



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007

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Financial Highlights

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

	For the three months ended June 30,		For the six months ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Consolidated				
Revenue	18,390	18,414	34,853	31,498
Gross profit	4,435	4,612	8,500	7,423
Selling, general and administrative expenses	2,203	2,049	4,434	3,664
EBITDA ¹	2,796	3,243	5,000	4,654
EBIT ²	2,048	2,578	3,511	3,524
Provision for income taxes	514	729	901	983
Net earnings for the period	1,150	1,445	1,855	1,846
Per Share				
Earnings (basic and fully diluted)	0.07	0.09	0.11	0.11
Cash generated from operations ³	0.09	0.13	0.17	0.19
Cash generated from (used in) operating activities	0.02	0.12	0.01	0.23
Shareholders' equity	2.14	1.92	2.14	1.92
Number of shares outstanding – weighted average	16,971,752	16,955,763	16,968,730	16,955,638
Number of shares outstanding – period end	16,976,627	16,957,392	16,976,627	16,957,392
Ratios⁴				
Debt to Equity			0.69 : 1.00	0.72 : 1.00
Current Ratio			1.70 : 1.00	1.85 : 1.00
Return on Assets			4.9%	4.4%
Return on Equity			10.3%	7.9%

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

⁴ Formulas for Ratios can be found in the Glossary to this Interim Report.

President's Message **Driving Growth**

The Company is pleased to report second quarter revenues and profits for the three and six months ended June 30, 2007. Some of the highlights for the period include:

- Second Quarter revenues of \$18,390,000, consistent with 2006 results for the same period of \$18,414,000.
- Net earnings of \$1,150,000 or \$0.07 per diluted common share, a \$295,000 decrease from the results for the three months ended June 30, 2006.

Opta Minerals performed well in light of a number of market related challenges in the second quarter of 2007. Year to date revenues from operations were \$34.9 million, and remain 11% higher than the first six months results in 2006, while EBITDA has grown 7% from \$4.7 million in the first six months of 2006 to \$5.0 million in 2007. A significant portion of this growth pertains to a full six months results being included in consolidated earnings for companies acquired in 2006 being partially offset by revenue weakness in the Company's Canadian abrasive and foundry products markets and lower sales volumes to several of the Company's significant U.S. based desulfurization products customers. We remain committed to a blended approach to Company growth that includes both acquisition and organic sources. We are now beginning to see results from the expansions of our existing steel and abrasive business during the quarter and expect to realize on this investment during the remainder of 2007.

During the quarter we commenced commercial production at the Company's new facility in Laval, Quebec. These assets were acquired during the first quarter and are located in a 39,000 square foot facility under lease. The assets are ideally suited to produce abrasive media for blasting purposes, as well as garnet for abrasive, waterjet and water filtration applications. The plant began commercial production in early May, and the Company expects 2007 revenues from operations to be over \$0.6 million with continued strong internal growth in the following years.

In March, the Company announced two significant developments with respect to its magnesium desulfurization business. First, Opta received a two year order with a global integrated steel manufacturer to supply desulfurization products. Production commenced during the second quarter and revenues from this order are expected to exceed \$8.4 million over the term of the agreement. Second, the Company announced an expansion of its Waterdown facility to include the production of magnesium desulfurization products. The Company began commercial production and shipment of product to U.S. and Canadian integrated steel mill facilities late in the second quarter. The Company continues to expect annual revenues from this expansion of \$3.9 million with strong internal growth in future years.

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

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

Sincerely,

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

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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 six months ended June 30, 2007 and 2006, prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in U.S. dollars unless otherwise indicated.

Change in Reporting Currency

For the June 30, 2007 interim report, the Company converted to reporting its results in U.S. dollars as approximately 70% of the Company's revenues are generated from operations based in the United States of America.

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 August 14, 2007. This MD&A includes Opta's operating and financial results for the three and six months ended June 30, 2007 and 2006 and should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2006 appearing on SEDAR's website at www.sedar.com.

Other important Company documents

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

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

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

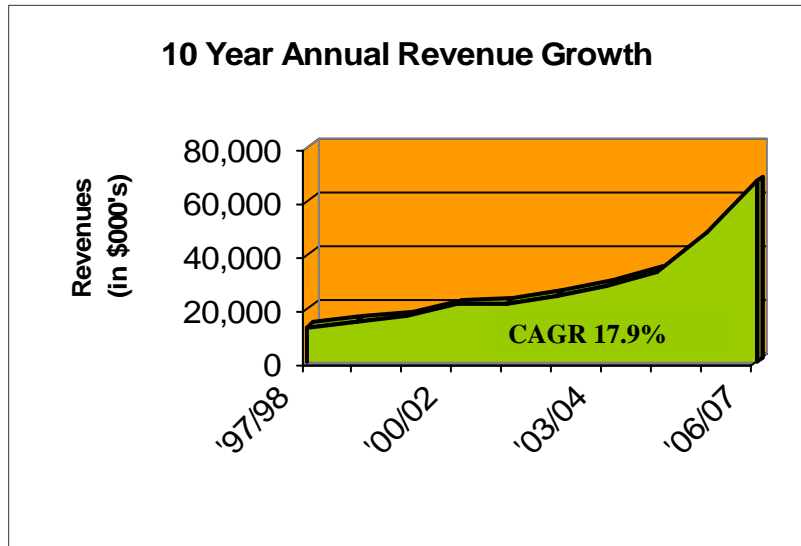
Forward Looking Statements

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

1. Our Company

1.1. Overview of the Business

Opta Minerals Inc. (TSX: OPM) is a vertically integrated producer, manufacturer, distributor and recycler of industrial minerals, silica-free loose abrasives, and specialty sands and related products for use primarily in the steel, foundry, loose abrasive cleaning, roof shingle granules and municipal water filtration industries. The Company has experienced solid growth since 1996, 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 on the east coast of North America. This growth is evidenced by the Company's Compound Annual Revenue Growth Rate¹ ("CAGR") of 17.9% for the 10 year period Ended June 30, 2007.



The Company currently has production and distribution facilities in Ontario, Quebec, Louisiana, South Carolina, Virginia, Maryland, Ohio, Michigan, Indiana and New York and one of the broadest product lines in the industry. Recognizing that the fragmentation and lack of consolidation among suppliers in its industry has provided it with a strategic growth opportunity, the Company intends to capitalize on this opportunity to become one of the leading North American suppliers of industrial minerals and silica-free loose abrasives. In order to achieve this objective, the Company intends to accelerate its revenue and market share growth over the next several years by making a number of additional strategic acquisitions, through geographic expansion and through continued development of new products and services.

¹ CAGR is a Non GAAP Measure used by management in assessing the performance of the Company. Please see section 7 of this report for a description of the calculation of the Company's CAGR.

1. How we performed

1.2. Performance Highlights and Significant Events

During the six months ended June 30, 2007, the Company had the following performance highlights and significant events:

- Year to date net earnings of \$1,855,000 consistent 2006 net earnings of 1,846,000 for the same period, and a 7% increase in earnings before interest, income taxes, depreciation and amortization¹ (“EBITDA⁽¹⁾”).
- Commencement of commercial production at the Company’s new facility in Laval Quebec. During the first quarter, the Company acquired the production assets of an industrial minerals processing facility in Laval, Quebec. Located in a 39,000 square foot facility under lease, these assets are ideally suited to produce abrasive media for blasting purposes, as well as garnet for abrasive, waterjet and water filtration applications. The plant began commercial production in early May, and the Company expects 2007 revenues from operations to be over \$0.6 million with continued strong internal growth in the following years.
- Expansion of the magnesium desulfurization business. In March, the Company announced two significant developments with respect to its magnesium desulfurization business. First, Opta received a two year order with a global integrated steel manufacturer to supply desulfurization products. Production commenced during the second quarter and revenues from this order are expected to exceed U.S. \$8.4 million over the term of the agreement. Second, the Company announced an expansion of its Waterdown facility to include the production of magnesium desulfurization products. The Company began commercial production and shipment of product to U.S. and Canadian integrated steel mill facilities late in the second quarter. The Company continues to expect annual revenues from this expansion of \$3.9 million with strong internal growth in future years.

¹ EBITDA is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBITDA.

1.3. Selected Quarterly Data

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

(expressed in thousands of U.S. dollars, except gross margin percentage)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	<u>2007</u> (unaudited)	<u>2006</u> (unaudited)	<u>2007</u> (unaudited)	<u>2006</u> (unaudited)
Income Statement Data				
Revenue				
Mill and foundry products and services	12,059	11,588	23,605	18,070
Abrasive products manufacturing and distribution operations	<u>6,331</u>	<u>6,826</u>	<u>11,248</u>	<u>13,428</u>
Total revenue	18,390	18,414	34,853	31,498
Gross profit	4,435	4,612	8,500	7,423
Gross margin %	24.1	25.0	24.4	23.6
Selling, general and administrative expenses	<u>2,203</u>	<u>2,049</u>	<u>4,434</u>	<u>3,664</u>
Earnings before the following:	2,232	2,563	4,066	3,759
Interest expense (net)	384	404	755	695
Amortization of intangible assets	282	233	586	363
Stock compensation expense	35	28	69	73
Foreign exchange gain	<u>(133)</u>	<u>(276)</u>	<u>(100)</u>	<u>(201)</u>
Earnings before income taxes	1,664	2,174	2,756	2,829
Provision for income taxes	<u>514</u>	<u>729</u>	<u>901</u>	<u>983</u>
Net earnings for the period	<u>1,150</u>	<u>1,445</u>	<u>1,855</u>	<u>1,846</u>

Selected and Quarterly Data – Continued	For the Three Months Ended June 30		For the Six Months Ended June 30	
	<u>2007</u> (unaudited)	<u>2006</u> (unaudited)	<u>2007</u> (unaudited)	<u>2006</u> (unaudited)
Basic net earnings per share	\$0.07	\$0.09	\$0.11	\$0.11
Diluted net earnings per share	\$0.07	\$0.09	\$0.11	\$0.11
Weighted average shares used in computing basic net earnings per share calculation	<u>16,971,752</u>	<u>16,955,763</u>	<u>16,968,730</u>	<u>16,954,586</u>
Weighted average shares used in computing diluted net earnings per share calculation	<u>17,169,288</u>	<u>16,956,001</u>	<u>17,135,662</u>	<u>16,955,638</u>

Balance Sheet Data (unaudited)
(expressed in thousands of U.S. dollars)

	<u>As at</u>		
	<u>June 30,</u> <u>2007</u>	<u>December</u> <u>31 2006</u>	<u>June 30,</u> <u>2006</u>
Cash and cash equivalents	415	854	1,813
Working capital	11,393	10,584	11,615
Total assets	77,393	73,993	67,863
Bank indebtedness and long-term debt (including current portion)	24,147	21,997	21,821
Shareholders' equity	36,314	34,148	32,621

Quarterly Results of Operations

The following table sets out selected financial information for each of the eight most recent quarters ended June 30, 2007. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements for the years ended December 31, 2006 and 2005. Only normal recurring adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results.

	<u>Quarters Ended</u>							
	<u>June 30,</u> <u>2007</u>	<u>Mar 31,</u> <u>2007</u>	<u>Dec. 31,</u> <u>2006</u>	<u>Sept 30,</u> <u>2006</u>	<u>June 30,</u> <u>2006</u>	<u>Mar 31,</u> <u>2006</u>	<u>Dec 31,</u> <u>2005</u>	<u>Sept 30,</u> <u>2005</u>
	(unaudited - expressed in thousands of U.S. dollars)							
Revenue	18,390	16,463	16,072	16,743	18,414	13,084	8,562	8,520
EBITDA¹	2,796	2,204	2,308	2,745	3,243	1,411	703	1,137
Net earnings for the period	1,150	705	664	1,031	1,445	401	117	455

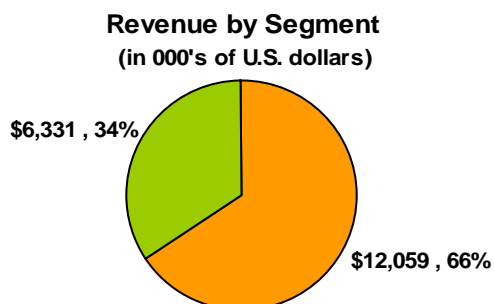
¹ EBITDA is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBITDA.

1.4. Three Months ended June 30, 2007 compared to three months ended June 30, 2006

The Company's revenues remained consistent for the three months ended June 30, 2007 at \$18,390,000 in the comparable period in 2006 to \$18,414,000. Strong performances at the Company's U.S. based abrasive facilities, sales to new steel mill customers, along with a full three months of operating results from Bimac, Inc. that was acquired in 2006 were offset by lower than expected sales of foundry products and sand in Ontario and Quebec, and a lower demand for products at several of the Company's existing steel mill customers in the U.S.

Company Wide Revenues

One of the Company's strengths is its geographic reach as a result of having multiple production and distribution facilities in Canada and the U.S.. 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 and roofing granules were \$5,009,000, a decrease of 1.0% over second quarter 2006 sales of \$5,058,000. A substantial portion of this decrease was from our facilities in Waterdown and St-Germain-de-Grantham, offset by an increase in revenues at the Company's U.S. based abrasive operations. Demand for products produced at the Waterdown facility vary greatly between periods depending on construction activity. While revenues at the St-Germain-de-Grantham operations have declined by approximately \$372,000, earnings from operations have only decreased by \$16,000 as management has rationalized operations and implemented several profit improvement projects over the period that have yielded a year to date increase in profitability of \$25,000. Company wide sales of steel mill and foundry products and services for the three months ended June 30, 2007 were \$12,051,000, an increase of 1.7% over 2006 sales of \$11,847,000. The slight increase relates to the acquisition of Bimac in 2006, as well as sales to new iron desulfurization customers being partially offset by a decrease in sales of foundry products in Ontario and Quebec, as well as lower demand for desulfurization products from several U.S. integrated steel mills. Excluding results from Bimac acquired in 2006, Company wide sales of foundry and steel mill products and services declined 13.8%. The remaining variance in revenues between the 3 month periods ended June 30, 2007 and 2006 relates to sales of other industrial minerals, products and services. Other products and services provided company wide decreased 13.5% from \$1,509,000 in the second quarter of 2006 to \$1,330,000 in the comparable period in 2007.



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

Performance by Segment

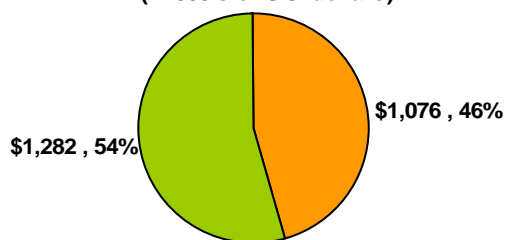
Revenues within the mill and foundry products and services segment increased by \$471,000 or 4.1% to \$12,059,000 compared to \$11,588,000. The results reflect three months of results or approximately \$1,835,000 for Bimac that was acquired in the fourth quarter of 2006 offset by a decline in sales volumes to U.S. steel mills from our Rossborough group, and lower sales volumes to foundry customers in Quebec.

Revenues within the abrasive products manufacturing and distribution operations segment decreased \$495,000 or 7.3% to \$6,331,000 in the second quarter of 2007 versus \$6,826,000 in the comparable period in 2006. Revenues from U.S. abrasive operations increased by approximately \$660,000 due to both increases in the price and volume of material sold. Revenues from Canadian operations decreased \$1,155,000 for the three months ended June 30, 2007 as compared to 2006. Demand for products produced at the Waterdown and Temisca facilities were lower than expected as a result of lower construction activity during the current period. While revenues at the St-Germain-de-Grantham operations have declined by approximately \$372,000, earnings from operations have only decreased by \$16,000 as management has

rationalized operations and implemented several profit improvement projects over the period that have yielded a year to date increase in profitability of \$28,000.

Gross profit decreased by \$177,000 to \$4,435,000 or 24.1% of revenues for the three months ended June 30, 2007 compared to \$4,612,000 or 25.0% of sales for the same period in 2006. For the quarter ended June 30, 2007 gross profits at the Company's mill and foundry products and services segment decreased by \$139,000 from \$2,885,000 or 24.9% of revenues in 2006 to \$2,746,000 or 22.7% of revenues in the comparable period in 2007. The change is primarily due to the inclusion of the results from Bimac acquired in the fourth quarter of 2006 which contributed \$583,000 to gross profit offset by declines in sales volumes to Canadian foundry and U.S. steel mill customers. Gross profits within the Company's abrasive products manufacturing and distribution operations segment decreased by \$37,000 from \$1,726,000 or 25.3% of sales in the first three months of 2006 to \$1,689,000 or 26.7% of sales in 2007. The decrease is due to lower than expected demand for products produced at the Waterdown and Temisca facilities as a result of lower construction activity during the current period, a decrease in gross profits from the St-Germain-de-Grantham operations in line with managements restructuring plan for this facility as described above, offset by increases in gross profits from the Company's U.S. based abrasive operations. Gross margin percentage within the abrasive products manufacturing and distribution operations segment increased in the second quarter of 2007 as compared to 2006 due to price increases implemented by management, along with certain margin improvement projects underway within abrasive operations.

Earnings before interest and income taxes ("EBIT")²
(in 000's of U.S. dollars)



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

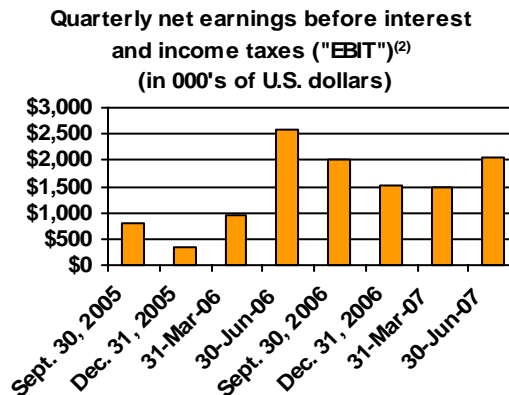
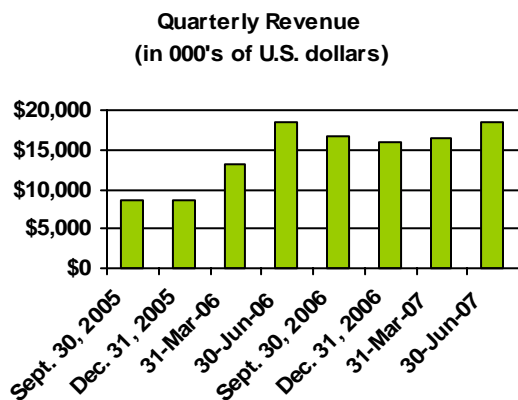
Selling, general and administrative expenses increased \$154,000, from \$2,049,000 or 11.1% of revenues for the three months ended June 30 2006 to \$2,203,000 or 12.0% of revenues in the comparable period in 2007. Approximately \$206,000 in additional SG&A was incurred as a result of the Bimac acquisition that occurred in the fourth quarter of 2006.

Earnings before income taxes, interest, depreciation and amortization ("EBITDA")¹ for the three months ended June 30, 2007

was \$2,796,000 down 13.8% as compared to \$3,243,000 for the quarter ended June 30, 2006. The most significant components of these variances, other than the decrease in gross profit and increase in SG&A previously discussed, relates to a decrease in foreign exchange gains recognized in the current quarter versus the three months ended June 30, 2006. In the second quarter of 2006, the Company converted several U.S. dollar denominated debts into Canadian dollars at an advantageous exchange rate. The transaction resulted in a one time gain on foreign exchange of \$140,000.

¹ EBITDA is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBITDA.

² EBIT is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBIT.



The effective income tax rate for the quarter ended June 30, 2007 was 30.9% compared to 33.5% for the comparable period in 2006.

Net earnings for the three months ended June 30, 2007 were \$1,150,000 or \$0.07 per diluted common share, compared to \$1,445,000 or \$0.09 per diluted common share for the same period in 2006.

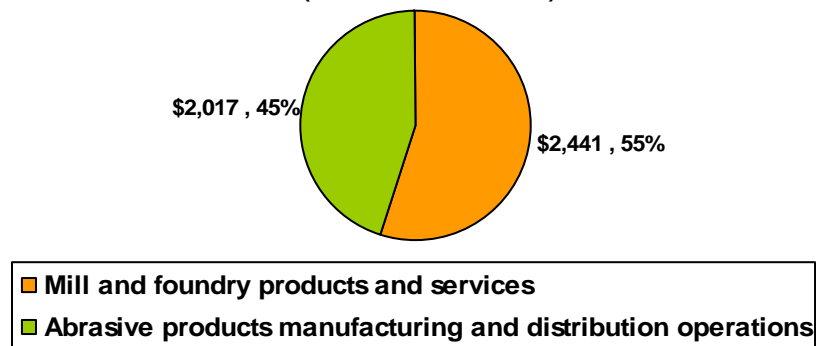
1.5. Six Months ended June 30, 2007 compared to six months ended June 30, 2006

The Company's revenues increased 10.7% for the six months ended June 30, 2007 from \$31,498,000 in the comparable period in 2006 to \$34,853,000. The increase in revenues was driven by a strong performances at the Company's U.S based abrasive facilities, along with a full six months of operating results from Magnesium Technologies Corporation, and Bimac Incorporated that were acquired in 2006. Partially offsetting these results are lower than expected sales of foundry products, abrasives and sand in Ontario and Quebec, and a lower demand for products from several U.S. integrated steel customers.

Company Wide Revenues

Company wide sales of abrasive products and roofing granules were \$9,080,000, a decrease of 6.4% over sales of \$9,705,000 for the six months ended June 30, 2007. A substantial portion of this decrease was from our facilities in Waterdown and St-Germain-de-Grantham, offset by an increase in revenues at the Company's U.S. based abrasive

Earnings before interest and income taxes ("EBIT")²
(in 000's of U.S. dollars)



operations. Demand for products produced at the Waterdown facilities was slower than prior year due to lower construction activity requiring abrasive blasting in Canada and in the Northern U.S. states. Revenues from the St-Germain-de Grantham operation have declined by approximately \$576,000, however earnings from operation have increased by \$28,000 as management has rationalized operations and implemented several profit improvement projects over the period. Company wide sales of steel mill and foundry products and

² EBIT is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBIT.

services for the six months ended June 30, 2007 were \$23,069,000, an increase of 21.05% over 2006 sales of \$19,062,000. A significant portion of this increase relates to the acquisitions of Bimac and Magtech during 2006. Excluding results from Companies acquired in 2006, Company wide sales of foundry and steel mill products and services declined 20.7% due in large part to a decline in volume of products sold to the Ontario and Quebec foundry industry. The remaining variance in revenues between the six months ended June 30, 2007 and 2006 relates to sales of other industrial minerals, products and services. Other products and services provided company wide decreased 1% from \$2,731,000 in 2006 to \$2,704,000 for the six months ended June 30, 2006.

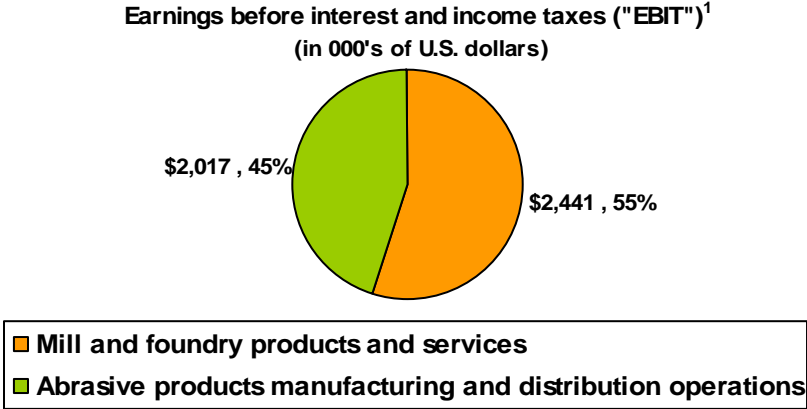
Performance by Segment

Revenues within the Mill and foundry products and services segment increased by \$5,535,000 or 30.6% to \$23,605,000 compared to \$18,070,000. The results for both of the companies acquired in 2006 are included in this segment. In addition, approximately \$854,000 of the increase pertained to steel and foundry products & services that were included in the abrasive products manufacturing and distribution segment in 2006 prior to the relocation of these products and services to the Brantford facility which is included in the mill and foundry products and services segment. Excluding the results of these acquisitions and the reallocation of products between segments, segment revenues from legacy operations decreased 12.9%. The decline is primarily due to a decrease in demand for foundry and silica products in Ontario and Quebec, and a decrease in demand for desulfurization products from U.S. integrated steel mill customers.

Revenues within the abrasive products manufacturing and distribution operations segment decreased \$2,180,000 or 16.2% to \$11,248,000 in the first six months of 2007 versus \$13,428,000 in the comparable period in 2006. Approximately \$854,000 of the variance in segment results pertains to revenues of steel mill and foundry products that were transferred to the Company’s Brantford facility during 2006 and included in the mill and foundry products and services segment. Excluding this, revenues for the segment decreased by approximately \$1,326,000 primarily as a result of a decrease in demand for abrasive materials at the Company’s Waterdown and St-Germain-de-Grantham along with lower demand for construction sands from the Company’s Temisca facilities. Demand for products produced at the Waterdown facility varies greatly between periods depending on construction activity. While revenues at the St-Germain-de-Grantham operations have declined by approximately \$576,000, earnings from operations have increased by \$28,000 as management has rationalized operations and implemented several profit improvement projects over the period.

Gross profit increased by \$1,077,000 to \$8,500,000 or 24.4% of revenues for the six months ended June 30, 2007 compared to \$7,423,000 or 23.6% of sales for the same period in 2006. For the six months ended June 30, 2007, gross profits at the Company’s mill and foundry products and services segment increased by \$1,365,000 from \$4,331,000 or 24.0% of revenues in 2006 to \$5,696,000 or 24.1% of revenues in the comparable period in 2007. The increase is primarily due to the results from the companies acquired in 2006 as well as the transfer of certain foundry products from

the Company’s Waterdown facility (reported in the abrasive products manufacturing and distribution segment) to its Brantford facility (reported in the Company’s mill and foundry products and services segment), offset by lower demand for foundry and sand products in Ontario and Quebec, and lower demand for desulfurization products from U.S. integrated steel mill customers. Gross profits within the Company’s abrasive products manufacturing and distribution operations segment

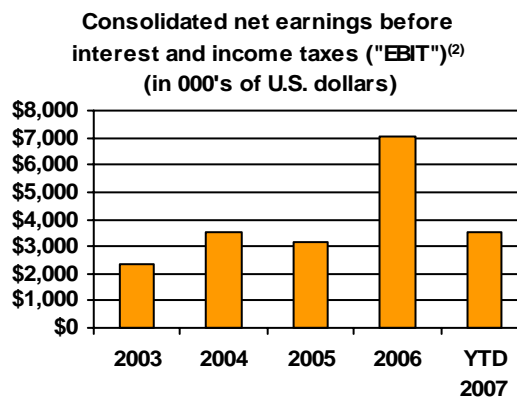
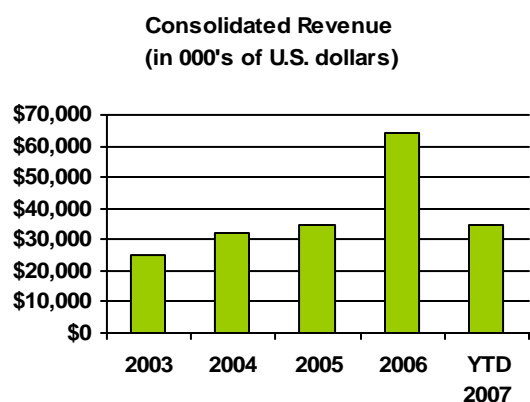


¹ EBIT is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBIT.

decreased by \$288,000 from \$3,092,000 or 23.0% of sales in the first six months of 2006 to \$2,804,000 or 24.9% of sales in 2007. The decrease is due to the transfer of certain foundry products from the Company's Waterdown facility (reported in the abrasive products manufacturing and distribution segment) to its Brantford facility (reported in the Company's mill and foundry products and services segment), along with lower sales volume during the period at the Waterdown and Temisca and St-Germain-de-Grantham facilities. Gross profits from the Company's U.S. based abrasive operations increased \$286,000 over the comparable period last year. Gross margin percentage within the abrasive products manufacturing and distribution operations segment increased due to price increases implemented by management in January 2007, along with improved plant utilization and certain margin improvement projects underway within abrasive operations.

Selling, general and administrative expenses for the six months ended June 30, 2007 increased \$770,000, from \$3,664,000 or 11.6% of revenues in 2006 to \$4,434,000 or 12.7% of revenues in the comparable period in 2007. Approximately \$839,000 in additional SG&A was incurred as a result of the acquisitions that occurred in 2006.

Earnings before income taxes, interest, depreciation and amortization ("EBITDA")¹ for the six months ended June 30, 2007 was \$5,000,000 up 7.4% as compared to \$4,654,000 for the six months ended June 30, 2006. The most significant components of these variances other than the increase in gross profit and SG&A previously discussed relates to a decrease in foreign exchange gains recognized in the current year versus the six months ended June 30, 2006. In the second quarter of 2006, the Company converted several U.S. dollar denominated debts into Canadian dollars at an advantageous exchange rate. The transaction resulted in a one time gain on foreign exchange of \$140,000.



The effective income tax rate for the six months ended June 30, 2007 was 32.7% compared to 34.7% for the comparable period in 2006.

Net earnings for the six months ended June 30, 2007 were \$1,855,000 or \$0.11 per diluted common share, compared to \$1,846,000 or \$0.11 per diluted common share for the same period in 2006.

¹ EBITDA is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBITDA.

² EBIT is a non GAAP measure used by management to measure performance. Please see section 7 of this report for a discussion on the calculation of EBIT.

2. Capital Structure and Financing

2.1. 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 second quarter in 2007 in a strong financial position, with:

- \$415,000 of cash and cash equivalents;
- \$8,446,000 of short-term debt (bank indebtedness);
- 21.3% of our long-term debt due in the next 12 months;
- long-term debt at 16% of total capitalization;
- \$5,000,000 in available cash and credit facilities; and
- the flexibility to access capital markets to raise capital for acquisitions or projects.

As at June 30, 2007, December 31, 2006, and June 30, 2006 our capital structure was as follows:

Capital Structure (% of total structure)

	June 30, 2007	December 31 2006	June 30, 2006
Shareholders' Equity	49.8%	49.4%	51.5%
Bank indebtedness	11.6%	9.8%	10.0%
Long term debt	21.5%	22.1%	24.5%
Future income taxes ⁽¹⁾	14.1%	15.6%	14.0%
Other long-term liabilities ⁽²⁾	3.0%	3.1%	0.0%
	100%	100%	100%

(1) Approximately \$7,756,000 of the \$10,274,000 future tax liability reported at June 30, 2007 relates to intangibles acquired as part of the Bimac and Magtech acquisitions. Despite the fact that these intangibles are not deductible for U.S. tax purposes, Canadian generally accepted accounting principles require a future tax liability to be established for any finite life intangibles acquired.

(2) Pursuant to the Bimac purchase agreement, additional consideration not to exceed U.S. \$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 \$2,150,000 has been recognized as contingent consideration based upon management's estimates and any future adjustments with respect to the additional consideration will be recorded against goodwill.

Equity

The book value of common shares at June 30, 2007 was \$2.14 per share compared to \$2.01 at December 31, 2006.

Shares outstanding**Common Shares**

	Six Months Ended June 30	
	2007	2006
Shares outstanding at the beginning of the period	16,964,539	16,952,574
Shares issued under plans ¹¹	12,088	4,818
Shares outstanding at end of period	16,976,627	16,957,392

Long term debt and bank indebtedness

As at June 30, 2007, the Company had \$24,147,000 in long-term debt and bank indebtedness owing to third parties versus \$21,997,000 at December 31, 2006.

¹¹ We issue shares under employee stock purchase and stock option plans.

2.2. Funding Program

Funding requirements

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

- \$854,000 cash on hand at the beginning of 2007;
- \$1,497,000 from increasing long-term debt;
- \$942,000 from increasing revolving operating facilities; and
- \$46,000 from the issuance of common shares under the employee share purchase and option plans.

Summary of Cash flows

(expressed in thousands of U.S. dollars)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	<u>2007</u> (unaudited)	<u>2006</u>	<u>2007</u> (unaudited)	<u>2006</u>
Net cash provided by (used in):				
Operating activities	398	2,002	222	3,859
Investing activities	(622)	(460)	(1,406)	(19,742)
Financing activities	470	(1,582)	745	14,190

2.3. Three months Ended June 30, 2007 compared to the quarter ended June 30, 2006

Operating activities and working capital

Cash generated from operating activities for the three months ended June 30, 2007 was \$398,000 compared to \$2,002,000 for the comparable period in 2006. The decrease in cash generated is due to a decrease in earnings from operations and an increased investment in working capital, particularly in inventory, as compared to 2006. The expansion of our iron desulfurization business has required additional purchases of magnesium during the period which has increased inventory levels.

The Waterdown and St. Bruno de Guigues Quarry operations are seasonal and slow down during the winter months due to seasonal application of the products produced at these facilities. As a result, the Company's investment in working capital declines starting in the fourth quarter through the first quarter and increases again in the second quarter.

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

The Company has a working capital surplus of \$11,393,000 (December 31, 2006 – 10,584,000, June 30, 2006 – 11,615,000).

Investing Activities

Cash used in investing activities was \$622,000 for the three months ended June 30, 2007 as compared to \$460,000 in 2006. Substantially all of the investments pertain to capital expenditures incurred 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 obtained in financing activities was \$470,000 for the three months ended June 30, 2007. The most significant financing transactions recorded in the period pertain to a general increase in bank indebtedness to support working capital requirements.

2.4. Six months ended June 30, 2007 compared to the six months ended June 30, 2006

Operating activities and working capital

Cash generated from operating activities for the six months ended June 30, 2007 was \$222,000 compared to \$3,859,000 for the comparable period in 2006. The decrease in cash generated is due primarily to increased investments in working capital, particularly in inventory, as compared to 2006. The expansion of our iron desulfurization business has required additional purchases of magnesium during the period which has increased inventory levels.

Investing Activities

Cash used in investing activities was \$1,406,000 for the six months ended June 30, 2007 as compared to \$19,742,000 in 2006. Substantially all of the investments in the current period pertain to capital expenditures. In 2007 the Company spent approximately \$600,000 on the acquisition and upgrade of an abrasive facility in Laval, Quebec, and approximately \$200,000 in improvements to the Waterdown Ontario facility to support the production of iron desulfurization products for the Canadian and U.S. steel industry.

Financing Activities

Cash obtained in financing activities was \$745,000 for the six months ended June 30, 2007. The most significant financing transactions recorded in the period pertain to a general increase in bank indebtedness to support working capital requirements and payment of the first installment of the promissory note to the former shareholders of Magnesium Technologies Corporation.

2.5. Financial Ratios

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

	June 30, 2007	December 31, 2006
Ratio of long term debt and bank indebtedness to Equity	0.69:1	0.64:1
Ratio of long term debt ⁽¹⁾ to total capitalization	0.16:1	0.27:1
Ratio of current assets to current liabilities	1.70:1	1.75:1
Interest coverage ⁽²⁾	5.2 times	5.3 times

(1) Long-term debt (including current portion) divided by capitalization.

(2) We calculate interest coverage using 12 months interest expense divided by 12 months net earnings before interest, income taxes, stock compensation expense and amortization.

3. Contractual Obligations and Commitments

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 \$2,150,000 has been recognized as other long term liabilities based upon management's estimate of contingent consideration likely to be paid.

4. Transactions with Related Parties

SunOpta charges management fees to the Company which include direct costs incurred by SunOpta for professional services and insurance as well as fees relating to specific accounting, treasury or other administrative services provided at fair market value.

5. Risks and Uncertainties

The Company approaches the management of risk strategically, in order to prudently preserve shareholder value. You should carefully consider the risks described in other information contained in our filings with Canadian securities regulatory agencies, including our Annual Information Form. These and other information relating to the Company can be obtained from SEDAR at www.sedar.com. 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.

6. 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 interim 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 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, 2006 and 2005 and for the years then ended.

Revenue Recognition

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

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

- The price to the customer is either fixed or determinable; and
- Collectibility is reasonably assured.

Accounts Receivable

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

Inventory

Inventory is the Company's largest current asset. Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or estimated net realizable value. The Company assesses the net realizable value of its inventory on a regular basis by reviewing, on an item-by-item basis, the realizable value of its inventory, net of anticipated selling costs. If it is management's judgment that the selling price of an item must be lowered below its cost in order for it to be sold, then the carrying value of the related inventory is written down to its realizable value. A number of factors are taken into consideration in assessing realizable value including the quantity on hand, age and expiration, historical sales, consumer demand and preferences. Depending on market conditions, the actual amount received on sale could differ from management's estimate.

Goodwill

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

Should the carrying amount of goodwill exceed its estimated fair value, an impairment loss would be recognized at the time and charged to the statement of earnings. The Company has assessed the carrying value of goodwill for possible impairment and has determined that no such impairment exists as at December 31, 2006.

Intangible Assets

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

Customer Relationships	8 – 25 years
Profit sharing agreements	7 – 15 years
Long-term supply contract	Over the contract period of 10 years
Licensing agreement	10 years

Income Taxes

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

Estimates

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

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

7. 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	
	June 30, 2006	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006 (unaudited)	June 30, 2006 (unaudited)	Mar 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2007	June 30, 2006
	(expressed in thousands of dollars)								(expressed in thousands of dollars)	
Net earnings for the period	1,150	705	664	1,031	1,445	401	117	455	3,550	2,418
Interest expense	384	371	424	401	404	291	118	96	1,580	909
Provision for income taxes	514	387	430	567	729	254	110	265	1,898	1,358
Depreciation	466	437	487	487	432	335	349	312	1,877	1,428
Amortization of Intangible assets	282	304	303	259	233	130	9	9	1,148	381
EBITDA⁽¹⁾	2,796	2,204	2,308	2,745	3,243	1,411	703	1,137	10,053	6,494
Depreciation and amortization of intangible assets	748	741	790	746	665	465	358	321	3,025	1,809
EBIT⁽²⁾	2,048	1,463	1,518	1,999	2,578	946	345	816	7,028	4,685

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.

8. Recent Developments in Accounting Standards

The Company has adopted the following recent standards

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. It also

specifies how financial instrument gains and losses are to be presented. Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

CICA Handbook Section 1530, Comprehensive Income, introduces new standards for reporting and disclosing comprehensive income. Comprehensive income is the change in equity of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

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

Upon transition to CICA section 3855, Financial Instruments – Recognition and Measurement on January 1, 2007 the Company reclassified \$124,000 of deferred financing costs to retained earnings.

9. Recently issued accounting pronouncements

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

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

10. 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 (June 30, 2007 - \$5.75) multiplied by total number of outstanding shares (June 30, 2007 – 16,976,627).

Cash generated from Operations

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

Current Ratio

Current assets divided by current liabilities

Debt to Equity

Total bank indebtedness and long term debt divided by average shareholders' equity for the period.

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

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

Earnings before interest and income taxes (EBIT)

Earnings before deducting interest expense and provision for income taxes.

Interest coverage Ratio

Interest for the year divided by earnings before interest, income taxes, stock compensation expense and amortization.

Long term debt and bank indebtedness to capitalization ratio

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

Return on Assets

Net earnings divided by average total assets for the 12 months ended

Return on Equity

Net earnings divided by average shareholders equity for the 12 months ended