



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2009

Financial Highlights

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

	For the three months ended December 31		For the year ended December 31	
	2009	2008	2009	2008
	\$	\$	\$	\$
Consolidated				
Revenue	16,716	17,365	62,526	93,423
Gross profit	3,484	(98)	13,081	18,427
Selling, general and administrative expenses	2,067	2,443	9,106	10,997
EBITDA ¹	2,011	(1,532)	6,190	9,550
EBIT ²	962	(2,495)	(4,859)	5,601
Provision for (recovery of) income taxes	6	(799)	(242)	1,034
Net earnings (loss) for the period	616	(2,224)	(6,205)	2,478
Tangible Net Worth ³			9,760	8,364
Per Share				
Earnings (loss) (basic and fully diluted)	\$0.04	(\$0.12)	(\$0.34)	\$0.14
Cash generated from (used in) operations	\$0.16	\$0.12	\$0.59	\$0.11
Cash generated from (used in) operating activities ⁴	\$0.09	(\$0.12)	\$0.17	\$0.29
Shareholders' equity			\$2.12	\$2.52
Number of shares outstanding – weighted average (dilutive)	18,020,213	17,998,697	18,013,670	18,007,880
Number of shares outstanding – period end	18,023,193	18,003,459	18,023,193	18,003,459
Ratios⁵				
Debt to Equity			0.70:1	0.72:1
Current Ratio			1.74:1	1.80:1
Return on Assets			(6.6)%	2.5%
Return on Equity			(14.9)%	5.7%

¹ 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.

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

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

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

⁵ Formulas for Ratios can be found in the Glossary to this Report.

Management's Discussion and Analysis

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Introduction

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

We, us, our, Company and Opta

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

Review and approval by the Board of Directors

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

Other important company documents

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

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

These documents are available on SEDAR’s web site at www.sedar.com.

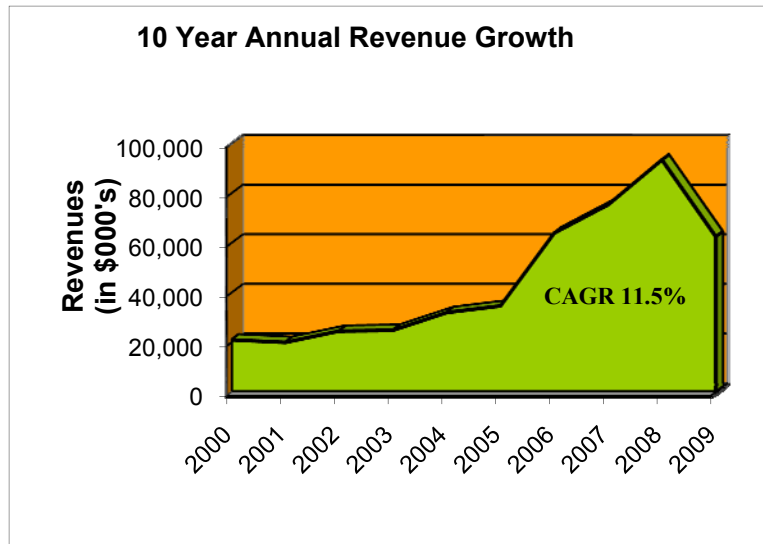
Forward Looking Statements

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

1. Our Company

1.1. Overview of the Business

Opta Minerals Inc. (TSX: OPM) is a vertically integrated provider of custom process optimization solutions and related materials for use primarily in the steel, foundry, loose abrasive cleaning and municipal water filtration industries. Until 2009, the Company experienced solid growth through a combination of internal growth and successfully integrated strategic acquisitions to become one of the leading regional suppliers of industrial minerals and silica-free loose abrasives in a number of select markets in North America and Europe. Notwithstanding the decline in business activities during 2009, this growth is evidenced by the Company's Compound Annual Revenue Growth Rate¹ ("CAGR") of 11.5% for the 10 year period ended December 31, 2009.



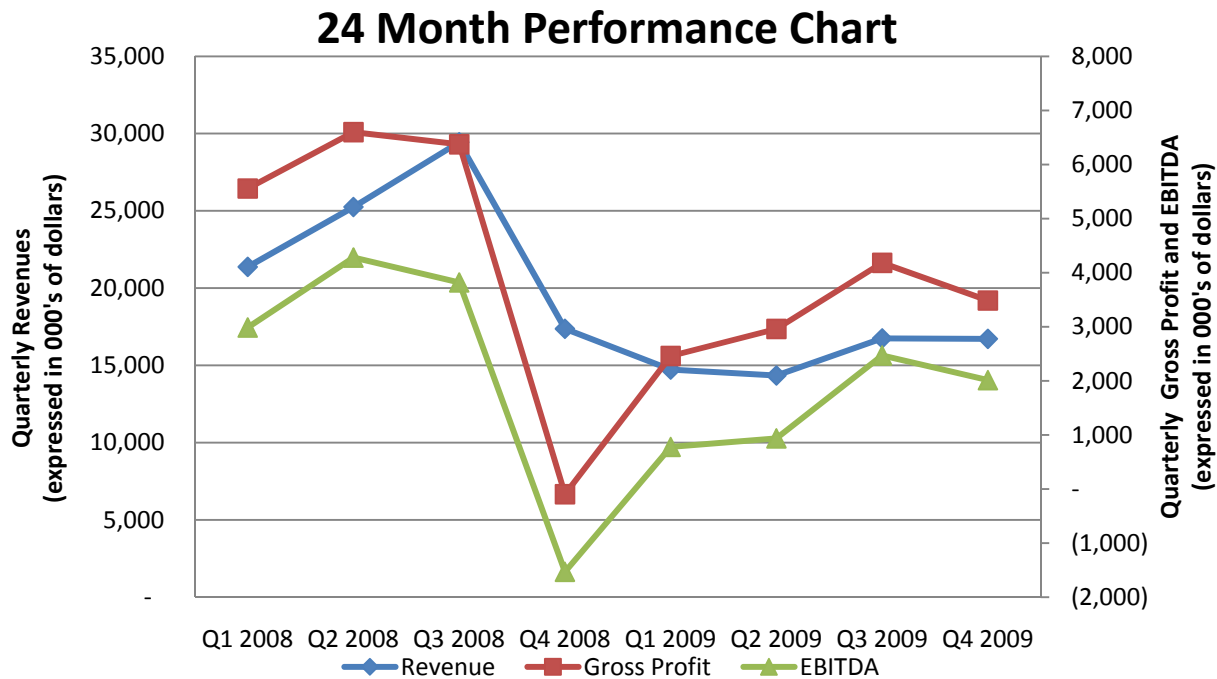
The Company currently has offices, production and distribution facilities in Ontario, Quebec, Louisiana, South Carolina, Virginia, Maryland, Michigan, Indiana, New York, Texas, Florida, Slovakia and France and one of the broadest product lines in the industry. Recognizing that the fragmentation and lack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

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

2. How we performed

2.1. Performance Highlights and Outlook

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



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

Other significant events for the year are as follows:

New Facilities in Freeport, Texas and Tampa Bay, Florida

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

Restructuring and Cost Saving Measures

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

Consolidation of the Operations in Quebec

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

Goodwill Impairment Charge

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

Non-controlling Interest of MCP Mg-Serbien SAS

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

Attica New York Sale of Assets

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

2.2. Selected Financial Data

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

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

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

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

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

Quarterly Results of Operations

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

	<u>Quarters Ended</u>							
	<u>Dec 31,</u> <u>2009</u>	<u>Sept 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>	<u>Mar 31,</u> <u>2009</u>	<u>Dec 31,</u> <u>2008</u>	<u>Sept 30,</u> <u>2008</u>	<u>June 30,</u> <u>2008</u>	<u>Mar 31,</u> <u>2008</u>
	(unaudited - expressed in thousands of dollars)							
Revenue	\$16,716	\$16,745	\$14,339	\$14,726	\$17,365	\$29,440	\$25,248	\$21,370
EBITDA¹	2,011	2,467	935	777	(1,532)	3,818	4,278	2,986
Net earnings (loss) for the period	616	(6,416)	(79)	(326)	(2,224)	1,673	1,930	1,099
Basic and diluted earnings (loss) per share	\$0.04	(\$0.36)	\$0.00	(\$0.02)	(\$0.12)	\$0.09	\$0.11	\$0.06

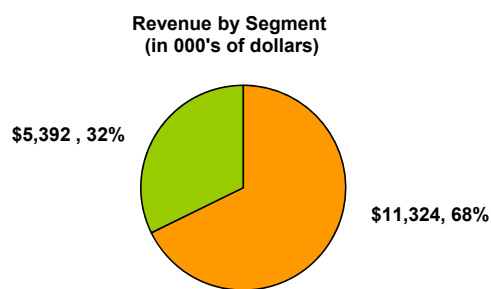
¹ EBITDA is a Non GAAP measure used by management to measure performance. Please see section 8 of this report for a discussion on the calculation of EBITDA.

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

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

Company Wide Revenues

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



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

Performance by Segment

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

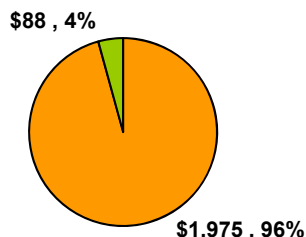
Revenues within the abrasive products manufacturing and distribution operations segment increased 16.0% from \$4,649,000 for the three months ended December 31, 2008 to \$5,392,000 during the same period in 2009 as a result of increased demand for abrasive slag.

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

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

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

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



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

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

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

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

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

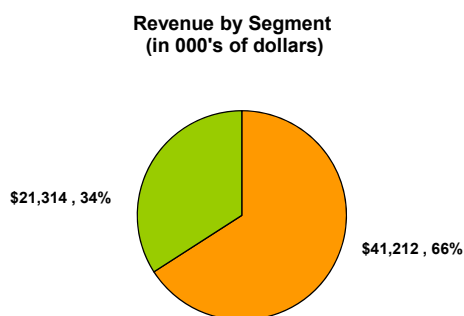
The Company's revenues decreased 33.1% for the year ended December 31, 2009 from \$93,423,000 for the twelve months ended December 31, 2008 to \$62,526,000 in 2009. The following is an analysis of Company Wide Revenues and Performance by Segment.

Company Wide Revenues

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

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

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



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

Performance by Segment

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

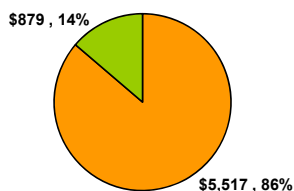
Revenues within the abrasive products manufacturing and distribution operations segment also decreased from \$22,319,000 for the year ended December 31, 2008 to \$21,314,000 during the same period in 2009.

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

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

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

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



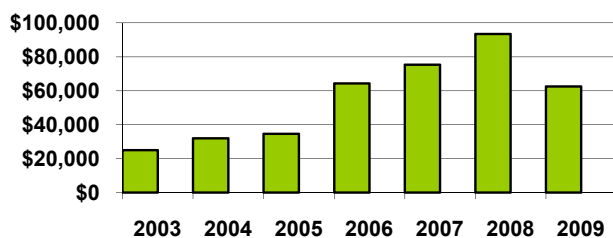
- Mill and foundry products and services
- Abrasive products manufacturing and distribution operations

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

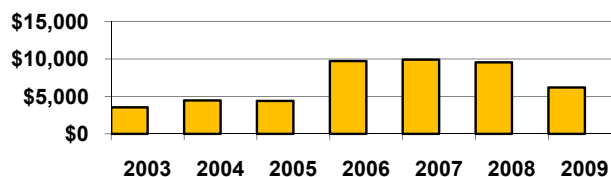
Other income and expenses for the year ended December 31, 2009 in the amount of \$237,000 is comprised of \$353,000 in restructuring severance costs, \$44,000 in lease termination costs related to the consolidation of the operations in Quebec and \$48,000 in costs related to the disposal of assets held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

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

Consolidated Revenue
(in 000's of dollars)



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



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

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

3. Capital Structure and Financing

3.1. Capital Structure

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

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

We ended the year 2009 with:

- \$781,000 of cash and cash equivalents;
- \$3,355,000 of bank indebtedness;
- 19.2% of our long-term debt due in the next 12 months;
- Long-term debt and bank indebtedness at 135% of total capitalization¹;

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

Capital Structure (% of total structure)

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

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

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

Equity

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

Shares outstanding

Common Shares

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

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

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

Long term debt and bank indebtedness

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

3.2. Funding Program

Funding requirements

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

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

Summary of Cash flows

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

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

Operating activities and working capital

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

Investing Activities

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

Financing Activities

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

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

Operating activities and working capital

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

Investing Activities

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

Financing Activities

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

3.5. Financial Ratios

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

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

(1) Long-term debt includes current portion.

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

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

3.6. Funding Costs

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

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

4. Contractual Obligations and Commitments

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

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

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

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

5. Transactions with Related Parties

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

a) Long-term debt

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

b) Additional consideration paid on prior acquisitions

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

6. Risks and Uncertainties

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

7. Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

Accounts Receivable

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

Inventory

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

Goodwill

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

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

Intangible Assets

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

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

Income Taxes

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

8. Non-GAAP Measures

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

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

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

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

Notes:

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

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

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

9. Derivative Instruments

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

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

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

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

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

11. International Financial Reporting Standards (IFRS)

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

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

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

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

12. Internal Control over Financial Reporting

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

13. Additional Information

Additional information relating to the Company, including its Annual Information Form, is filed on SEDAR, available for review at www.sedar.com.

Glossary

Capitalization

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

Cash generated from Operations

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

Current Ratio

Current assets divided by current liabilities

Debt to Equity

Total debt divided by shareholders' equity

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

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

Earnings before interest and income taxes (EBIT)

Earnings before deducting interest expense and provision for income taxes.

Interest coverage Ratio

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

Long term debt and bank indebtedness to capitalization ratio

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

Return on Assets

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

Return on Equity

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