company's U.S. based abrasive operations.

Selling, general and administrative expenses increased \$1,584,000, from \$8,051,000 or 12.5% of revenues in 2006 to \$9,635,000 or 12.8% of revenues in 2007. Approximately \$1,076,000 in additional SG&A was incurred as a result of the acquisitions that occurred in 2007 and 2006. Approximately \$105,000 of the remaining increase relates to a bad debt incurred during the year, and a further \$150,000 relates to the appreciation of the Canadian dollar as a significant amount of administrative expenses are incurred in the Canadian locations. The remaining increase relates to incremental audit, tax, consulting and regulatory fees associated with public company reporting. During the year, the Company also added additional members to the sales and administrative team to develop and support new business in the U.S. and Canada. All of Opta's salespeople are paid on a commission structure that is based on gross profit.



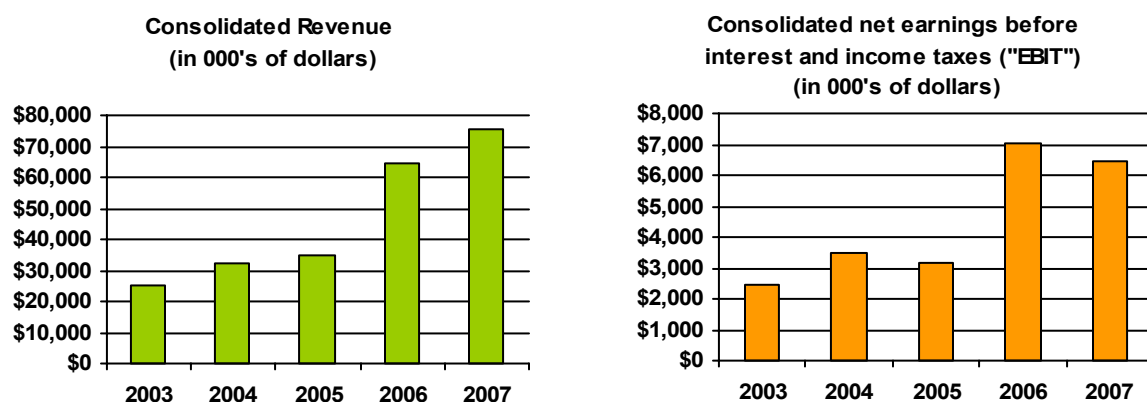
Earnings before income taxes, interest, depreciation and amortization ("EBITDA")<sup>2</sup> for the year ended December 31, 2007 was \$9,899,000 up 2.0% as compared to \$9,707,000 for the year ended December 31, 2006. EBITDA for the mill and foundry products and services segment increased by \$1,199,000 to \$7,676,000 when compared to the same period in 2006. The abrasive products manufacturing and distribution operations segment had EBITDA of \$5,363,000 for the year ended

December 31, 2006 compared to \$4,292,000 in 2007. The most significant components of these variances other than the increase in gross profit and SG&A previously discussed relates to approximately \$163,000 in other financing

<sup>1</sup> EBIT is a non GAAP measure used by management to measure performance. Please see section 9 of this report for a discussion on the calculation of EBIT.

<sup>2</sup> EBITDA is a non GAAP measure used by management to measure performance. Please see section 9 of this report for a discussion on the calculation of EBITDA.

costs incurred to refinance the Company debt with another financial institution, and \$254,000 in other financing costs related to a interest rate swap arranged in 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. 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. Although this swap is expected to perform as an effective economic hedge against interest rate risk from 2008 until 2012, the initial valuation of the swap was valued with an initial loss at inception of \$254,000 which is treated as hedge ineffectiveness for accounting purposes.



The effective income tax rate for the year ended December 31, 2007 was 30.4% compared to 35.9% for the comparable period in 2006. The change in rate is substantially due to the acquisition of Newco as Slovakia has a statutory income tax rate of 19%, partially offset by a change in enacted rates that increased future tax expense by \$67,000. The remaining differences relate to an increased proportion of the Company's income being generated by U.S. operations which incur a higher statutory tax rate, offset by tax credits on manufacturing operations both in Canada and the U.S. and changes in the amount of other permanent differences.

Net earnings for the year ended December 31, 2007 were \$3,348,000, or \$0.19 per diluted common share as compared to \$3,541,000 or \$0.21 per diluted common share for the same period in 2006.

#### 4. Capital Structure and Financing

##### 4.1. 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.

We ended 2007 in a strong financial position, with:

- \$2,336,000 of cash and cash equivalents;
- \$5,989,000 of bank indebtedness;
- 24% of our long-term debt due in 2008;

- Long-term debt at 34.7% of total capitalization<sup>1</sup>;
- \$15,778,000 in available credit facilities; and
- the flexibility to access capital markets to raise capital for acquisitions or projects.

For the years ended December 31, 2007 and 2006 our capital structure was as follows:

<b>Capital Structure (% of total structure)</b>	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Shareholders' Equity	45.0%	49.4%
Bank indebtedness	6.5%	9.8%
Long-term debt	33.0%	22.1%
Future income taxes <sup>(1)</sup>	13.7%	15.6%
Other long-term liabilities <sup>(2)</sup>	1.8%	3.1%
	<b>100%</b>	<b>100%</b>

(1) Approximately \$9,941,000 of the \$12,724,000 future tax liability reported relates 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, Canadian generally accepted accounting principles require a future tax liability to be established for any finite life intangibles acquired.

(2) Pursuant to the Bimac purchase agreement, additional 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. In 2006 an amount of \$2,150,000 was recognized as contingent consideration based upon management's estimates. During 2007 the Company paid \$526,000 (2006 - \$nil) of contingent consideration, drawing this liability down to \$1,624,000. Any future adjustments with respect to the additional consideration will be recorded against goodwill.

### Equity

The book value of Common Shares at the end of 2007 was \$2.29 per share compared to \$2.01 at the end of 2006.

### Shares outstanding

<b>Common Shares</b>	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Shares outstanding at the beginning of the year	16,964,539	16,952,574
Issued on acquisition of Newco a.s.	1,000,000	-
Shares issued under plans <sup>(1)</sup>	19,661	11,965
<b>Shares outstanding at end of year</b>	<b>17,984,200</b>	<b>16,964,539</b>

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

The common shares outstanding as at February 21, 2008 are 17,984,200.

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

## Long term debt and bank indebtedness

As at December 31, 2007 the Company had \$36,507,000 in long-term debt and bank indebtedness owing to third parties versus \$21,997,000 at December 31, 2006. During the year, the Company amended its existing credit facilities to expand its available credit line and finance the acquisition of Newco. Opta's financing agreements with the Bank of Nova Scotia now include a Cdn \$12,500,000 revolving term operating facility, a Cdn \$20,000,000 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 notes payable to the former shareholders of Magtech and Newco in the amount of \$7,394,000 dollars.

### 4.2. Funding Program

#### Funding requirements

We fund our capital expenditures, working capital needs, acquisitions and financing needs such as debt repayments from a combination of sources. In 2007, the primary sources of funding were:

- \$854,000 cash on hand at the beginning of 2007;
- \$2,662,000 promissory note to the vendor of Newco a.s.
- \$11,616,000 from increasing long-term debt and bank indebtedness;
- \$6,139,000 of cash generated from operations before changes in non-cash working capital; and
- \$3,344,000 from the issuance of common shares in conjunction with the acquisition of Newco a.s.
- \$83,000 from the issuance of common shares under the employee share purchase plan.

#### Summary of Cash flows

(expressed in thousands of dollars)	For the Three Months Ended December 31		For the Year Ended December 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net cash provided by (used in):	(unaudited)			
	\$	\$	\$	\$
Operating activities	(249)	(198)	1,838	7,044
Investing activities	(802)	(4,213)	(8,683)	(18,275)
Financing activities	(619)	2,580	8,320	8,579
Foreign exchange loss (gain) on cash held in foreign currency	7	-	7	-

#### *Year Ended December 31, 2007 compared to the Year Ended December 31, 2006*

##### *Operating activities and working capital*

Cash generated by operating activities for the year ended December 31, 2007 was \$1,838,000 compared to \$7,044,000 in 2006. The decrease is due to an decrease in earnings from operations and an increased investment in working capital, particularly in inventory, as compared to 2006. Inventory quantities and cost have increased over the course of the year as a result of the Company's increasing sales of desulfurization products to steel mills. The price of magnesium, a key raw material for desulfurization products has increased dramatically during the year. In addition, the Company invested in initial inventories of magnesium for its new processing facility in Waterdown Ontario, additional quantities of nickel slag in the U.S. and Chromite.

Many of the products received are transported by ship. In order to economize on freight costs, certain products are purchased in quantities that will take upwards of a year to sell. These purchases can be significant and have a material effect on working capital needs.

The Company has a working capital surplus of \$14,632,000 (2006 – \$10,584,000). A significant portion of the increase in working capital surplus is due to bank indebtedness incurred as a result of the acquisition Newco a.s. and the increase in inventory noted above. Maintaining financial flexibility remains imperative to management and thus reductions to the Company's working capital continues to be a long-term priority. The table below shows the change in the value of various working capital components for the Company at the end of 2007 and 2006 excluding the impact of the acquisitions that occurred during the year.

### Comparable Working Capital Components

	2007	Working capital related to companies acquired	2007 excluding working capital of acquisitions	2006	Variance
Accounts receivable	10,486	1,433	9,053	8,111	942
Inventories	19,219	312	18,907	14,057	4,850
Prepaid expenses and other current assets	1,566	2	1,564	1,492	72
Accounts payable and accrued liabilities	(5,773)	(319)	(5,454)	(4,891)	(563)
<b>Increase (decrease) in comparable working capital components</b>					<b>5,301</b>

The most significant change in working capital components excluding the working capital of acquisitions was an increase in inventory and accounts receivables that were partially offset by an decrease in prepaid expenses and other current assets and an increase in accounts payable and accrued liabilities.

Accounts receivable - At the end of 2006 accounts receivable totaled \$8,111,000. Excluding the impact of acquisitions, accounts receivable increased 11.6% to \$9,053,000 at December 31, 2007. The increase is mainly due to the timing of collections in the fourth quarter of 2007. The overall aging of accounts receivable has remained relatively consistent year over year.

Inventories - Excluding the impact of acquisitions, Opta increased its inventory levels by \$4,850,000 or 34.5% as at the end of 2007 compared to the end of 2006. Approximately \$2,963,000 of the increase related to inventories of magnesium based products. Raw material costs of these magnesium products have increased dramatically during the year and additional quantities were purchased to support desulfurization product production in Waterdown, Ontario. A further \$1,146,000 of the increase pertained to initial shipments of Greek nickel slag to several facilities in North America. The remaining increase related to refractory products for foundry and mill customers, and specialty abrasives sold throughout North America.

Prepaid expenses and other current assets - Excluding the impact of acquisitions, Opta's prepaid expenses increased \$72,000 at the end of 2007 compared to the end of 2006. The increase is due to the prepaid interest on certain Bankers acceptance arrangements used in the Company's financing strategy partially offset by the timing of insurance premiums paid by the company.

Accounts payable and accrued liabilities - Excluding the impact of acquisitions, the increase in accounts payable and accrued liabilities was primarily comprised of normal trade payables related to the freight associated with merchandise inventories.

### *Investing Activities*

Cash used in investing activities was \$8,683,000 for the year ended December 31, 2007 as compared to \$18,275,000 in 2006. Approximately \$7,157,000 of the investments pertain to the acquisitions of Newco a.s. and the production facility in Laval, Quebec during the year, along with the establishment of a magnesium processing facility in Waterdown Ontario. Excluding the assets acquired in Laval, Quebec and for the Waterdown magnesium facility, capital expenditures incurred during the year totalled \$733,000. The Company continues to invest in capital improvements designed to maintain facilities, reduce operating costs or comply with regulatory requirements at its various locations.

### 2007 Capital program

Opta's 2007 capital expenditures totalled \$1,834,000, a 31% increase from the \$1,404,000 spent in 2006. Capital expenditures during the year included:

- \$843,000 for business expansion initiatives;
- \$991,000 for maintenance or replacement of property, plant and equipment;

The Company expects to spend approximately \$2,500,000 in capital expenditures in 2008.

### *Financing Activities*

Cash obtained in financing activities was \$8,320,000 for the year ended December 31, 2007. The most significant financing transactions recorded in the period pertain to a refinancing of the Company's debt with another Canadian institution and the financing of the Newco acquisition.

### **4.3. Financial Ratios**

We have ready access to funding from the financial markets as a result of our relatively strong balance sheet and healthy financial ratios. The following table shows the changes in financial ratios over the past year.

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Ratio of long term debt and bank indebtedness to Equity	0.88:1	0.64:1
Ratio of long term debt <sup>(1)</sup> to total capitalization	0.35:1	0.27:1
Ratio of current assets to current liabilities	1.77:1	1.75:1
Interest coverage <sup>(2)</sup>	4.9 times	5.3 times

(1) Long-term debt includes current portion.

(2) We calculate interest coverage using earnings before interest, income taxes, stock compensation expense and amortization.

#### 4.4. 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>Interest expense</b>	<b>2007</b>	<b>2006</b>
Interest expense pertaining to long term debt	\$1,213,000	\$1,063,000
Interest expense pertaining to bank indebtedness	\$435,000	\$457,000
<b>Effective blended cost of debt</b>	<b>6.0%</b>	<b>7.8%</b>

#### 5. **Contractual Obligations and Commitments**

The Company has the following contractual obligations over the next five fiscal years and thereafter:

<b><u>Contractual Obligations</u></b>	<b>Payments Due by Period</b>						
	<b>Total</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>
Long term debt	\$30,518	\$7,314	\$3,809	\$3,809	\$2,309	\$2,309	\$10,968
Preferred shares	47	47	-	-	-	-	-
Operating leases	5,082	1,511	1,158	920	788	244	461
<b>Total contractual obligations</b>	<b>35,647</b>	<b>8,872</b>	<b>4,967</b>	<b>4,729</b>	<b>3,097</b>	<b>2,553</b>	<b>11,429</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. An amount of \$1,624,000 has been recognized as other long term liabilities based upon management's estimate of contingent consideration likely to be paid.

#### 6. **Transactions with Related Parties**

SunOpta charges management fees to the Company which include direct costs incurred by SunOpta for professional services and insurance as well as fees relating to specific administrative services provided at fair market value. For 2007, these fees totaled \$48 (2006 - \$19).

#### 7. **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 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.

#### 8. **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, 2007 and 2006 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
- Collectibility 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, determined on a first-in, first-out basis, or estimated net realizable value. 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. 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 determined that no such impairment exists as at December 31, 2007.

### ***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	7 – 15 years
Long-term supply contract	Over the contract period of 10 years
Licensing agreement	10 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 refundable for the year plus or minus the change in future income tax assets and liabilities during the year.

### ***Estimates***

The preparation of 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 assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, the measurement of accounts receivable and the related allowance for bad debts, measurement of inventory, measurement of goodwill and intangibles and revenue recognition.

## **9. 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, 2007	Sept 30, 2007	June 30, 2007	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006	June 30, 2006	Mar 31, 2006	Dec. 31, 2007	Dec. 31, 2006
	(unaudited)								(expressed in thousands of dollars)	
	(expressed in thousands of dollars)								(expressed in thousands of dollars)	
<b>Net earnings for the period</b>	<b>\$235</b>	<b>\$1,258</b>	<b>\$1,150</b>	<b>\$705</b>	<b>\$664</b>	<b>\$1,031</b>	<b>\$1,445</b>	<b>\$401</b>	<b>\$3,348</b>	<b>\$3,541</b>
Interest expense	495	398	384	371	424	401	404	291	1,648	1,520
Provision for income taxes	118	443	514	387	430	567	729	254	1,462	1,980
Depreciation	589	568	466	437	487	487	432	335	2,060	1,741
Amortization of Intangible assets	447	349	282	303	303	259	233	130	1,381	925
<b>EBITDA<sup>(1)</sup></b>	<b>1,884</b>	<b>3,016</b>	<b>2,796</b>	<b>2,203</b>	<b>2,308</b>	<b>2,745</b>	<b>3,243</b>	<b>1,411</b>	<b>9,899</b>	<b>9,707</b>
Depreciation and amortization of intangible assets	1,036	917	748	740	790	746	665	465	3,442	2,666
<b>EBIT<sup>(2)</sup></b>	<b>848</b>	<b>2,099</b>	<b>2,048</b>	<b>1,463</b>	<b>1,518</b>	<b>1,999</b>	<b>2,578</b>	<b>946</b>	<b>6,458</b>	<b>7,041</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.

## 10. 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. 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 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. As at December 31, 2007, our exposure from interest rate swap contracts was a loss net of income tax equal to \$357,000.

## **11. Disclosure Controls and Procedures**

As at the financial year ended December 31, 2007, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2007 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

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

Management is also responsible for the design of internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial reporting.

The design of the Company's ICFR was evaluated by management, including the Chief Executive Officer and Chief Financial Officer, as at December 31, 2007. They have concluded that the design of ICFR's, except for the limitations noted above, would provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP as of December 31, 2007.

## **13. Recent Developments in Accounting Standards**

*The Company has adopted the following recent standards as of January 1, 2007.*

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

CICA Handbook Section 1530, Comprehensive Income, introduces new standards for reporting and disclosing comprehensive income. Comprehensive income is the change in equity of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a

period except those resulting from investments by owners and distributions to owners. Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

CICA Handbook Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during a reporting period. Section 3251 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Upon transition to CICA section 3855, Financial Instruments – Recognition and Measurement on January 1, 2007 the Company reclassified \$124,000 of deferred financing costs to retained earnings and has elected to expense transaction costs related to held to maturity financial liabilities as incurred.

#### **14. Recently issued accounting pronouncements**

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

- a) CICA Handbook Section 1535 “Capital Disclosures” establishes standards for disclosing information about a Company’s capital and how it is managed to enable users of the financial statements to evaluate the Company’s objectives, policies and procedures for managing capital. This section is effective for the fiscal years beginning on or after October 1, 2007.
- b) CICA Handbook Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. This accounting standard is effective for fiscal years beginning on or after October 1, 2007.
- c) CICA Handbook Section 3863 “Financial Instruments – Presentation” establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation and is effective for fiscal years beginning on or after October 1, 2007.
- d) CICA Handbook Section 3031 “Inventories” provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and is effective for the fiscal years beginning on or after January 1, 2008.
- e) International Financial Reporting Standards – 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 and reporting standards.

#### **15. 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).

**Opta Minerals Inc.**

Consolidated Financial Statements  
**December 31, 2007 and 2006**  
(expressed in thousands of U.S. dollars)

February 29, 2008

## Auditors' Report

### To the Shareholders of Opta Minerals Inc.

We have audited the consolidated balance sheets of **Opta Minerals Inc.** as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income, retained earnings and accumulated other comprehensive income and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

Hamilton, Ontario

**Opta Minerals Inc.**  
**Consolidated Balance Sheets**  
**As at December 31, 2007 and 2006**

(expressed in thousands of U.S. dollars)

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,336	854
Accounts receivable	10,486	8,111
Inventories (note 4)	19,219	14,057
Prepaid expenses and other current assets	1,566	1,492
Income taxes recoverable	148	248
	<hr/>	<hr/>
	33,755	24,762
<b>Property, plant and equipment</b> (note 5)	19,531	17,615
<b>Intangible and other assets</b> (note 6)	32,871	20,644
<b>Goodwill</b>	10,606	10,169
<b>Future income taxes</b> (note 9)	1,469	803
	<hr/>	<hr/>
	98,232	73,993
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 7)	5,989	6,752
Accounts payable and accrued liabilities	5,773	4,891
Current portion of long-term debt (note 7)	7,314	2,496
Current portion of preference shares (note 8)	47	39
	<hr/>	<hr/>
	19,123	14,178
<b>Long-term debt</b> (note 7)	23,204	12,749
<b>Other long-term liabilities</b> (note 3)	1,624	2,150
<b>Future income taxes</b> (note 9)	12,724	10,768
	<hr/>	<hr/>
	56,675	39,845
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 10)		
Authorized		
Unlimited number of common shares and preference shares without par value		
Issued		
17,984,200 (December 31, 2006 – 16,964,539) common shares	17,528	14,082
<b>Contributed surplus</b> (note 10)	1,364	1,213
<b>Retained earnings</b>	19,184	15,960
<b>Accumulated other comprehensive income</b>	3,481	2,893
	<hr/>	<hr/>
	41,557	34,148
	<hr/>	<hr/>
	98,232	73,993
	<hr/>	<hr/>
<b>Commitments and contingencies</b> (note 16)		

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

**Approved by the Board of Directors**

*(signed) "Jeremy Kendall"*

\_\_\_\_\_  
 Director

*(signed) "Victor Hepburn"*

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 Director

# Opta Minerals Inc.

## Consolidated Statements of Earnings

For the years ended December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars except per share amounts)

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	75,365	64,313
<b>Cost of goods sold</b>	57,543	48,354
<b>Gross profit</b>	17,822	15,959
<b>Selling, general and administrative expenses</b>	9,635	8,051
<b>Earnings before the following</b>	8,187	7,908
<b>Interest expense on long-term debt</b>	1,213	1,063
<b>Interest expense</b>	435	457
<b>Amortization of intangible assets</b>	1,381	925
<b>Stock compensation expense</b> (note 11)	170	170
<b>Other financing costs</b> (note 12)	417	-
<b>Foreign exchange gain</b>	(239)	(228)
	3,377	2,387
<b>Earnings before income taxes</b>	4,810	5,521
<b>Provision for income taxes</b> (note 9)	1,462	1,980
<b>Net earnings for the year</b>	3,348	3,541
<b>Earnings per share for the year</b> (note 14)		
Basic and diluted	0.19	0.21

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

# Opta Minerals Inc.

## Consolidated Statements of Comprehensive Income For the years ended December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Net income</b>	3,348	3,541
Other comprehensive income (loss)		
Unrealized gain on translation of foreign operations	795	6
Unrealized loss on financial derivative	(207)	-
<b>Comprehensive income</b>	<u>3,936</u>	<u>3,547</u>

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

## Opta Minerals Inc.

### Consolidated Statements of Retained Earnings and Accumulated Other Comprehensive Income For the years ended December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Retained earnings - Beginning of year</b>	15,960	12,419
Impact of adopted accounting pronouncements on January 1, 2007 (note 2)	(124)	-
Net earnings for the year	3,348	3,541
<b>Retained earnings - End of year</b>	<u>19,184</u>	<u>15,960</u>
<b>Accumulated other comprehensive income – Beginning of year</b>	2,893	2,887
Unrealized gain on translation of foreign operations	795	6
Unrealized loss on financial derivative	(207)	-
<b>Accumulated other comprehensive income – End of year</b>	<u>3,481</u>	<u>2,893</u>

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

# Opta Minerals Inc.

## Consolidated Statements of Cash Flows

### For the years ended December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

	2007 \$	2006 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	3,348	3,541
Items not affecting cash		
Amortization of property, plant and equipment	2,060	1,741
Amortization of intangible assets	1,381	925
Amortization of deferred financing costs	-	86
Other financing costs (note 12)	254	-
Stock compensation expense (note 11)	170	170
Future income taxes (note 9)	(1,072)	174
Unrealized foreign exchange (gain) loss on long-term debt	(9)	52
Net loss on disposal of property, plant and equipment	7	-
	<u>6,139</u>	<u>6,689</u>
Changes in non-cash working capital		
Accounts receivable	(599)	540
Inventories	(3,347)	1,132
Prepaid expenses and other current assets	36	64
Accounts payable and accrued liabilities	(491)	(352)
Income taxes recoverable	100	(1,029)
	<u>1,838</u>	<u>7,044</u>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(1,834)	(1,404)
Proceeds on disposal of property, plant and equipment	20	-
Additional consideration paid on acquisitions (note 3)	(555)	(52)
Acquisition of other assets	-	(42)
Acquisition of companies, net of cash acquired (note 3)	(6,314)	(16,777)
	<u>(8,683)</u>	<u>(18,275)</u>
<b>Financing activities</b>		
Deferred financing costs	-	(66)
Proceeds from issuance of common shares – net of issuance costs	83	35
(Decrease) increase in bank indebtedness	(1,853)	6,528
Proceeds from long-term debt (note 7)	23,166	3,542
Repayment of long-term debt (note 7)	(13,076)	(1,425)
Repayment of due from affiliates – net	-	(9)
Purchase and redemption of preference shares of subsidiary companies	-	(26)
	<u>8,320</u>	<u>8,579</u>
<b>Foreign exchange loss on cash held in foreign currency</b>	<u>7</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	1,482	(2,652)
<b>Cash and cash equivalents - Beginning of year</b>	<u>854</u>	<u>3,506</u>
<b>Cash and cash equivalents - End of year</b>	<u>2,336</u>	<u>854</u>
<b>Supplemental cash flow information</b>		
Interest paid	1,762	1,185
Income taxes paid	2,466	3,041

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

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### 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 02-2006 Inc.; OPM 01-2006 Inc.; Bimac Inc. (Bimac) and Newco, a.s. (Newco). All significant intercompany accounts and transactions have been eliminated on consolidation.

The Company produces, manufactures and distributes silica-free abrasives, roof shingle granules and other industrial minerals for the foundry, steel, marine/bridge cleaning, roofing and municipal water filtration 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 Louisiana, South Carolina, Virginia, Maryland, New York, Indiana, Michigan, Ontario and Quebec and services locations in Europe with its production facility in Kosice, Slovakia. In addition to the production facilities noted above, the Company owns and operates two distribution and packaging centres located in Lachine, Quebec and Drummondville, Quebec and one leased location in Brantford, Ontario as well as a sales office in Richfield, Ohio. 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

#### Change in reporting currency

The Company has historically prepared its consolidated financial statements in Canadian dollars. As a result of the continued expansion of the Company’s U.S. operations, a significant U.S. customer base and because the majority of its revenue and assets are denominated in U.S. dollars, the Company has elected to adopt the U.S. dollar as its reporting currency effective April 1, 2007. In making this change in reporting currency, the Company has followed the recommendations of the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants (“CICA”), set out in EIC-130, “Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency”.

Based on EIC-130, the financial statements for all periods presented have been translated into U.S. dollars using the current rate method. The assets and liabilities were translated into U.S. dollars using the exchange rate in effect at each period-end. Capital stock and contributed surplus have been translated into U.S. dollars using the average exchange rate applicable during the month in which the transaction took place. Revenues and expenses were translated at the average monthly rate during the period. All exchange differences resulting from the translation are included in the accumulated other comprehensive income in shareholders’ equity.

All comparative financial information has been restated to reflect the Company’s results if they had been historically reported in U.S. dollars.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### **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.

### **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: 4% to 12% for buildings and leasehold improvements, 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.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to 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 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 charged to the consolidated statement of earnings. The Company has assessed the carrying value of goodwill for possible impairment and has determined that no such impairment exists as at December 31, 2007.

### 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	7 – 15 years
Long-term supply contract	Over the contract period of 10 years
Licensing agreement	10 years

### Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with definite 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.

### Other assets

The Company's other assets include patents which are amortized over the useful life of the patent.

### 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.

# **Opta Minerals Inc.**

## Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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(expressed in thousands of U.S. dollars)

### **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 shareholders' equity.

Revenues and expenses of the Company and its Canadian subsidiaries arising from foreign currency transactions are translated into Canadian dollars 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 date. Related exchange gains and losses are included in the determination of earnings.

### **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.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### **Financial instruments**

The Canadian Institute of Chartered Accountants (“CICA”) issued the following new accounting standards that apply to the Company as of January 1, 2007:

- a) CICA Handbook Section 3855 “Financial Instruments, Recognition and Measurement”;
- b) CICA Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”; and
- c) CICA Handbook Section 3865 “Hedges”.

### ***Financial instruments***

This new standard requires the Company to revalue 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. This standard also requires the Company to classify 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 derecognized 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 derecognized or impaired.

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 derecognized.

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.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

<b>Assets/liability</b>	<b>Category</b>	<b>Measurement</b>
Accounts receivable	Loans and receivables	Amortized cost
Income taxes recoverable	Loans and receivables	Amortized cost
Bank indebtedness – operating line	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
Preferred shares	Other liabilities	Amortized cost

Transaction costs related to all financial instruments are now expensed as incurred. Upon transition to the new standards on January 1, 2007, the Company elected to reclassify \$124 of deferred financing costs to retained earnings. 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. Under an election permitted by the new standard, management reviewed its contracts and determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

### ***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 accounts payable and accrued liabilities. The changes in fair value of this contract 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 and classified with other financing costs.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

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, as follows:

- The present value of the fixed pay leg is calculated as the sum of the fixed coupon payments on each payment date (determined by multiplying the notional amount by the fixed rate), discounted by the swap rate applicable for that payment date. The swap rate is determined from the swap curve as at the assessment date using the bootstrapping method.
- The present value of the floating leg is calculated as the sum of the following:
  - Using forward rates at the assessment date, the estimated receipt for each receipt date (which is the same as the payment date for the fixed pay leg) is determined by multiplying the forward rate applicable for the receipt date by the notional amount; and
  - The present value of each floating receipt is determined by discounting the estimated receipt for each receipt date by the swap rate applicable for that receipt date (the swap rate is determined from the swap curve as at the assessment date using bootstrapping).

The estimated fair values of the swap at inception and December 31, 2007 was a loss of \$254 and \$539, 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 initial fair value of the swap is deemed to be ineffective for the purposes of hedge accounting and, as a result, the Company recorded a \$254 charge to other financing costs in the consolidated statement of earnings (see note 12).

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.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

As at December 31, 2007, the Company had entered a contract that exchanged a net notional amount of Cdn. \$17,200 from floating to fixed rate of 5.25% from August 2008 until August 2012. Accordingly, for the year ended December 31, 2007, 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.

### a) 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.

	2007		2006	
	Interest sensitive \$	Non-interest sensitive \$	Interest sensitive \$	Non-interest sensitive \$
Cash and cash equivalents	2,336	-	854	-
Bank indebtedness	(5,989)	-	(6,752)	-
Long-term debt – term loan *	(12,610)	(29)	(8,480)	(160)
Long-term debt – acquisition facility *	(10,481)	-	(950)	-
Promissory notes *	-	(7,394)	-	(5,623)
Capital lease obligations *	-	(4)	-	(32)
	<u>(26,744)</u>	<u>(7,427)</u>	<u>(15,328)</u>	<u>(5,815)</u>

\* See note 7 for further details

A one percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

### b) 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.

### c) Foreign exchange risk

The Company operates internationally, which gives rise to the risk that results of operations and cash flows may be adversely impacted by exchange rate fluctuations. The Company does not use derivative instruments to manage this risk.

# **Opta Minerals Inc.**

## Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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(expressed in thousands of U.S. dollars)

### **Earnings per share**

Basic earnings per share is 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.

### **Other recently adopted accounting pronouncements**

On January 1, 2007, the Company also adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections 1530 “Comprehensive Income” and 3251 “Equity”.

CICA Section 1530 established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

CICA Section 3251 established standards for the presentation of equity and changes in equity during the period. Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders’ equity, and includes the foreign currency cumulative translation adjustment.

Upon transition to CICA Section 3251, Equity, the Company reclassified the cumulative translation adjustment to accumulated other comprehensive income for both periods presented on the consolidated balance sheet.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### **Recently issued accounting pronouncements**

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

- a) CICA Handbook Section 1535 “Capital Disclosures” establishes standards for disclosing information about a Company’s capital and how it is managed to enable users of the financial statements to evaluate the Company’s objectives, policies and procedures for managing capital. This section is effective for fiscal years beginning on or after October 1, 2007.
- b) CICA Handbook Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. This accounting standard is effective for fiscal years beginning on or after October 1, 2007.
- c) CICA Handbook Section 3863 “Financial Instruments – Presentation” establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation and is effective for fiscal years beginning on or after October 1, 2007.
- d) CICA Handbook Section 3031 “Inventories” provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and is effective for fiscal years beginning on or after January 1, 2008.
- e) International Financial Reporting Standards – 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 and reporting standards.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### 3 Business acquisitions

#### a) Acquisition of Newco, a.s.

On July 30, 2007, the Company acquired 100% of the outstanding common shares of Newco, a.s. (Newco) of Kosice, Slovakia. The total purchase price of \$15,942 was comprised as follows:

	\$
Cash and acquisition costs	9,376
Common shares (a)	3,344
Promissory note (b)	2,662
Other consideration (c)	<u>560</u>
Purchase price	<u>15,942</u>

- a) Common shares – 1,000,000 common shares with a value of \$3.34 (Cdn. \$3.55) per share were granted and placed into escrow. Trading restrictions were attached to the shares issued whereby the holders are not allowed to sell the shares for a 9 to 18 month period following the acquisition. The share consideration was net of Cdn. \$0.80 per share to account for the effect of the trading restriction on the fair value of the shares.
- b) Promissory note – the non-interest bearing promissory note in the amount of Slovak Koruna (“Skk”) 67,626,000 is due in full on or before February 29, 2008.
- c) Other consideration – the acquisition of Magnesium Technologies in 2006 included an acquired intangible assigned to a profit sharing agreement. This profit sharing agreement gave the Company the legal right to receive a set percentage of the net income of Newco and was terminated effective July 30, 2007 in conjunction with the acquisition. The fair value of the related intangible in the amount of \$560 was included as part of the purchase consideration.

Newco operates its production facility in Kosice, Slovakia producing and distributing its proprietary desulphurization and refractory products and provides customer specific technical service.

The results of Newco were consolidated with those of the Company effective July 30, 2007 and are included in the mill and foundry products and services segment.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. These fair values are based on management's estimates and are subject to change once final valuations and restructuring plans have been completed.

	\$
Net assets acquired	
Cash	3,062
Accounts receivable	1,254
Inventories	291
Prepaid expenses and other assets	2
Income tax recoverable	12
Property, plant and equipment	823
Intangible assets	13,544
Accounts payable and accrued liabilities	(356)
Future income taxes	(2,690)
	<u>15,942</u>

The acquired intangible assets in the amount of \$13,544 were assigned to customer relationships. The intangible assets acquired are subject to amortization and are not deductible for tax purposes.

### b) Acquisition of Magnesium Technologies Corporation

On February 15, 2006, the Company acquired the outstanding common shares of Magnesium Technologies Corporation of Richfield, Ohio and secured an option to acquire a controlling position in an affiliate of Magtech. The total purchase price of \$18,214 was comprised of \$12,000 in cash, a long-term promissory note to the vendor in the amount of \$6,000 and accrued acquisition costs in the amount of \$214. The results of Magtech were consolidated with those of the Company effective February 16, 2006.

Magtech operates its main production facility in Walkerton, Indiana and maintains a sales and head office in Richfield, Ohio. Magtech provides customer specific technical service with its primary customers through the use of on-site technicians who monitor and manage the use of its products in the desulphurization process.

Magtech maintains proprietary and patented desulphurization systems and products which are used to produce desulphurization products to the specific requirements of each customer that it services within both the Canadian and United States steel industries.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

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

	\$
Net assets acquired	
Accounts receivable	1,920
Inventories	1,510
Prepaid expenses and other assets	1,388
Property, plant and equipment	4,324
Intangible and other assets	18,504
Goodwill	1,130
Bank indebtedness	(790)
Accounts payable and accrued liabilities	(673)
Income taxes payable	(725)
Debt	(267)
Future income taxes	(8,107)
	<u>18,214</u>
Consideration	
Cash	12,000
Note payable	6,000
Accrued acquisition costs	214
	<u>18,214</u>

Of the \$18,504 of acquired intangible assets, \$16,357 was assigned to customer relationships and \$2,147 was assigned to a profit sharing agreements. The intangible assets acquired are subject to amortization.

The goodwill of \$1,130 was assigned to the mill and foundry products and services segment. Neither the goodwill nor the intangible assets assigned to customer relationships and profit sharing agreements are deductible for tax purposes.

### c) Acquisition of Bimac Corporation

On October 4, 2006, the Company acquired the outstanding common shares of Chemincon Inc. and its wholly-owned subsidiary, Bimac Corporation of Milan, Michigan. The total purchase price of \$6,207 was comprised of \$4,000 in cash, contingent consideration recorded in the amount of \$2,150 (see d) Additional consideration paid on prior acquisitions) and accrued acquisition costs in the amount of \$57. The results of Bimac were consolidated with those of the Company effective October 5, 2006.

Chemincon and Bimac's operations consist of a production facility in Milan, Michigan which produces and sells its proprietary tundish and ladle insulators, fluxes and conditioners. These products are used to prevent heat loss, reduce oxidization and remove impurities in hot metal prior to casting. The products are produced to the specific requirements of customers within both the Canadian and United States steel industries.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. These fair values are based on management's estimates and are subject to change once the final valuations and restructuring plans have been completed.

	\$
Net assets acquired	
Cash (net of bank indebtedness of \$310)	10
Accounts receivable	1,251
Inventories	589
Prepaid expenses and other current assets	96
Property, plant and equipment	2,424
Intangible and other assets	2,543
Goodwill	2,448
Accounts payable and accrued liabilities	(1,173)
Income taxes payable	(29)
Debt	(339)
Future income taxes	(1,613)
	<u>6,207</u>
Consideration	
Cash	4,000
Accrued acquisition costs	57
Contingent consideration	2,150
	<u>6,207</u>

The acquired value of intangible assets of \$2,543 was assigned to customer relationships which are subject to amortization.

The goodwill of \$2,448 was assigned to the mill and foundry products and services segment. Neither the goodwill nor the intangible assets assigned to customer relationships are deductible for tax purposes.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### d) 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, 2007, \$526 (2006 - \$nil) of contingent consideration was paid. Any future adjustments with respect to additional consideration will be recorded against goodwill.

On May 10, 2005, the Company acquired certain assets of an abrasive production plant in Attica, New York. Additional purchase consideration may be payable on occurrence of certain events. Given the uncertainty of the timing and amounts of such payments, no accrual has been recorded with respect to this contingent consideration, which could total approximately \$400. The Company will recognize additional consideration payable and goodwill when the amount and outcome of the contingency become determinable. During the year ended December 31, 2007, \$29 (2006 - \$35) of additional consideration has been recognized in conjunction with this transaction resulting in a cumulative total of \$152.

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 April 1, 2004 to June 30, 2009. During the year ended December 31, 2007, \$nil (2006 - \$17) of contingent consideration was paid resulting in a cumulative total of Cdn. \$56. Further payments under this agreement will be recorded as additional goodwill when the amount and outcome of the contingent consideration becomes determinable.

## 4 Inventories

	2007 \$	2006 \$
Raw materials	11,294	8,528
Finished goods	7,925	5,529
	<hr/> 19,219	<hr/> 14,057

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

### 5 Property, plant and equipment

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land	2,774	-	2,774
Buildings and leasehold improvements	7,942	1,718	6,224
Machinery and equipment	18,127	7,991	10,136
Office furniture and equipment	866	469	397
	<u>29,709</u>	<u>10,178</u>	<u>19,531</u>
			<b>2006</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land	2,467	-	2,467
Buildings and leasehold improvements	6,986	1,242	5,744
Machinery and equipment	14,822	5,742	9,080
Office furniture and equipment	1,445	1,121	324
	<u>25,720</u>	<u>8,105</u>	<u>17,615</u>

Included in machinery and equipment is an amount of \$830 (2006 - \$863) that represents construction in progress at year-end and is not yet being amortized.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

### 6 Intangible and other assets

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Customer relationships	33,576	1,936	31,640
Profit sharing agreements	1,088	136	952
Long-term supply contract	257	65	192
Patents	146	59	87
	<b>35,067</b>	<b>2,196</b>	<b>32,871</b>

	<b>2006</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Customer relationships	19,072	747	18,325
Profit sharing agreements	2,042	183	1,859
Long-term supply contract	257	40	217
Patents	146	27	119
Deferred finance costs	249	125	124
	<b>21,766</b>	<b>1,122</b>	<b>20,644</b>

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### 7 Long-term debt and banking facilities

Long-term debt consists of the following:

	2007 \$	2006 \$
Term loan payable with quarterly instalments of Cdn.\$312 plus interest (a)	12,610	-
Drawing on acquisition facility with quarterly instalments of Cdn. \$260 plus interest (c)	10,481	-
Term loan payable with quarterly instalments of Cdn. \$213 plus interest, payable monthly	-	6,146
Term loan payable with quarterly instalments of \$69 plus interest, payable monthly	-	2,334
Drawings on acquisition facility with quarterly instalments of \$50 plus interest, payable monthly	-	950
Promissory note payable with annual instalments of \$1,500 plus interest at 5.60%, payable annually	4,500	5,623
Non-interest bearing promissory note denominated in Skk due February 29, 2008	2,894	-
Term loan payable with monthly instalments of \$15 on account of principal and interest of 5.25%	29	160
Capital lease obligations due in monthly instalments of \$1 through 2008	4	32
	<hr/>	<hr/>
	30,518	15,245
Less: Current portion	7,314	2,496
	<hr/>	<hr/>
	23,204	12,749
	<hr/>	<hr/>

On July 31, 2007, the Company changed its credit agreement and banking facilities with another Canadian financial institution. In connection with the restructuring of its credit agreement, the Company incurred restructuring expenses in the amount of \$163 relating to legal and associated costs which is included in other financing costs on the consolidated statement of earnings.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

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 July 30, 2012 and is renewable at the option of the lender and the Company. The facility was drawn to assist in the refinancing of the indebtedness of the Company's previous credit agreement. Funds were drawn through both bankers' acceptances and direct advances. Interest on the bankers' acceptances was paid in advance and interest on the direct advances is payable monthly at 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.\$12,500. As at December 31, 2007, \$6,995 of this facility has been utilized, including letters of credit in the amount of \$1,006. 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**

The Company retains a Cdn.\$20,000 facility to finance future acquisitions and capital expenditures. The facility is subject to certain draw restrictions. During the third quarter of 2007, an amount of Cdn.\$10,390 was drawn to assist with the acquisition of Newco, a.s.. Principal is payable quarterly equal to 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 long-term debt detailed above requires minimum payments as follows:

	\$
2008	7,314
2009	3,809
2010	3,809
2011	2,309
2012	2,309
Thereafter	<u>10,968</u>
	<u>30,518</u>

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

### 8 Preference shares

	2007 \$	2006 \$
46,412 (2006 - 46,412) H preference shares	47	39
Less: Current portion of preference shares	47	39
	<u>-</u>	<u>-</u>

#### 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 (2006 - \$nil) H preference shares were redeemed by the Company.

### 9 Income taxes

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

	2007 \$	2006 \$
Current	2,534	1,806
Future	(1,072)	174
	<u>1,462</u>	<u>1,980</u>

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

	2007 %	2006 %
Canadian statutory income tax rates	35.6	36.1
Non-deductible stock compensation expense	1.2	1.1
Statutory rate differences in other jurisdictions	(8.1)	2.0
Manufacturing and processing credits	(1.5)	(1.5)
Change in enacted tax rates	1.4	1.1
Other	1.8	(2.9)
	<u>30.4</u>	<u>35.9</u>

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

---

(expressed in thousands of U.S. dollars)

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

	<b>2007</b>	<b>2006</b>
	\$	\$
Differences in property, plant and equipment basis	(2,144)	(2,318)
Differences in intangible assets basis	(10,581)	(8,449)
Differences in share issuance costs	272	362
Non-capital and capital loss carry-forwards	832	401
Other	366	89
	<hr/>	<hr/>
	(11,255)	(9,915)
Valuation allowance	-	(50)
	<hr/>	<hr/>
	(11,255)	(9,965)
	<hr/>	<hr/>
Future income tax assets – long-term	1,469	803
Future income tax liabilities – long-term	(12,724)	(10,768)
	<hr/>	<hr/>
	(11,255)	(9,965)
	<hr/>	<hr/>

As at December 31, 2007, the Company has recognized the tax benefit of available non-capital losses in the amount of \$832 (2006 - \$351) which, if not utilized, will expire between 2014 and 2027. 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, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### 10 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	\$
December 31, 2005	16,952,574	14,047
Employee stock purchase plan	11,965	35
<hr/>		
December 31, 2006	16,964,539	14,082
Issued (note 3)	1,000,000	3,344
Employee stock purchase plan	12,858	65
Common shares issued in exchange for options exercised	6,803	37
<hr/>		
December 31, 2007	17,984,200	17,528

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 2007, 12,858 (2006 – 11,965) common shares were purchased under the ESPP for proceeds of \$65 (2006 - \$35).

None of the warrants or compensation options issued as part of the Company’s initial public offering in fiscal 2005 were exercised on or before February 17, 2007 and have, as a result, expired.

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

	\$
Balance - December 31, 2005	1,043
Stock compensation expense (note 11)	170
<hr/>	
Balance – December 31, 2006	1,213
Stock compensation expense (note 11)	170
Stock options exercised	(19)
<hr/>	
Balance – December 31, 2007	1,364

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars, except per share amounts)

### 11 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:

<b>Date of grant</b>	<b>Options granted</b>	<b>Exercise price Cdn. \$</b>
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

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.

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. The exercise price of these options was greater than the market price at the date of grant.

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, \$170 (2006 - \$170) was recognized in stock-based compensation expense relating to vested options. 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, 2007, 10,500 (2006 - nil) 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:

<b>Assumptions</b>	
Expected dividend yield	Nil
Expected volatility	25%
Risk-free interest rate	3.22%
Expected option life	8.4 years

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars, except per share amounts)

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

	<b>Number of options</b>	<b>Weighted average exercise price Cdn. \$</b>
Outstanding options – December 31, 2005	340,000	3.82
Granted	215,000	3.20
Outstanding options – December 31, 2006	555,000	3.58
Granted	275,000	4.25
Exercised	(10,500)	3.72
Forfeited	(7,200)	4.05
Outstanding options – December 31, 2007	812,300	3.80
Exercisable options – December 31, 2007	298,592	3.67

Options exercised during the year includes a transaction whereby 4,500 stock options were exchanged for 803 common shares.

The weighted average remaining contractual life of options outstanding at December 31, 2007 is 6.7 years (2006 – 8.5 years).

## 12 Other financing costs

	<b>2007 \$</b>	<b>2006 \$</b>
Ineffectiveness of initial fair value of interest rate swap (note 2)	254	-
Costs associated with changing credit and banking facilities (note 7)	163	-
	417	-

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars, except per share amounts)

### 13 Transactions with related parties

The Company has transactions with its parent company on a regular basis. The following is a summary of transactions that occurred during the year:

	2007	2006
	\$	\$
Management and administrative services provided by SunOpta	48	19

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.

Recorded in accounts receivable are advances due from SunOpta in the amount of \$33 (2006 - \$34) which are due on demand and are non-interest bearing.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars, except per share amounts)

### 14 Earnings per share

Earnings 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 17,297,737 for the year ended December 31, 2007 (2006 - 16,957,639).

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

	<b>2007</b>		
	<b>Net earnings attributable to common shareholders \$</b>	<b>Weighted average number of shares</b>	<b>Per share amount \$</b>
Basic	3,348	17,297,737	0.19
Dilutive effect of stock options	-	172,700	-
	<b>3,348</b>	<b>17,470,437</b>	<b>0.19</b>
	<b>2006</b>		
	<b>Net earnings attributable to common shareholders \$</b>	<b>Weighted average number of shares</b>	<b>Per share amount \$</b>
Basic	3,541	16,957,639	0.21
Dilutive effect of stock options	-	3,017	-
	<b>3,541</b>	<b>16,960,656</b>	<b>0.21</b>

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

### 15 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; Richfield, Ohio; Milan, Michigan; Brantford, Ontario, Lachine, Quebec and Kosice, Slovakia.

#### 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; Keesville and Attica New York; Waterdown, Ontario; St. Bruno de Guigues, Quebec and distribution operations in St-Germain-de-Grantham, Quebec.

The prior year comparative amounts have been reclassified to conform to the current period's presentation. The production of certain steel and foundry products continued in the Waterdown facility until March 2006 before being transferred to the Brantford operations and have been included in the abrasive products manufacturing and distribution operations segment for the three months ended March 31, 2006 as the information to discretely segregate the Waterdown and Brantford segment net earnings before interest expense and income taxes for this operation is not available.

Furthermore, the previously reported St. Bruno de Guigues quarry operation segment has been eliminated as, subsequent to the prior year's acquisitions, the former segment's results no longer meet the criteria for separate disclosure. The results are now included in the abrasive products manufacturing and distribution operations.

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, 2007 and 2006

(expressed in thousands of U.S. dollars)

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

	<b>2007</b>			
	<b>Mill and foundry products and services \$</b>	<b>Abrasive products manufacturing and distribution operations \$</b>	<b>Unallocated \$</b>	<b>Total \$</b>
External revenue by market				
Canada	11,595	6,688	-	18,283
U.S.	36,771	16,867	-	53,638
Europe	3,125	-	-	3,125
Other	275	44	-	319
Total revenue from external customers	<u>51,766</u>	<u>23,599</u>	<u>-</u>	<u>75,365</u>
Segment earnings (loss) before interest expense and income taxes	5,428	3,139	(2,109)	6,458
Interest expense on long-term debt				1,213
Interest expense				435
Provision for income taxes				<u>1,462</u>
Net earnings for the year				<u>3,348</u>
Total assets as at December 31, 2007	<u>63,182</u>	<u>32,384</u>	<u>2,666</u>	<u>98,232</u>
Amortization of property, plant and equipment	<u>914</u>	<u>1,106</u>	<u>40</u>	<u>2,060</u>
Amortization of intangible assets	<u>1,334</u>	<u>47</u>	<u>-</u>	<u>1,381</u>
Goodwill and intangible assets as at December 31, 2007	<u>36,149</u>	<u>7,328</u>	<u>-</u>	<u>43,477</u>
Expenditures on property, plant and equipment	<u>579</u>	<u>1,241</u>	<u>14</u>	<u>1,834</u>

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 two customers (2006 – one customer) that individually exceeds 10% of the Company's revenue.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

	<b>2006</b>			
	<b>Mill and foundry products and services \$</b>	<b>Abrasive products manufacturing and distribution operations \$</b>	<b>Unallocated \$</b>	<b>Total \$</b>
External revenue by market				
Canada	11,013	8,440	-	19,453
U.S.	27,897	16,095	-	43,992
Europe	645	-	-	645
Other	186	37	-	223
Total revenue from external customers	<u>39,741</u>	<u>24,572</u>	<u>-</u>	<u>64,313</u>
Segment earnings before interest expense and income taxes	5,072	4,105	(2,136)	7,041
Interest expense on long-term debt				1,063
Interest expense				457
Provision for income taxes				<u>1,980</u>
Net earnings for the year				<u>3,541</u>
Total assets at December 31, 2006	<u>40,521</u>	<u>32,421</u>	<u>1,051</u>	<u>73,993</u>
Amortization of property, plant and equipment	<u>534</u>	<u>1,204</u>	<u>3</u>	<u>1,741</u>
Amortization of intangible assets	<u>871</u>	<u>54</u>	<u>-</u>	<u>925</u>
Goodwill and intangible assets as at December 31, 2006	<u>23,768</u>	<u>6,921</u>	<u>-</u>	<u>30,689</u>
Expenditures on property, plant and equipment	<u>701</u>	<u>604</u>	<u>99</u>	<u>1,404</u>

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

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements December 31, 2007 and 2006

(expressed in thousands of U.S. dollars)

### Geographic segments

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

				<b>2007</b>
	<b>Canada</b>	<b>U.S.</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Property, plant and equipment	8,863	9,888	780	19,531
Goodwill and intangible assets	2,840	26,430	14,207	43,477
Total assets	30,450	50,785	16,997	98,232

				<b>2006</b>
	<b>Canada</b>	<b>U.S.</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Property, plant and equipment	7,085	10,530	-	17,615
Goodwill and intangible assets	2,438	28,251	-	30,689
Total assets	27,400	46,593	-	73,993

### 16 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.

# Opta Minerals Inc.

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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(expressed in thousands of U.S. dollars)

- c) The Company has the following outstanding letters of credit:
- i) An irrevocable letter of credit for \$743 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.
  - ii) An irrevocable letter of credit for \$217 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 \$46 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:

	\$
2008	1,511
2009	1,158
2010	920
2011	788
2012	244
Thereafter	461
	<hr/>
	5,082
	<hr/>

### 17 Comparative amounts

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

**CEO Certification**

**Form 52-109F1 - Certification of Annual Filings**

I, David Kruse, Chief Executive Officer of Opta Minerals Inc. certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of Opta Minerals Inc. for the period ending December 31, 2007;
2. Based on my knowledge, 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, with respect to the period covered by the annual filings;
3. Based on my knowledge, 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 and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared; and
  - (b) designed such internal control over financial reporting, 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; and
  - (c) evaluated the effectiveness of the issuers disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation.
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: February 29, 2008

"David Kruse"

David Kruse  
President, and Chief Executive Officer

**CFO Certification**

**Form 52-109F1 - Certification of Annual Filings**

I, James Wilson, Chief Executive Officer of Opta Minerals Inc. certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of Opta Minerals Inc. for the period ending December 31, 2007;
2. Based on my knowledge, 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, with respect to the period covered by the annual filings;
3. Based on my knowledge, 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 and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared; and
  - (b) designed such internal control over financial reporting, 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; and
  - (c) evaluated the effectiveness of the issuers disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation.
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: February 29, 2008

"James Wilson"

James Wilson  
Chief Financial Officer

## Glossary

### **Capitalization**

Market price per common share (December 31, 2007 - \$4.89) multiplied by total number of outstanding shares (December 31, 2007 – 17,984,200).

### **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 year divided by earnings before interest, income taxes, stock compensation expense and amortization.

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

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

## 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>(2)</sup>

Co-founder and Chairman of Avanti Properties  
Group

**Antonio Tavares**<sup>(1)</sup>

Chief Executive Officer of Maple Lodge Farms Inc.

**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 Ugucioni**

Vice President and General Manager of the  
Magnesium Technology Group

**James Wilson**

Chief Financial Officer & Secretary

### 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).

## **Shareholders and Corporate Information**

### **Home Office**

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

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

**David Kruse**  
President and Chief Executive  
Officer

**James Wilson**  
Chief Financial Officer and Secretary

### **Annual General Meeting**

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

Date: Monday May 12, 2008  
Time: 9:00 am EDT  
(Toronto time)

### **Exchange Listings**

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

### **Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants

### **Bankers**

Scotiabank  
TowneBank  
Wells Fargo

### **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)

### **Analyst Coverage**

**Blackmont Capital**  
Analyst: Avi Dalfen

**Lowen, Ondaatje, McCutcheon Ltd.**



# 2007 Annual Report

**Opta Minerals Inc.**

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