



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THREE MONTHS ENDED MARCH 31, 2009

## Financial Highlights

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

	<b>For the three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>		
Revenue	14,726	21,370
Gross profit	2,458	5,555
Selling, general and administrative expenses	2,266	2,908
EBITDA <sup>1</sup>	777	2,986
EBIT <sup>2</sup> (loss)	(211)	2,003
Provision for (recovery of) income taxes	(309)	338
Net earnings (loss) for the period	(326)	1,099
Tangible Net Worth <sup>3</sup>	\$8,007	\$9,708
<b>Per Share</b>		
Earnings (loss) (basic and fully diluted)	(0.02)	0.06
Cash generated from operations	0.15	0.25
Cash generated from (used in) operating activities <sup>4</sup>	(0.01)	0.10
Shareholders' equity	2.44	2.45
Number of shares outstanding – weighted average (dilutive)	18,004,987	18,014,734
Number of shares outstanding – period end	18,008,095	17,988,029
<b>Ratios<sup>5</sup></b>		
Debt to Equity	0.68:1	0.74:1
Current Ratio	1.77:1	2.23:1
Return on Assets	1.0%	5.4%
Return on Equity	2.4%	11.7%

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

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

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

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

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

# Management's Discussion and Analysis

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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 months ended March 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 May 4, 2009. This MD&A includes Opta’s operating and financial results for the three months ended March 31, 2009 and 2008 and should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2008, and interim Financial Statements for the three months ended March 31, 2009 appearing on SEDAR’s website at [www.sedar.com](http://www.sedar.com).

### **Other important company documents**

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

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

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

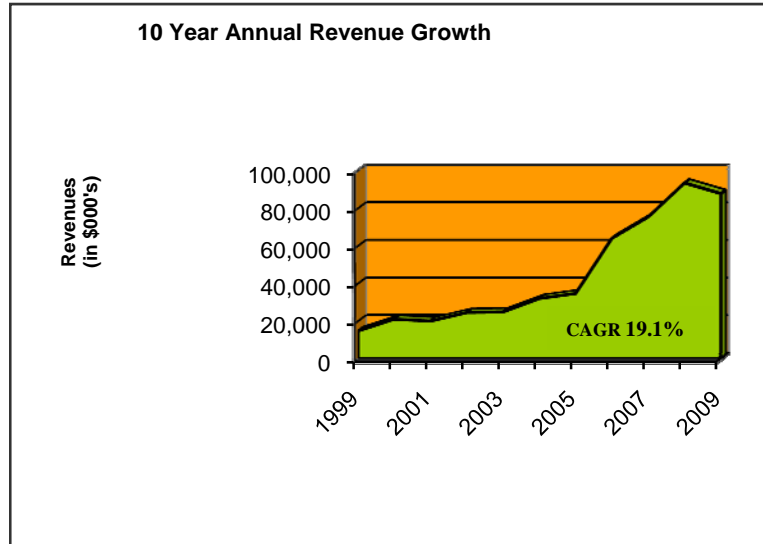
### **Forward Looking Statements**

Certain information included herein may contain “forward-looking statements” which reflect the current expectations of management of the Company regarding the Company’s future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as “may”, “would”, “could”, “should”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “aim”, “endeavour”, “seek”, “predict”, “potential” and similar expressions have been used to identify these forward-looking statements. These statements reflect management’s current beliefs with respect to future events and are based on information currently available to management of the Company. Forward-looking statements involve significant risks, uncertainties and assumptions. Many factors could cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, cancellations of or the failure to renew purchase orders; production and delivery issues; quality, pricing and availability of raw materials; compliance with environmental regulations; exchange rate fluctuations as well as 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 interim 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.

## 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. 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 and Europe. This growth is evidenced by the Company's Compound Annual Revenue Growth Rate<sup>1</sup> ("CAGR") of 19.1% for the 10 year period ended March 31, 2009.



The Company currently has offices, production and distribution facilities in Ontario, Quebec, Louisiana, South Carolina, Virginia, Maryland, Ohio, 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.

## 2. How we performed

### 2.1. Performance Highlights and Significant Events & Developments

During the 3 months ended March 31, 2009, and up to the date of this report, the Company had the following performance highlights and significant events:

- Revenues from operations declined 31% for the three months ended March 31, 2009, from \$21,370,000 in 2008 to \$14,726,000, while gross profit declined 56% from \$5,555,000 in 2008 to \$2,458,000 in 2009. These results are substantially due to a dramatic slowdown in industrial activity that occurred in the first quarter of 2009 versus the three months ended March 31, 2008.
- Positive cash flows from operations of \$2,733,000 versus \$4,585,000 for the three months ended March 31, 2008.
- On January 29, 2009, substantially all of the 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 arrangement. This transaction generated a gain on disposal of \$212,000, while for the year ended December 31, 2008, the operation generated a loss before tax expense of \$345,000.

<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.

## 2.2. Selected Quarterly Data

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

(expressed in thousands of dollars, except gross margin percentage)	<b>For the three months ended March 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
	<b>(unaudited)</b>	
<b>Income Statement Data</b>		
<b>Revenue</b>	\$	\$
Mill and foundry products and services	10,595	16,262
Abrasive products manufacturing and distribution operations	<u>4,131</u>	<u>5,108</u>
<b>Total revenue</b>	<b>14,726</b>	<b>21,370</b>
<b>Gross profit</b>	<b>2,458</b>	<b>5,555</b>
Gross margin %	16.7	26.0
Selling, general and administrative expenses	<u>2,266</u>	<u>2,908</u>
<b>Earnings before the following:</b>	<b>192</b>	<b>2,647</b>
Interest expense (net)	424	566
Amortization of intangible assets	437	428
Stock compensation expense	70	57
Other (income) expenses	(171)	-
Foreign exchange loss	<u>199</u>	<u>159</u>
<b>Earnings before income taxes and non-controlling interests</b>	<b>(767)</b>	<b>1,437</b>
Provision for income taxes	<u>(309)</u>	<u>338</u>
<b>Net earnings (loss) before non-controlling interests</b>	<b>(458)</b>	<b>1,099</b>
Non-controlling interests share of net earnings (loss)	<u>(132)</u>	-
<b>Net Earnings (loss)</b>	<b>(326)</b>	<b>1,099</b>

<b>Selected Quarterly Data – Continued</b>	<b>For the three months ended March 31</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
	<b>(unaudited)</b>	
Basic net (loss) earnings per share	\$(0.02)	\$0.06
Diluted net earnings per share	\$(0.02)	\$0.06
Weighted average shares used in computing basic net earnings per share calculation	<u>18,004,987</u>	<u>17,985,504</u>
Weighted average shares used in computing diluted net earnings per share calculation	<u>18,004,987</u>	<u>18,014,734</u>

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

	As at		
	<u>March 31,</u>	<u>December 31,</u>	<u>March 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	\$	\$	\$
Cash and cash equivalents	1,374	1,377	3,904
Working capital	13,466	15,832	17,636
Total assets	95,167	101,246	97,364
Bank indebtedness and long-term debt (including current portion)	29,773	32,488	32,736
Shareholders' equity excluding non controlling interests	43,944	45,293	44,150

**Quarterly Results of Operations**

The following table sets out selected financial information for each of the eight most recent quarters ended March 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, 2008 and 2007.

	Quarters Ended							
	<u>Mar. 31,</u>	<u>Dec. 31</u>	<u>Sept 30,</u>	<u>June 30,</u>	<u>Mar 31,</u>	<u>Dec. 31,</u>	<u>Sept 30,</u>	<u>June 30,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>
	(unaudited - expressed in thousands of dollars)							
<b>Revenue</b>	\$14,726	\$17,365	\$29,440	\$25,248	\$21,370	\$20,028	\$20,485	\$18,390
<b>EBITDA<sup>1</sup> (loss)</b>	777	(1,532)	3,818	4,278	2,986	1,883	3,016	2,796
<b>Net earnings (loss) for the period</b>	(326)	(2,224)	1,673	1,930	1,099	235	1,258	1,150
<b>Basic and diluted earnings (loss) per share</b>	(\$0.02)	(\$0.12)	\$0.09	\$0.11	\$0.06	\$0.01	\$0.07	\$0.07

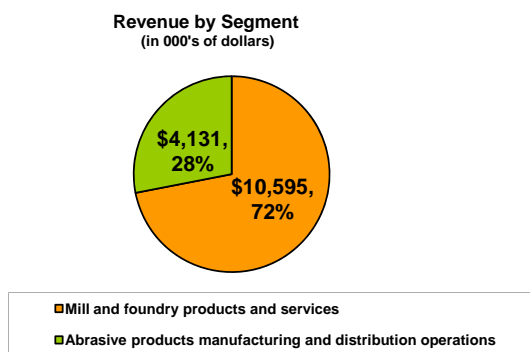
<sup>1</sup> EBITDA is a non GAAP measure used by management to measure performance. Please see section 8 of this report for a discussion on the calculation of EBITDA.

### **2.3. Three Months Ended March 31, 2009 compared to three months ended March 31, 2008**

The Company's revenues decreased 31.1% for the three months ended March 31, 2009 from \$21,370,000 for the three months ended March 31, 2008 to \$14,726,000. Approximately \$715,000 of the current period's revenues related to the acquisition of MCP Mg-Serbien SAS ("MCP") of Romans, France that occurred in the third quarter of 2008, which was offset by the impact of the slowdown in the steel industry and abrasive industries experienced in the first quarter of 2009.

#### *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 \$3,865,000 in the first three months of 2009, a decrease of 5.27% from sales of \$4,080,000 for the three months ended March 31, 2008. The decrease is primarily driven by decreased sales of steel grit, steel shot and abrasive products made from metallurgical slags, offset by approximately a \$246,000 increase in specialty abrasives and garnet. Company wide sales of steel mill and foundry products and services were \$10,000,000 during the first three months of 2009, a decrease of 37.2% from first quarter 2008 sales of \$15,931,000. 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 three months ended March 31, 2009 and 2008 relates to sales of other industrial minerals, products and services. Other products and services decreased 36.6% from \$1,358,000 for the three months ended March 31, 2008 to \$861,000 for the same period ended March 31, 2009.



#### *Performance by Segment*

Revenues within the mill and foundry products and services segment decreased by \$5,667,000 or 34.8% for the three months ended March 31, 2009 to \$10,595,000 as compared to \$16,262,000 for the same period in 2008. The results for the companies acquired in 2008 are included in this segment. Excluding the results of these acquisitions, segment revenues from legacy

operations decreased by 39.2% in the first quarter of 2009 compared to the three months ended March 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 quarter.

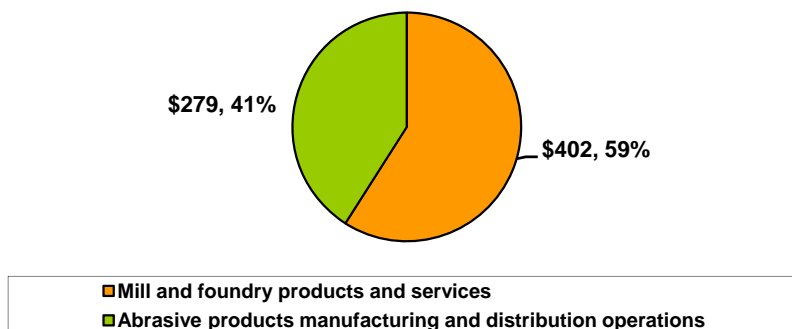
Revenues within the abrasive products manufacturing and distribution operations segment also decreased from \$5,108,000 for the three months ended March 31, 2008 to \$4,131,000 during the same period in 2009.

Gross profit decreased by \$3,097,000 to \$2,458,000 or 16.7% of revenues for the three months ended March 31, 2009, compared to \$5,555,000 or 26.0% of sales for the same period in 2008. For the three months ended March 31, 2009 gross profits at the Company's mill and foundry products and services segment decreased by \$2,481,000 from \$4,474,000 or 27.5% of revenues in 2008 to a gross margin of \$1,993,000 or 18.8% of revenues in 2009. The quarter'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 profits within the Company's abrasive products manufacturing and distribution operations segment decreased by \$738,000 from

\$1,197,000 or 23.4% of revenue in 2008 to \$459,000 or 11.1% of sales in 2009. The decrease is primarily due to lower sales volumes at the company's southern U.S. abrasive facilities.

Selling, general and administrative expenses decreased \$642,000, from \$2,908,000 or 13.6% of revenues for the first 3 months of 2008 to \$2,266,000 or 15.4% of revenues in 2008. Approximately \$175,000 relates to costs incurred by MCP acquired in the third quarter of 2008. Excluding MCP, the decrease of \$817,000 relates to lower professional fees incurred as well as reduced employee costs resulting from cost reductions measures put in place by management during the quarter.

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

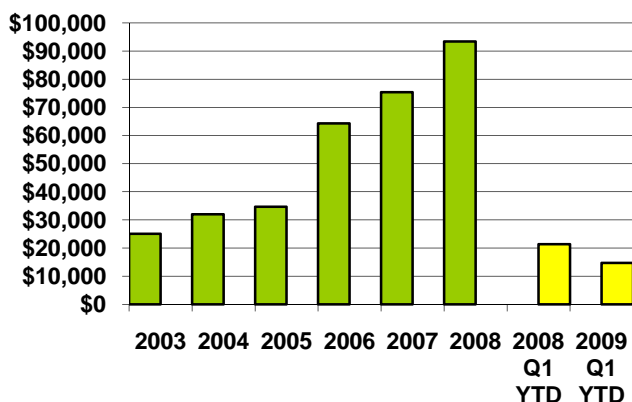


Earnings (loss) before income taxes, interest, depreciation and amortization ("EBITDA")<sup>1</sup> for the three months ended March 31, 2009 was \$777,000 versus \$2,986,000 for the three months ended March 31, 2008. EBITDA for the mill and foundry products and services segment decreased by \$2,676,000 to \$402,000 for the first three months of 2009 when compared to the

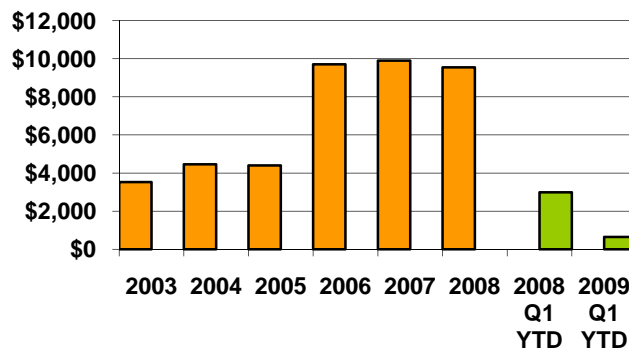
same period in 2008. The abrasive products manufacturing and distribution operations segment had EBITDA of \$279,000 for the three months ended March 31, 2009 compared to \$1,003,000 for the same period in 2008.

The effective income tax rate for the three months ended March 31, 2009 was 40.3% compared to 23.5% for the comparable period in 2008. The change in rate is substantially due to a greater percentage of profits being generated in the United States where the tax rate is higher.

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



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



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

Net loss for the three months ended March 31, 2009 was \$326,000 or \$0.02 per diluted common share as compared to net earnings of \$1,099,000 or \$0.06 per diluted common share for the same period in 2008.

### 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.

We ended the March 31, 2009 quarter with:

- \$1,374,000 of cash and cash equivalents;
- \$6,972,000 of bank indebtedness;
- 18.0% of our long-term debt due in the next 12 months;
- Long-term debt and bank indebtedness at 160% of total capitalization<sup>1</sup>;
- \$9,577,000 in available credit facilities; and
- The flexibility to access capital markets to raise capital for projects.

For the period ended March 31, 2009, 2008 and December 31, 2008 our capital structure was as follows:

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

	<b>Year Ended December 31,</b>		
	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Shareholders' Equity	49.5%	48.6%	48.3%
Non-controlling interest	Nil	-	-
Bank indebtedness	7.9%	8.3%	6.0%
Long-term debt	25.7%	26.4%	29.8%
Future income taxes	3.1%	3.0%	3.0%
Future income taxes on intangible assets <sup>(1)</sup>	10.6%	10.4%	11.1%
Other long-term liabilities	3.2%	3.3%	1.8%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) As at March 31, 2009, approximately \$9,380,000 (March 31, 2008 - \$10,146,000, 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.

#### Equity

The book value of Common Shares at March 31, 2009 was \$2.44 per share compared to \$2.52 at December 31, 2008 and \$2.45 at March 31, 2008.

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

## Shares outstanding

### Common Shares

	Period Ended March 31,	
	2009	2008
Shares outstanding at the beginning of the period	18,003,459	17,984,200
Shares issued under plans <sup>(1)</sup>	4,636	3,829
<b>Shares outstanding at end of the period</b>	<b>18,008,095</b>	<b>17,988,029</b>

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

The common shares outstanding as at May 2, 2009 are 18,008,095.

### Long term debt and bank indebtedness

As at March 31, 2009, the Company had \$29,773,000 in long-term debt and bank indebtedness owing to third parties versus \$32,488,000 at December 31, 2008. At March 31, 2009, Opta's financing agreements with the Bank of Nova Scotia includes a Cdn \$15,000,000 revolving term operating facility, a Cdn \$20,000,000 revolving term acquisition facility, an equipment lease facility for Cdn \$2,500,000, 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 \$889,000.

### 3.2. 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. For the three months ended March 31, 2009, the primary sources of funding were:

- \$1,377,000 cash on hand at the beginning of 2009;
- \$733,000 from increasing total long-term debt;
- \$7,000 from the issuance of common shares under the employee share purchase plan; and
- \$13,466,000 in working capital.

#### Summary of Cash flows

(expressed in thousands of dollars)

	For the Three Months Ended March 31	
	2009	2008
<b>Net cash provided by (used in):</b>	(unaudited)	
	\$	\$
Operating activities	2,733	4,585
Investing activities	(920)	(108)
Financing activities	(1,780)	(2,963)
Foreign exchange (loss) gain on cash held in foreign currency	(36)	54

### **3.3. Three months ending March 31, 2009 compared to the three months ending March 31, 2008**

#### *Operating activities and working capital*

Cash generated by operating activities for the three months ended March 31, 2009 was \$2,733,000 compared to \$4,585,000 generated for the same period in 2008. Positive cash flows for the quarter were primarily due to a loss from operations offset by a release of working capital, particularly inventory and accounts receivable that occurred in the first quarter of 2009 as the Company realigned its purchasing patterns to adjust for the sales volume declines experienced.

#### *Investing Activities*

Cash used in investing activities was \$920,000 for the three months ended March 31, 2009 as compared to \$108,000 in the comparable period in 2008. Substantially all of the investments pertain to capital expenditures incurred during the quarter for new operations in Tampa Florida and Freeport Texas. 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 \$1,780,000 for the three months ended March 31, 2009. The most significant financing transactions recorded in the period pertains to repayment of \$1,500,000 of a promissory note and accrued interest due to former shareholders of Magnesium Technologies Corp. and principle repayments on existing credit facilities.

### **3.4. Financial Ratios**

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

	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Ratio of long term debt and bank indebtedness to Equity	0.68:1	0.72:1	0.74:1
Ratio of long term debt <sup>(1)</sup> and bank indebtedness to total capitalization	1.60:1	0.96:1	0.54:1
Ratio of current assets to current liabilities	1.77:1	1.80:1	2.07:1
Interest coverage <sup>(2)</sup>	2.6 times	3.5 times	4.6 times
Tangible Net Worth <sup>(3)</sup>	\$8,007,000	\$8,364,000	\$9,708,000

(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.

### 3.5. 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.

Interest expense	For the three months ended March 31,	
	2009	2008
Interest expense pertaining to long term debt	\$267,000	\$388,000
Interest expense pertaining to bank indebtedness	157,000	178,000
<b>Effective blended cost of debt</b>	<b>5.0%</b>	<b>5.7%</b>

### 4. Contractual Obligations and Commitments

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

<u>Contractual Obligations</u>	Payments Due by Period						
	Total	2009	2010	2011	2012	2013	Thereafter
Accounts payable and accrued liabilities	\$6,414	\$6,414	\$-	\$-	\$-	\$-	\$-
Long term debt	22,801	4,105	2,576	2,576	2,560	2,355	8,630
Preferred shares	37	37	-	-	-	-	-
Operating leases	6,645	1,564	1,503	1,362	919	812	485
<b>Total contractual obligations</b>	<b>\$35,897</b>	<b>\$12,120</b>	<b>\$4,079</b>	<b>\$3,938</b>	<b>\$3,479</b>	<b>\$3,167</b>	<b>\$9,115</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 \$1,110,000 has been recognized as other long term liabilities based upon management's estimate of contingent consideration likely to be paid.

### 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 March 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) Other long-term liabilities

Included in other short term and long-term liabilities as of March 31, 2009 is an amount of \$1,110,000 (December 31, 2008 - \$1,110,000) representing the estimated contingent consideration pursuant to the acquisition of Bimac Inc. The 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.

## **6. Risks and Uncertainties**

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

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

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

We periodically review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures are accurate and informative relative to the current economic and business environment. As part of this process, we have reviewed our selection, application and communication of critical accounting policies and financial disclosures. We note that we have determined that our critical accounting policies relating to our core ongoing business are primarily those disclosed below. Other important accounting policies are described in note 2 of our annual consolidated financial statements as at December 31, 2008 and 2007 and for the years then ended as well as our interim consolidated financial statements for the three months ended March 31, 2009.

### ***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 determined that no such impairment existed as at December 31, 2008 and will analyze goodwill on an ongoing basis as the economic environment changes.

### ***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

### ***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.

## 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		
	Mar. 31, 2009	Dec. 31, 2008	Sept 30, 2008	June 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007	Mar. 31, 2009	Mar. 31, 2008
	(expressed in thousands of dollars)							(expressed in thousands of dollars)		
<b>Net earnings (loss) for the period</b>	<b>(326)</b>	<b>(2,224)</b>	<b>\$1,673</b>	<b>\$1,930</b>	<b>\$1,099</b>	<b>\$235</b>	<b>\$1,258</b>	<b>\$1,150</b>	<b>1,053</b>	<b>3,742</b>
Interest expense	424	528	501	494	566	495	398	384	1,947	1,843
Provision (recovery) for income taxes	(309)	(799)	642	853	338	118	443	514	387	1,413
Depreciation	551	550	561	564	555	589	568	466	2,226	2,178
Amortization of intangible assets	437	413	441	437	428	447	349	282	1,729	1,505
<b>EBITDA (loss)<sup>(1)</sup></b>	<b>777</b>	<b>(1,532)</b>	<b>3,818</b>	<b>4,278</b>	<b>2,986</b>	<b>1,884</b>	<b>3,016</b>	<b>2,796</b>	<b>7,342</b>	<b>10,681</b>
Depreciation and amortization of intangible assets	988	963	1,003	1,001	983	1,036	917	748	3,955	3,683
<b>EBIT (loss)<sup>(2)</sup></b>	<b>(211)</b>	<b>(2,495)</b>	<b>2,816</b>	<b>3,277</b>	<b>2,003</b>	<b>848</b>	<b>2,099</b>	<b>2,048</b>	<b>3,387</b>	<b>6,998</b>

Notes:

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

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

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

percentage revenue growth rate, where n is the number of years in the period being considered.

## **9. Derivative Instruments**

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

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

If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any realized or unrealized gain or loss on the derivative instrument. In accounting for this cash flow hedge, changes in fair value of this swap is included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. For all cash flow hedges, to the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Our credit exposure to hedges and other derivatives is the current replacement value of any contracts that are in a gain position. As at March 31, 2009, our exposure from interest rate swap contracts was a loss net of income tax equal to \$1,242,000.

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

We have disclosed these matters in note 3 of the consolidated financial statements.

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

No changes were made in our internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **12. 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).

## **Glossary**

### **Capitalization**

Market price per common share (March 31, 2009 – Cdn. \$1.30) multiplied by total number of outstanding shares of 18,008,095 (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 income for the 12 month period divided by the average total assets

### **Return on Equity**

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