MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year ended December 31, 2004

Driving Growth

Fiscal 2004 was a pivotal year in Opta Minerals' nine-year history. We launched a new growth strategy that expanded our horizon beyond being a regional supplier & producer of silica-free loose abrasives and industrial minerals, and we will position ourselves to build long-term value for shareholders. We exceeded the vast majority of our key performance targets for this fiscal year. In an industry with minimal growth we have achieved revenue growth in 2004 of 20% resulting in record revenues for the Company. The increasing presence of our Company as a dominant player in the silica-free loose abrasives and industrial minerals industry provides us with a strong foundation for delivering solid growth down the road.

The most influential event in 2004 was the announcement of the Company's initial public offering. The offering was completed on February 17, 2005 and our shares and warrants are now trading on the TSX under the symbols "OPM" and "OPM.WT" respectively. The offering provided us with approximately $10,320,000 in net proceeds after deducting fees payable to the Underwriters, estimated offering expenses, and the repayment of $5,000,000 to our parent company SunOpta Inc. On March 16, 2005 we announced the exercise of the Underwriters' over-allotment options for additional net proceeds of $1,692,000.

Although the Company's historical growth rate of 13.4% is impressive, it occurred during a period in which SunOpta dedicated the majority of its resources to building its core organic and natural food business. As a public entity with direct access to capital markets we expect to significantly increase growth over the next several years.

New Strategy for Corporate Growth

The key elements of our growth strategy are to use the proceeds of the public offering and leverage our existing operations to build on our Company's current status as a dominant regional producer and supplier and become one of the dominant North American producers and suppliers of silica-free loose abrasives and industrial minerals. Using our own capital pool we plan to execute our growth strategy by:

1. Continuing to identify, pursue and complete strategic acquisitions in the Company's target markets and to successfully integrate and rationalize acquired operations to boost revenues and profit margins;

2. Continuing our active program of developing and acquiring new products and services that expand the Company's target markets while leveraging its existing infrastructure and expertise;

3. Broadening our geographic coverage by establishing or acquiring new distribution and production facilities in Atlantic and Western Canada and in the Southern and Midwestern States and along the West Coast of the United States; and

4. Expanding our internal processing capabilities through modest capital expenditures designed to improve throughput.

Today Opta Minerals is in an excellent financial position to execute our business strategy. Our Balance Sheet is strong, with minimal debt and preferred shares owing to third parties and for the year ended December 31, 2004 the Company's cash flows from operations were $2,603,000, an increase of 140% over fiscal 2003.

Fiscal 2004 Accomplishments

In addition to the initial public offering, we celebrated a number of other key successes in fiscal 2004 including:

- Net Income of $2,407,000, a 35% increase over fiscal 2003

- The acquisition of Distribution A&L, a distributor of specialty abrasives and related products. This acquisition provides the Company with a facility that is strategically significant both due to its geography, and its success in focusing on smaller markets not previously serviced by the Company.

- The purchase of property, plant & equipment relating to the construction of the Baltimore facility and the acquisition of the facilities in Hardeeville, South Carolina.

During the year we successfully developed several new products for introduction into the markets we serve:

- *PowerBlast* is a nickel based loose abrasive that will compliment our current product offerings in specialty abrasives. Production processes for this product have been developed and the product has been field-tested. We have currently applied to have this product QPL approved for use in naval contracts, and expect commercial sales during the year.

- *BlackBlast* for roofing shingles. This coal based loose abrasive is used by roofing shingle manufacturers. We have secured two new customers for this product in 2004 in Baltimore and Waterdown. Demand for this product in the Baltimore area will keep our new facility operating near capacity during the year. We will continue to pursue new customers and growth opportunities in this industry.

- *Coloured sand*. Internally we have developed a technique to colour sand recovered from our St. Bruno de Guigues quarry. Coloured sand is used for children's playgrounds and sandboxes, general landscaping purposes and other applications. Commercial sales are expected to begin during the year.

Positive Outlook for 2005

We are optimistic about the outlook for Opta Minerals in fiscal 2005. Through our corporate growth strategy we have narrowed the focus of our Company to capitalize on market opportunities that present the best possibilities for growth and revenue generation.

A strong balance sheet and improved cash position give us the added confidence to move forward. We now have the resources we need to invest in the business and drive growth. In fiscal 2005 we will build on the momentum gained at the end of 2004 to work towards the following:

- Prudent management of expenditures, in a manner corresponding to revenues, and ensuring a disciplined cost structure that supports our goal of top and bottom line growth.

- Use our strong balance sheet, credit facilities and cash position to invest in the growth of the Company. We will continue to pursue and complete strategic acquisitions in the Company's target markets.

- Continue an active program of developing and acquiring new products and services that expand the Company's target markets

- Invest in the Company through modest capital expenditures designed to improve throughput.

At Opta Minerals, we understand that earning the trust of investors over the long term comes not from just good corporate governance, but also from commitment to integrity and accountability. We have adopted comprehensive governance principles, including the creation of structures and the implementation of processes that enable our Board of Directors to carry out its responsibilities efficiently. Our Board and its Governance committee are committed to reviewing our governance practices regularly and making appropriate changes as new regulations come into effect.

I would like to extend my thanks to our dedicated and hard working employees. Without their ongoing commitment it would have been impossible to complete all of the achievements discussed while earning record revenues.

Finally, I would like to thank SunOpta Inc. and its shareholders for their ongoing support, while welcoming the new shareholders of Opta Minerals Inc. We remain committed to our pursuit of profitable growth and look forward to reporting to you on our progress.

Sincerely,

(Signed) DAVID KRUSE

David Kruse
President and Chief Executive Officer.

Basis of presentation for the combined financial statements

The combined financial statements include the accounts of Opta Minerals, a division of SunOpta Inc. (SunOpta), Opta Minerals Inc., Opta Minerals (USA) Inc., Virginia Materials Inc. (Virginia Materials), International Materials & Supplies Inc. (International Materials), Temisca Inc. (Temisca), 9017-0382 Quebec Inc. (Distribution A&L) and 1108176 Ontario Limited (1108176), all of which are divisions or wholly owned subsidiaries of SunOpta and are collectively known as the Opta Minerals Group (the Company), a reporting segment of SunOpta. All significant intercompany accounts and transactions have been eliminated on combination.

In conjunction with the transaction described in note 14 of the combined financial statements, SunOpta on July 8, 2004 incorporated Opta Minerals Inc. under the laws of Canada and on November 19, 2004 incorporated Opta Minerals (USA) Inc. under the laws of the State of Delaware. Immediately prior to the completion of the initial public offering, the businesses consisting of the Company were transferred to Opta Minerals Inc. The combined financial statements present the historic combined financial position, results of operations and cash flows of the Company as if it had operated as a stand-alone entity subject to SunOpta's control.

The combined statements of earnings include certain management fees (as described in note 7 of the combined financial statements) charged to the Company by SunOpta. The management fees include direct costs incurred by SunOpta for professional services and insurance as well as certain allocations for accounting, treasury and other administrative services provided by SunOpta.

Interest expense for the years presented includes interest on amounts due to SunOpta and affiliates and interest on external debt.

Income taxes for the Company for the years presented have been recorded at statutory rates based on earnings before income taxes as reported in the combined statements of earnings as though the Company was a separate tax paying entity. Future income taxes have been presented in the combined balance sheets for temporary differences between financial reporting and tax bases of the Company's assets and liabilities.

As a result of the basis of presentation described above, the combined statements of earnings for the years presented may not be necessarily indicative of the operating results that would have been generated had the Company operated as a stand-alone entity for the years presented.

These results are being released in compliance with National Policy 41-201 "Income Trusts and Other Indirect Offerings". which required the Company to report complete financial statements and comparative figures that also reflect the operations of the wholly owned subsidiaries of SunOpta that were collectively known as the Opta Minerals Group prior to the completion of the initial public offering on February 17, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following is a discussion of the combined financial position, results of operations and cash flows of the Opta Minerals Group for the years ended December 31, 2004, 2003, and 2002 and should be read in conjunction with the audited combined financial statements and the accompanying notes appearing elsewhere in this report.

As used in this discussion and analysis, unless the context otherwise requires or indicates, the "Company" or "Opta Minerals" means Opta Minerals Inc., together with each of its subsidiaries and divisions and includes, for the periods prior to the completion of the Company's initial public offering the "Opta Minerals Group" an operating division of SunOpta Inc. ("SunOpta", formerly Stake Technology Ltd.) that was transferred to Opta Minerals immediately prior to the initial public offering.

Certain information included herein may constitute "forward-looking" statements which involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "believe", "plan", "intend" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed below and in filings made by us with Canadian securities regulatory authorities. Although the forward-looking statements contained in this document are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the document, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Management believes that the Company's outlook for the future is positive with future revenue and earnings growth being driven by a combination of a number of factors including: increased sales of existing product lines, the introduction of new product lines, the entry into new markets via product expansion and/or strategic acquisitions and a continued focus on operating costs. The Company operates in two reportable segments, namely, Manufacturing & Distribution Operations and St. Bruno de Guigues Quarry Operations. The Manufacturing & Distribution Operation processes, distributes and recycles silica-free abrasives and other industrial minerals for a variety of operations including (i) silica-free abrasives for shipbuilding and repair, blast media on steel bridges, waterjet cutting applications, restoring steel surfaces, finishing auto parts and numerous other applications; and (ii) industrial and mineral clays for the foundry industry for green sand molding and for the brick industry.

The St. Bruno de Guigues Quarry Operation extracts, processes and distributes high quality sands that are in turn used for: filtration media for pools, as well as municipal and industrial water filtration systems, additives to exterior finishings, golf bunkers and construction and home renovation.

The North American marketplace for abrasives and other industrial minerals is currently fragmented with no single dominant player. The Company intends to become a dominant supplier of silica-free abrasives and other industrial minerals with a wide product line and broad geographic distribution. As part of this strategy, the Company acquired Distribution A&L in April 2004, a company which specializes in the distribution of specialty abrasives. Distribution A&L has provided the Company with the ability to focus on smaller markets through a network of selling professionals as well as opening new markets in the industrial, automotive and pool filtration industries. The Company also acquired an abrasive facility in Hardeeville, South Carolina in the second quarter of 2004 and recently completed construction of an additional abrasives facility in Baltimore, Maryland. Both facilities further increase the Company's

exposure to the United States East Coast market and the Company's ability to cost effectively service these markets. The Company believes that the current market landscape presents additional strategic acquisition opportunities as well as opportunities to continue to broaden its product lines with current and new customers.

Performance Highlights

The Company's revenues have grown from $31,057,000 in 2001 to $34,781,000 in 2003 and have shown continued improvement in 2004 to record results of $41,680,000. Approximately 57% of the Company's revenues and expenses are derived in U.S. dollars. Given the significant change in average exchange rates from 2003 to 2004 (CDN$1.4007 = US$1.00 in 2003 compared to CDN$1.3015 = US$1.00 in 2004), currency fluctuations have had an adverse effect on revenue and profit growth when converting from U.S. dollars. Management believes that revenues will increase in the future based on the Company's strategic objectives as noted above.

Gross margins have increased from 20.6% in 2003 to 21.4% for 2004. Management believes that opportunities exist to continue to improve the margin rate in the future due to a number of factors including: establishing or acquiring regional production facilities which reduces transportation costs, continued focus on value-added new products and product lines, and expanding throughput at current facilities. Gross margins are also influenced by changes in current product mix, changes in revenue percentages by geographic location, the movement in the Canadian dollar relative to the U.S. dollar and competitive pricing pressures and pricing opportunities.

Results of Operations

Selected Annual Financial Data

Selected Historical Financial Information

The following is a summary of financial information for the periods indicated. The selected financial information for the years ended December 31, 2004, 2003, and 2002 has been derived from the audited combined financial statements appearing elsewhere in the Company's filings with Canadian Securities regulatory authorities. The following summary financial information should be read in conjunction with the combined financial statements and related notes, and with "Management's Discussion and Analysis" included herein.

The combined financial statements presented in this report have been "carved out" from the consolidated financial statements of SunOpta Inc. The combined financial statements include the accounts of Opta Minerals, a division of SunOpta, Opta Minerals Inc., Opta Minerals (USA) Inc., Virginia Materials Inc., International Materials & Supplies Inc., Temisca Inc., 9017-0382 Quebec Inc. (Distribution A&L) and 1108176 Ontario Limited, all of which are currently, and will be up to the completion of the offering, divisions or wholly-owned subsidiaries of SunOpta Inc. (and which collectively comprise the Company).

	As at and for the Year Ended December 31,		
	2004	**2003**	**2002**
Income Statement Data			
Revenue			
Manufacturing & Distribution Operations	39,577	32,884	36,688
Temisca Quarry Operations	2,103	1,897	1,832
Total revenue	41,680	34,781	38,520
Gross profit	8,926	7,175	8,689
Gross margin %	21.4	20.6	22.6
Selling, general and administrative expenses	3,955	3,816	3,866
Earnings before the following:	4,971	3,359	4,823
Interest expense	413	591	470
Interest and other (income) expense	345	(140)	(14)
Foreign exchange loss (gain)	9	67	44
Earnings before income taxes	4,204	2,841	4,323
Provision for income taxes	1,797	1,058	1,570
Net earnings for the period	2,407	1,783	2,753

	As at December 31,		
	2004	**2003**	**2002**
Balance Sheet Data			
Cash and cash equivalents	448	536	694
Working capital (excluding amounts due to parent and affiliates)	12,589	10,649	6,909
Total assets	36,026	34,345	35,258
Long-term debt & preference shares (including current portion)	325	515	998
Due to parent and affiliates	15,704	16,516	15,621
Divisional equity	14,777	12,843	11,640

Year Ended December 31, 2004 compared to the Year Ended December 31, 2003

Revenues of $41,680,000 increased $6,899,000 or 19.8% for the twelve-month period ended December 31, 2004 compared to the same period in 2003. Revenues within the Manufacturing & Distribution Operations increased by $6,693,000 or 20.3% to $39,577,000 compared to $32,884,000. This occurred despite an $804,000 decline in the segment's revenues as a result of unfavourable foreign exchange movement between U.S. and Canadian currency. $1,420,000 of the increase in revenues is a result of increased abrasives sales at the Company's Virginia and Louisiana facilities due to increased ship cleaning and repair activity. Revenues from the acquisition of Distribution A&L for the year ended December 31, 2004 accounted for approximately $1,895,000 of the increase while revenues at the Waterdown and Lachine locations increased by $3,173,000, due primarily to an increase in bridge cleaning and foundry revenues. Increases at all other locations of $204,000 were due to a general improvement in market conditions within the respective industries. Revenues within the St. Bruno de Guigues Quarry Operations increased by $206,000 to $2,103,000.

Gross margins increased by $1,751,000 to $8,926,000 or 21.4% for the year ended December 31, 2004 compared to $7,175,000 or 20.6% for the year ended December 31, 2003. Virginia and Louisiana's gross margins increased by $1,074,000 principally due to increased revenues and the corresponding increase in margin rates due to improved fixed overhead absorption. The acquisition of Distribution A&L contributed $286,000 to gross margins, while margins at the Waterdown and Lachine locations increased by $553,000. Margins pertaining to the St. Bruno de Guigues Quarry Operations increased by $56,000 mainly as a result of improved fixed overhead absorption. Gross margins were adversely affected by the Baltimore and Hardeeville plants. In 2004 the Baltimore and Hardeeville plants experienced a gross margin loss of $252,000 prior to beginning commercial sales. These plants are expected to achieve targeted production volumes by the second quarter of 2005. Margins at all other locations remained relatively constant when compared to 2003.

Selling, general and administrative expenses increased $139,000 or 3.6% compared to $3,816,000 for the year ended December 31, 2003. Approximately $156,000 in additional SG&A was incurred as a result of the acquisition of Distribution A&L.

Earnings before interest and taxes ("EBIT") for the year ended December 31, 2004 was $4,617,000 compared to $3,432,000 for the year ended December 31, 2003. EBIT for the Manufacturing & Distribution Operations increased by $1,187,000 to $4,196,000 when compared to the same period in 2003. The St. Bruno De Guigues Quarry Operations had an EBIT of $421,000 for the year ended December 31, 2004 compared to $423,000 in 2003.

The effective income tax rate for the year ended December 31, 2004 42.7% compared to 37.2% for the comparable period in 2003. Approximately 3% of the increase is due to a taxable gain on the internal sale of the Louisiana operation from one affiliate to another that was incurred as part of the reorganization undergone by SunOpta to prepare for the transfer of assets to Opta minerals Inc. A further expense of 4.6% was incurred in tax and penalties related to branch tax owed by SunOpta for the same entity. The remaining difference relates to an increased proportion of the Company's income being incurred by US operations which incur a higher statutory tax rate, and changes in the amount of other permanent differences.

Net earnings for the year ended December 31, 2004 were $2,407,000, an increase of 35% compared to the year ended December 31, 2003 due to the factors noted above.

Year Ended December 31, 2003 compared to the Year Ended December 31, 2002

The Company had revenues of $34,781,000 in 2003 representing a decline of $3,739,000 in comparison to 2002. The Manufacturing & Distribution Operations declined by $3,804,000, $1,066,000 of which related to unfavourable foreign exchange movements between the Canadian dollar relative to the U.S. dollar (from an average of CDN$1.5704 = US$1.00 in 2002 to an average of CDN$1.4007 = US$1.00 in 2003). Further, revenues at the Company's Waterdown and Virginia facilities for the year ended December 31, 2003 were lower by approximately $1,651,000 and $1,324,000, respectively, compared to the year ended December 31, 2002, offset by a $237,000 increase at all other locations. The decline at Waterdown was principally the result of reduced sales to the foundry industry, due to weak economic conditions in the industrial sectors and reduced recycling activity. The decline at Virginia was solely due to a reduction in the average number of U.S. Navy vessels in port for repairs and cleaning in 2003. Revenues for the St. Bruno de Guigues Quarry Operations increased by $65,000.

Gross margins were 20.6% of revenue for the year ended December 31, 2003 compared to 22.6% of revenue in 2002. Gross margins within the Manufacturing & Distribution Operations were 19.6% of revenue in 2003 compared to 21.6% of revenue in 2002. Margins were affected by a reduction in revenues at Virginia, as this location has a higher gross margin rate than other locations. Margins for the St. Bruno de Guigues Quarry Operations declined by 4.3% from 2002 to 37.6% of revenues in 2003. December 31, 2002 gross margins were unusually high due to the profitable, but non-recurring, sale of by-products obtained as part of the St. Bruno de Guigues acquisition.

Selling, general and administration expenses remained consistent between the two years.

The increase in interest expense was largely due to an increase in interest paid to SunOpta and affiliates due to changes in debt terms between SunOpta and affiliates and the Company. Interest and other income of $140,000 for the year ended December 31, 2003 included a gain on sale of excess land.

Foreign exchange losses in both years were due to the continued appreciation of the Canadian dollar compared to the U.S. dollar as the Canadian divisions hold net working capital assets (U.S. dollar accounts receivable less U.S. dollar accounts payable).

EBIT for the Manufacturing & Distribution Operations was $3,009,000 for the year ended December 31, 2003 compared to $4,181,000 for the year ended December 31, 2002. Lower EBIT within the segment was a result of depreciation of the U.S. dollar compared to the Canadian dollar, lower sales at the Waterdown and Virginia locations and the effect of lower gross margins. EBIT for the St. Bruno de Guigues Quarry Operations was $423,000 for the year ended December 31, 2003 compared to $612,000 for 2002 as a result of the non-recurring margin of by-products sold in 2002.

The effective income tax rate for 2003 was 37.2% compared to 36.3% in 2002. The difference in effective income tax rates was primarily due to an increase in substantially enacted rates in Ontario in 2003.

Net earnings were $1,783,000 for the year ended December 31, 2003 compared to $2,753,000 for the year ended December 31, 2002, a decline of $970,000 due to lower revenues and gross margins as described above.

Quarterly Results of Operations

The following table sets out selected financial information for each of the eight most recent quarters ended December 31, 2004. In the opinion of management, this information has been prepared on the same basis as the audited combined financial statements for the years ended December 31, 2004 and 2003. Only normal recurring adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results.

	Quarters Ended							
	Dec 31, 2004	Sept 30, 2004	June 30, 2004	Mar 31, 2004	Dec 31, 2003	Sept 30, 2003	June 30, 2003	Mar 31, 2003
	(unaudited) (expressed in thousands of Canadian dollars)							
Revenue	9,858	10,545	12,549	8,728	8,290	8,958	9,386	8,147
EBITDA(1)	898	1,608	2,636	888	543	1,525	1,683	1,014
Net earnings for the period	(78)	838	1,332	315	21	635	773	354

The following table reconciles net earnings for the period to EBITDA(1).

	Quarters Ended							
	Dec 31, 2004	Sept 30, 2004	June 30, 2004	Mar 31, 2004	Dec 31, 2003	Sept 30, 2003	June 30, 2003	Mar 31, 2003
31 31	(unaudited) (expressed in thousands of Canadian dollars)							
Net earnings for the period	(78)	838	1,332	315	21	635	773	354
Interest expense	103	65	152	93	196	132	127	136
Provision for income taxes	381	408	816	192	15	376	458	209
Depreciation and amortization	492	297	336	288	311	382	325	315
EBITDA(1)	898	1,608	2,636	888	543	1,525	1,683	1,014

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.

Liquidity and Capital Resources

As at December 31, 2004 the Company had $325,000 in long-term debt and preferred shares owing to third parties. These liabilities are expected to be substantially paid off in the next two years and relate solely to debt assumed or incurred through acquisitions made by the Company. The Company historically has obtained its financing through cash from operations and advances from SunOpta and its affiliates. Historically, the Company participated in a consolidated treasury management system with SunOpta. As at December 31, 2004 an aggregate of $15,704,000 was owed by the Company to SunOpta and certain of its affiliates. The Company repaid $5,000,000 of the amounts due to SunOpta and its affiliates from the proceeds of the Company's initial public offering on February 17, 2005. Upon completion of the Offering, the Company discontinued its participation in consolidated treasury management with SunOpta. The Company has obtained a financing term sheet for a $5,000,000 revolving operating facility and a $7,000,000 revolving term facility which will be in place by the second quarter of 2005. Capital resources will be available from cash from the Offering, cash available from the new credit facilities and cash from

operations. These funds are expected to be sufficient to grow the Company internally as well as to fund certain targeted acquisitions.

In order to finance significant acquisitions, the Company may need additional sources of cash which could be obtained through a combination of additional bank or subordinated financing, a private or public share offering or the issuance of shares in relation to an acquisition.

Working Capital

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. Due to this seasonality, 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 deficit, as the amounts due to SunOpta and affiliates have been classified as current given that they are due on demand. On February 17, 2005 the Company completed its initial public offering and paid $5,000,000 to SunOpta against the outstanding amounts due. The Company then entered into a promissory note with SunOpta for the remaining outstanding balance whereby the remaining balance will be repaid in four equal installments on February 28, 2006, 2007, 2008, and 2009, except that 25% of the net proceeds received by the Company upon exercise of the warrants will be paid immediately to the parent or affiliate, as the case may be, to reduce the outstanding balance owing to such parent or affiliate. The remaining outstanding balance due on each of the then remaining specified repayment dates will be reduced ratably. Excluding the amounts due to SunOpta and affiliates, the Company had positive working capital of $12,589,000 as at December 31, 2004.

Summary of Cash flows

	As at December 31,		
	2004	2003	2002
Net cash provided by (used in):			
Operating Activities	2,603	1,083	3,172
Investing Activities	(1,892)	(1,571)	(3,223)
Financing Activities	(771)	408	819
Foreign Exchange loss on cash held in foreign currency	(28)	(78)	(74)
Increase (decrease) in cash and cash equivalents	(88)	(158)	694

Year Ended December 31, 2004 compared to December 31, 2003

Cash flows from operating activities for the twelve months ended December 31, 2004 were $2,603,000 compared to $1,083,000. The increase was due to increased earnings of $624,000 and decreased investment in working capital, particularly in inventory, accounts receivable and other current assets compared to 2003.

Cash used in investing activities was $1,892,000 for the twelve months ended December 31, 2004, compared to $1,571,000 for the comparable period in 2003. During the year, the Company purchased property, plant & equipment relating to the commissioning of the Baltimore location and the acquisition of the facilities in Hardeeville, South Carolina. The Company also completed the acquisition of the shares of Distribution A&L for a net amount of $500,000. This was offset by a cash inflow of proceeds from the sale of land and building from the Hamilton, Waterdown facility of approximately $1,325,000.

Cash used in financing activities was $771,000 for the twelve months ended December 31, 2004, compared to a cash inflow of $408,000 for the same period in 2003. Cash used in the twelve months ended December 31, 2004 primarily related to the repayment of long term debt of $291,000 and the repayment of

deferred purchase consideration relating to the acquisition of Virginia Materials of $250,000. For the twelve months ended December 31 2003, the majority of the use of cash related to the repayment of deferred purchase consideration relating to the acquisition of Virginia Materials of $1,069,000, the purchase and redemption of preference shares of subsidiary companies of $270,000 and the repayment of long term debt owing to third parties of $228,000. These were offset by a cash inflow from SunOpta and affiliates of $1,975,000.

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Cash flows from operating activities for the year ended December 31, 2003 were $1,083,000 compared to $3,172,000 for the year ended December 31, 2002. The decrease was due to lower earnings and an increased investment in working capital, particularly in inventory and accounts receivable compared to 2002. Inventory for both years has consumed significant cash, as the Company assumed limited inventory at the time of acquisition of Virginia Materials and has since increased inventory amounts to normal carrying levels.

Cash used in investing activities was $1,571,000 for the year ended December 31, 2003 compared to $3,223,000 for the year ended December 31, 2002. During 2002, the Company paid $1,659,000 for contingent consideration related to the acquisition of Virginia Materials and the purchase of the remaining 49% of International Materials.

Cash inflow from financing activities was $408,000 for the year ended December 31, 2003 compared to $819,000 for the year ended December 31, 2002. Cash advances from SunOpta and affiliates of $1,975,000 was partially offset by cash used for the repayment of deferred purchase consideration relating to the acquisition of Virginia Materials in 2003 of $1,069,000 and payment of debt and preferred shares of $498,000. In 2002 as part of a major refinancing by SunOpta, the Company repaid all of its bank debt and operating lines, and received funding from SunOpta and affiliates. The Company also paid $1,542,000 in deferred purchase consideration relating to the acquisition of Virginia Materials.

Contractual Obligations and Commitments

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

	Payments Due by Period						
Contractual Obligations	**Total**	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**
Long Term Debt	188	173	11	4	-	-	-
Preferred Shares	137	109	28	-	-	-	-
Operating leases	3,710	719	619	591	556	521	704
Due to parent and affiliates[(1)]	15,704	5,000	2,676	2,676	2,676	2,676	-

(1) The Company repaid $5,000,000 of the amounts due to parent and affiliates on February 17, 2005 using a portion of the net proceeds of the Offering. The remaining balance will be paid in four equal installments on February 28, 2006, 2007, 2008, and 2009 except that 25% of any net proceeds received by the Company on exercise of the warrants will be paid immediately to the parent or affiliate as the case may be, to reduce the outstanding balance owing to such parent or affiliate and the remaining outstanding balance due on each of the then remaining specified repayment dates will be reduced ratably.

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 certain allocations for accounting, treasury and other administrative services provided by SunOpta. SunOpta or affiliates have also charged interest on certain debt of the Company as disclosed within notes 7 and 8 of the combined financial statements. Subsequent to the offering, SunOpta will only charge the Company for direct costs and fees related to specific services provided at fair market value.

Following the completion of the Offering, the Company repaid $5,000,000 of the amounts due to SunOpta and its affiliates out of the proceeds received. Remaining amounts owing to SunOpta and its affiliates are expected to be repaid on or before February 28, 2009. The debt owed by the Company to SunOpta and its affiliates will be subordinate to certain bank debt and will bear interest at market rates.

Risks and Uncertainties

We operate in a dynamic, rapidly changing environment that involves risks and uncertainties. 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.

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 financial statements. The estimates and assumptions made require judgment 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 its 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. The following are the accounting policies and estimates which management believes to be most important to the business of the Company.

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.

Impairment of Goodwill

In accordance with section 3062 of the Canadian Institute of Chartered Accountants Handbook, the Company evaluates its goodwill for impairment on an annual basis or whenever indicators of impairment exist. Section 3062 requires that if the carrying value of a reporting unit for which goodwill exists exceeds its fair value, an impairment loss is recognized to the extent that the carrying value of the reporting unit goodwill exceeds the "implied fair value" of reporting unit goodwill.

As discussed in the notes to the combined financial statements, the Company had evaluated its goodwill for impairment as at December 31, 2004 and has determined that the fair value of the reporting units exceeds their carrying value, and as a result no impairment of goodwill has been recorded.

Income Taxes

The Company is liable for income taxes in the United States and Canada. In making an estimate of its income tax liability, the Company must first make an assessment of which items of income and expense are taxable in a particular jurisdiction. This process involves a determination of the amount of taxes currently payable as well as the assessment of the effect of temporary timing differences resulting from different treatment of items for accounting and tax purposes. These differences in the timing of the recognition of income or the deductibility of expenses result in future tax balances that are recorded as assets or liabilities, as the case may be, on the Company's balance sheet. The Company also makes an estimate on the amount of valuation allowance to maintain relating to loss carry forwards and other balances that can be used to reduce future taxes payable.

As a division of SunOpta, the Company has not historically been subject to taxes on a stand-alone basis. The Company's combined financial statements have been prepared with an estimated tax expense as though the company was a stand-alone entity.

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 and could affect future operating results. 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 revenue recognition. In determining estimates for accounts receivable and related allowance for bad debts, the company relies on current customer information and management's planned course of action as well as assumptions about future business and economic conditions. In determining estimates for the measurement of inventory, the Company relies on monthly physical observations, roll forward procedures and pile zero out procedures. In determining revenue and related accounts receivable, when applicable, the Company relies on assumptions supporting its revenue

recognition policy. The carrying value of goodwill is compared to implied fair value of the related operation. The fair value is estimated using assumptions about future business and economic conditions.

Recent Developments in Accounting Standards

Effective January 1, 2004, the Company adopted CICA Handbook section 3870, which requires the Company to record stock compensation expense on options granted to employees. The Company expects to record stock compensation expense on options granted to Directors, Officers and employees. Management does not expect that the adoption of section 3870 will have a material effect on its future results of operations.

Effective January 1, 2004, the Company adopted CICA Handbook section 1100 "Generally Accepted Accounting Principles" which establishes standards for financing reporting in accordance with GAAP, defines primary sources of GAAP and requires that an entity apply every relevant primary source. Since the Company believes it was already in full compliance with these standards, this new standard did not have an impact on the Company's financial position.

Also effective January 1, 2004, the Company adopted CICA Handbook section 3110 "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings in a systematic and rational basis. The Company believes that the new standard has an immaterial impact on the Company's financial position.