STAKE TECHNOLOGY LTD
Form 10-K/A
July 02, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 3

|X| ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002
Commission File No. 0-9989

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

STAKE TECHNOLOGY LTD.
(Exact name of registrant as specified in its charter)

CANADA
(Jurisdiction of Incorporation)

Not Applicable
(I.R.S. Employer Identification No.)

2838 Highway 7
Norval, Ontario L0P 1K0, Canada
(Address of Principle Executive Offices)

(905) 455-1990
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to 12(g) of the Act:

Common Shares, no Par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes |x| No |_|

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b02 of the Act).

Yes |x| No |_|

At March 7, 2003 the registrant had outstanding 42,489,943 common shares, the

only class of registrant's common stock outstanding. There were no other classes of stock outstanding and the aggregate market value of voting stock held by non-affiliates at such date was US$102,730,000. The Company's common shares traded on Nasdaq Small Cap Market tier of The Nasdaq Stock Market under the symbol STKL and on the Toronto Stock Exchange under the symbol SOY.

There are 53 pages in the December 31, 2002 10-K including this page and the index after the cover page.

Stake Technology Ltd. December 31, 2002 - 10-KA3

STAKE TECHNOLOGY LTD.

EXPLANATORY NOTE

This Amendment No. 3 to Form 10-K filed on Form 10K/A for the year ended December 31, 2002 is being filed to clarify and expand various disclosures in "Item 1. Business"; "Item 2. Properties"; "Item 6. Selected Financial Data"; "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations"; "Item 7A-Quantitative and Qualitative Disclosures about Market Risk"; "Item 10. Directors and Executive Officers of the Registrant"; "Item 13. Certain Relationships and Related Transactions"; and the Consolidated Financial Statements and the Notes thereto. All information contained herein is as of March 7, 2003, and does not reflect any events or changes in information that may have occurred subsequent to March 7, 2003. For a discussion of events and developments relating to periods subsequent to such dates, see the Company's reports filed with the Securities and Exchange Commission for such subsequent periods, including the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003.

TABLE OF CONTENTS

FORM 10-K

PART I

Item 1. Business ....
Item 2. Properties ....
Item 3. Legal Proceedings ....
Item 4. Submission of Matters to a Vote of Security Holders ....

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters ....
Item 6. Selected Financial Data ....
Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations
Item 7A. Quantitative and Qualitative Disclosures about Market Risk ....
Item 8. Financial Statements and Supplementary Data ....
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure .

PART III

Item 10. Directors and Executive Officers of the Registrant ....
Item 11. Executive Compensation ....

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder
Item 13. Certain Relationships and Related Transactions ....
Item 14. Controls and Procedures ....

PART IV

Item 15. Exhibits, Financial Statements Schedules and Reports on Form 8-K ....
Index to Consolidated Financial Statements ....

Currency Presentation

All dollar amounts herein are expressed in United States dollars. Amounts expressed in Canadian dollars are preceded by the symbol "CDN$". On March 7, 2003, the noon buying rate, in New York City for cable transfers in Canadian dollars for customs purposes by the Federal Reserve Bank of New York was US$0.6820 for $1.00 Canadian.

The following table sets forth information with respect to the exchange rate of the Canadian dollar into United States currency during 2002. (1) The rate of exchange for the Canadian dollar, expressed in US dollars, in effect at the end of the year (2) the average of exchange rates in effect on the last day of each month during the year and (3) the high and low exchange rates during the year. For previous years, historical results have been restated to U.S. dollars using a translation of convenience, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of $1 U.S. to $1.5928 CDN.

RATES	2002
Last Day (1)	$0.6331
Average (2)	$0.6373
High (3)	$0.6618
Low (3)	$0.6199

Note Regarding Forward-Looking Financial Information

Certain statements included herein may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to references to business strategies, competitive strengths, goals, capital expenditure plans, business and operational growth plans and references to the future growth of the business. These forward looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its interpretation of current conditions, historical trends and expected future developments as well as other factors that the Company believes are appropriate in the circumstance.

However, whether actual results and developments will agree with expectations and predications of the Company is subject to many risks and uncertainties

including, but not limited to; general economic, business or market risk conditions; competitive actions by other companies; changes in laws or regulations or policies of local governments, provinces and states as well as the governments of United States and Canada; many of which are beyond the control of the Company. Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized.

PART I

Item 1. Business

Overview

Stake Technology Ltd. ("Stake" or the "Company") operates in three principal businesses; (1) natural and organic food product markets including sourcing, processing, packaging and distribution, (2) processing, distribution and recycling of environmentally responsible industrial mineral products and (3) engineering and marketing of a proprietary clean pulping system using patented steam explosion technology.

The Company was incorporated under the laws of Canada on November 13, 1973. The principal executive offices are located at 2838 Highway 7, Norval, Ontario, Canada, L0P 1K0, telephone: (905) 455-1990, fax: (905) 455-2529, e-mail: info@staketech.com and web site: www.staketech.com.

The Food Group, which represents approximately 80% of consolidated revenues, consists of the SunRich Food Group (SunRich), recently acquired Opta Food Ingredients, Inc. (Opta) and the newly formed Canadian Organic Food Group. These groups form the backbone of the Company's vertically integrated food operations, focused on the natural and organic foods markets. SunRich produces organic and non-genetically modified (non-GMO) food ingredients with a specialization in soy and other natural and organic food products. SunRich is headquartered at 3824 - 93rd Street S.W., Hope, Minnesota, 56046-0128, telephone: (507) 451-3316, fax: (507) 451-2910, e-mail: info@sunrich.com and web site: www.sunrich.com. Opta is the worlds largest supplier of oat fiber to the food industry based upon management's knowledge of these markets. Its mission is to resolve its customer's product formulation challenges through innovating, manufacturing and selling proprietary ingredients to improve the nutritional content, healthfulness, texture and taste of foods. Opta is headquartered at 25 Wiggins Avenue, Bedford, Massachusetts, 01730, telephone: (781) 276-5100, fax (781) 276-5101, email: customer_service @opta-food.com and web site: www.opta-food.com. The Canadian Organic Food Group consists of the 2002 acquisitions of Wild West Organic Harvest Co-operative Association (Wild West) of Richmond, British Columbia, Simply Organic Co. Ltd. (Simply Organic) of Toronto, Ontario, Organic Kitchen of Toronto, Ontario and Sunrich Valley, a new division launched in 2002. Wild West is well established and specializes in the distribution of natural and organic foods throughout Western Canada. Simply Organic is a growing natural and organic foods distribution business serving the Central Canada market. Organic Kitchen provides organic feeds and partners with processors to market organic poultry and other organic meat products. Sunrich Valley markets a full line of organic dairy products under the brand name mu. For details contact their respective web sites are as follows: www.wildwestorganicharvest.com; www.organickitchen.com and www.muorganics.com.

The Environmental Industrial Group, which represents approximately 20% of

consolidated sales, includes BEI/PECAL, a division of the Company, Temisca Inc., Virginia Materials Inc. (Virginia Materials) and International Materials & Supplies, Inc. (International Materials). The Group processes, sells and distributes abrasives and other industrial minerals to the foundry, steel and marine/bridge cleaning industries; sources specialty sands and garnets for the water filtration industry; and recycles inorganic materials under special permits from government authorities at both its Waterdown, Ontario and Norfolk, Virginia sites. The Environmental Industrial Group can be contacted at 407 Parkside Drive, Waterdown, Ontario, L0R 2H0, telephone: (905) 689-6661, fax: (905) 689-0485, e-mail: info@barnesenvironmental.com and web site: www.bei.ca.

The Steam Explosion Technology Group, a division of Stake, is located on the corporate property of the Company in Norval, Ontario. This division holds numerous patents on its steam explosion process and is marketing this clean pulping system with a special focus on China, the world's largest user of non-woody pulp. The Steam Explosion Technology uses high temperature and pressure rather than chemicals to process non-woody fibers into pulp which can be used to produce various paper products. The Group is also pursuing opportunities to leverage this technology to North American companies for food grade applications, primarily to convert complex sugars into food grade sweeteners. The Steam Explosion Technology Group can be contacted at 2838 Hwy 7, Norval, Ontario, L0P 1K0, telephone: (905) 455-1990, fax: (905) 455-2529, e-mail: info@staketech.com and web site: www.steamexplosion.com.

Segmented Information

The Company operates in three industries:

(1) The Food Group produces, packages, markets and distributes a wide range of natural and organic food products and ingredients with a focus on soy, oat and corn;

(2) The Environmental Industrial Group processes, sells and distributes industrial minerals, and recycles inorganic materials for the foundry, steel, bridge and ship cleaning industries; and

(3) The Steam Explosion Technology Group owns numerous patents on its proprietary steam explosion technology and designs and subcontracts the manufacture of these systems for processing non-woody fibers for use in the paper and food industries.

The Company provides segmented operating and financial information based on these segments. With the continued expansion of the Food Group, the Company is in the process of transitioning its management structure and related reporting systems in support of its vertically integrated food model. The Company intends to expand segmented reporting once this transition is complete and information is compiled and reviewed accordingly.

The Company's operations and assets are located in both Canada and the United States.

Acquisitions during 2002 and 2001

Food Group

Opta

On December 4, 2002, Stake completed its cash tender offer for Opta (formally listed on Nasdaq - OPTS) for $2.50 per share in accordance with the terms of its tender offer for all of the outstanding shares of Opta. Approximately 92.6% of the outstanding common shares were tendered. On December 18, 2002 the Company merged Opta with Stake Acquisition Corp., a wholly owned subsidiary. As a result the remaining 7.4% of outstanding common shares were converted to a right to receive $2.50 per share in cash from Stake.

Opta is an innovator, manufacturer and marketer of proprietary food ingredients that improve the nutritional content, healthfulness, texture and taste of its customers' food products. Opta's food ingredients are used by more than 350 food companies, including 12 of the largest U.S. consumer packaged food companies and three of the world's largest quick service restaurant chains. For the nine-month period ended September 30, 2002, Opta's sales were $21.1 million from its four manufacturing plants. As of September 30, 2002, Opta's net assets were approximately $38 million, which included approximately $9.5 million in cash and short-term investments. The acquisition of Opta is expected to be immediately accretive to future earnings of the Company.

Wild West Organic Harvest

On November 1, 2002, the Company acquired privately owned 632100 B.C. Ltd., formally operated as Wild West Organic Harvest Co-Operative Association (Wild West), a Vancouver (Richmond), British Columbia based distributor of organic and natural food products. The purchase price included cash and contingent consideration payable upon achieving certain gross margin targets over the next two to four years. The acquisition is expected to be accretive to earnings. Wild West had annualized revenues of approximately $11.0 million in the current fiscal year.

Wild West distributes 2,400 products throughout Western Canada to both the mass market and natural food retail outlets. It has a historical annual growth rate of 43% over the last three years and operates from a newly expanded 38,000 square foot refrigerated and frozen warehouse facility. A natural and organic industry fresh food pioneer with 26 years of operation, Wild West runs one of Canada's only certified organic distribution centres.

Simply Organic

On December 1, 2002,. the Company acquired privately owned Simply Organic Co. Ltd. (Simply Organic), a Toronto based distributor of natural and organic food products. The purchase price included cash and contingent consideration payable upon achieving certain gross margin targets over the next two to four years. This

acquisition is expected to be accretive to earnings. Simply Organic celebrated its second year in business in November, 2002 and had annualized revenues of approximately $3.5 million in the current fiscal year.

Simply Organic distributes a broad range of regionally and internationally grown and produced certified organic food products including Stake's line of organic dairy products, sold under the brand name mu, throughout much of Ontario to both the mass market and natural food retail outlets. It has recently expanded to a new 14,000 square foot refrigerated warehouse to serve as the distribution hub for its extensive line of certified organic food products.

Organic Kitchen

On July 2, 2002, the Company acquired organic feed and related inventories, the Organic Kitchen trademark and the businesses of Organic Kitchen Inc. and Cloud Mountain Inc. (together forming Organic Kitchen). Consideration consisted of $297,000 paid in cash on closing. In addition, the Company will pay 10% of the pre-tax profits earned to December 31, 2005, up to a maximum of $1,268,000. This contingent consideration will be recorded as an increase to goodwill when the amount of the contingency is determinable. No contingent consideration was paid in 2002.

These two companies form an integrated unit which sources, blends and supplies proprietary organic feeds to organic poultry and other meat producers. The companies then partner with organic processors who package poultry and other meat products and distribute to mass marketers under private label or the Organic Kitchen(TM) brand.

Based on management's current market knowledge, Organic Kitchen is one of the only major suppliers of organic chicken in Canada, a market which is expanding rapidly with the growth in the natural and organic food industry.

Results from operations of the four Food Group acquisitions are included in the Company's results of operations from the date of acquisition to December 31, 2002 and their respective assets and liabilities are included in the December 31, 2002 consolidated balance sheet.

Jenkins & Gournoe, Inc.

In February, 2001, the Food Group acquired 100% of the common shares of Jenkins & Gournoe, Inc. (First Light Foods), a private Illinois company that owned certain soy trademarks including Soy-Um and Rice-Um. The total acquisition purchase price was $1,813,000 and was paid by the issuance of 833,333 common shares issued by Stake, 35,000 warrants exercisable at US$1.70 for five years, $350,000 (including acquisition costs) in cash and a note payable for $659,000, repayable quarterly over 2 years by payments of $87,500, with interest at 8.5%. There is also contingent consideration that may be payable on this acquisition if; (a) certain predetermined profit targets are achieved, up to an additional 140,000 warrants may be issued in 2002 through to 2005, as well as (b) a percentage of gross profits in excess of $1,100,000 per annum from 2001 to 2005 will be paid to the vendors of First Light Foods. No contingent consideration was paid in 2001 or 2002. The acquisition of First Light Foods complements the Food Group's strategy of becoming a vertically integrated business providing expertise from seed to merchandisable products of soy milk.

As part of the Company's bank refinancing in March 2002, the note payable was repaid.

Environmental Industrial Group

Virginia Materials

On October 31, 2001, the Company's wholly owned subsidiary, Virginia Materials acquired certain assets of Virginia Materials and Supplies, Inc. including inventory, equipment and other long-term assets as well as 51% of the outstanding common shares of International Materials & Supplies, Inc. (International Materials) for cash consideration (including acquisition costs) of $1,743,000 plus deferred purchase consideration now estimated to be $1,754,000 (previously estimated as $1,145,000) and contingent consideration. The deferred purchase consideration, consisting of the Company's purchase of the vendor's inventory, was adjusted in 2002 to reflect a revised estimate of the amount of inventory remaining to be purchased. Management estimates that the

entire inventory will be acquired by the end of 2003. On November 1, 2002 Virginia Materials purchased the remaining 49% of the outstanding common shares of International Materials, for cash consideration of $125,000.

In addition, the Company agreed to pay 50% of the profits for a two-year period from the date of the acquisition. The vendor's share of profits is considered contingent consideration. The Company has amended the arrangement with

the vendor of Virginia Materials and will pay $50,000 per month for the period January 1, 2003 to October 31, 2003 in lieu of 50% of profits.

Virginia Materials is a supplier of abrasives to the shipbuilding and repair industry. It has a production facility located in Norfolk, Virginia and a second plant is scheduled to open during 2003 in Baltimore, Maryland. Virginia Materials also recycles spent abrasives which are used in the production of cement and converts aluminum smelting waste into a roofing and abrasive product.

International Materials produces industrial garnets as a by-product from a mining operation and processes these garnets for sale to the water filtration, water jet cutting and abrasives markets.

New and Amended Banking Agreement and Other Lending Facilities

On March 15, 2002, Stake consolidated most of its existing banking relationships with a single Canadian lender and its wholly owned U.S. subsidiary (collectively, "the banks"). Over a number of years Stake had acquired a number of companies with numerous separate banking and private lending relationships. The new agreement consolidated these arrangements and resulted in administration and interest cost savings in 2002 of approximately $450,000, and approximately a $1,250,000 improvement in cash flow on an annualized basis.

On November 25, 2002, Stake entered into a tender facility agreement with the banks for a maximum availability of $17 million, to be used solely for the purchase of the outstanding common shares of Opta, pursuant to the cash tender offer dated October 25, 2002. As at December 31, 2002, $15.2 million was outstanding on this facility. This facility expired and was fully repaid on March 5, 2003 with cash and the incremental proceeds from the amended banking facility, as described below.

On December 4, 2002, Stake issued to Claridge Israel LLC (Claridge), the Company's largest shareholder, a $5 million convertible debenture. If not converted the debenture is due and fully payable on November 30, 2004. Interest is payable quarterly at an annual rate of 5.5%. The debenture is convertible at the option of the holder at any time after November 30, 2003 or earlier under certain circumstances at the conversion price of $3.00 per common share. Stake has the option to repay the debenture at anytime subject to the approval of the banks which, unless waived, will be based on the Company meeting or exceeding its 2003 financial projections. In addition, the Company issued Claridge 250,000 warrants exercisable into an equivalent number of common shares of Stake at a price of $3.25 per common share. These warrants expire November 30, 2004. Claridge has collateralised the convertible debenture with a second priority security interest on certain of Stake's Canadian and U.S properties.

On March 5, 2003, the Company amended and restated the banking facility entered into in March 2002 and entered into a bank syndication arrangement. The amended facility includes a Canadian line of credit for CDN $5 million, a U.S. committed

line of credit for $9 million and a two year term facility for $21.7 million, with repayments amortized over seven years. Incremental proceeds from this amended facility were used to repay the tender facility.

Food Group

The Food Group has been built over the past four years with the acquisition of eight companies and the startup of one. The acquisitions include Sunrich Inc. in August, 1999, the purchase of Nordic Aseptic, Inc. in August, 2000, the acquisition of Northern Food & Dairy, Inc. in September, 2000 and the acquisition of First Light Foods (Jenkins & Gournoe) in February, 2001. In April, 2002, Sunrich Valley, a newly formed Division of Stake, launched a full line of organic dairy products under the brand name mu. In addition, during 2002, Stake completed the acquisitions of Organic Kitchen, Wild West, Opta, and Simply Organic. The acquisitions coupled with significant internal growth have established a unique, vertically integrated natural and organic foods company with significant presence in both the United States and Canada.

The Food Group is comprised of three business units, the SunRich Food Group, Opta Food Ingredients and the Canadian Organic Food Group. These units form the basis of the Company's vertically integrated food operations. The Company intends on integrating these operations in order to leverage efficiencies and cost savings, maximize product and processing capabilities and develop a platform to support continued growth in the natural and organic foods sectors.

[FLOWCHART]

SunRich Food Group

The SunRich Food Group consists of three key vertically integrated business groups: The Product and Ingredients Group ("Products"), the Technical Processing Group ("Processing") and the Packaging Group, ("Packaging").

The Products Group specializes in identity-preserved (IP), non-genetically modified (non-GMO) and organic grain products and natural food ingredients, including soybeans, corn, soy ingredients, grain sweeteners, milled flours, meals, grains and vegetable oils.

The Processing Group is one of the largest soymilk concentrate producers in the U.S. based upon management estimates of the market. This group focuses on the technical processing of specialty and functional food ingredients including soymilk concentrate, soluble fiber products, natural food preservatives, grain sweeteners, custom drying and blending.

The Packaging Group focuses on the aseptic packaging of shelf stable beverages and liquid products from the Nordic Aseptic facility. The Nordic Aseptic facility has been significantly upgraded over the past two years as a result of the acquisition of a new half gallon filler, a new boiler, new mix room facilities, a new CIP (clean in place) system, two storage tanks and numerous upgrades and improvements to existing equipment. The Company has entered into a

long-term agreement with a major food company to provide aseptic finished product. After a period of ongoing operating losses, Nordic Aseptic realized profitability during 2002.

The SunRich Food Group is well positioned to capitalize on the rapid growth of the natural and organic food markets. The Company produces a broad offering of soy-based food products to the U.S. and international markets from field to table, or seed to retail product. The proliferation of great tasting, healthy soyfoods has increased the availability of soy products to consumers. The increase in consumer demand has resulted in soyfoods products experiencing some of the largest growth rates of any category in the food industry. The FDA allows soy products containing more than 6.25 grams of soy protein per serving to make the claim of improving cardiovascular health of consumers.

The SunRich Food Group's major products are as follows:

Grains and Inputs: Included in grain and inputs are specialty soybeans, IP corn, various other grains (corn, rice and oat), organic corn and milled products, soy and oat flours and organic feed ingredients. IP specialty grains are sold to both domestic and foreign food processors.

The demand for non-GMO soybeans from foreign customers and the increased demand from domestic soyfoods manufacturers has continued to fuel an increase in business volume. These trends are expected to continue in the future as the soy and natural foods markets continue to grow.

The Group's grain revenues slow during the period from December to March of the following year when bulk grain shipments are inhibited by winter weather. Food ingredient, processing and retail food product revenues are not as seasonal except for slowdowns in production due to customers utilizing existing inventories, usually at the beginning of each fiscal quarter.

Bulk commodity products revenues are sensitive to distribution costs. This can limit their competitiveness in particular markets. Competitive bulk and container freight costs give the Group access to Japanese and Mexican export markets but uncompetitive freight costs limit opportunities in European markets.

Soy Milk and Soy Ingredients: Soy milk and soy ingredients are marketed throughout the United States where the Group has a strong presence. The Food Group is continuing to develop new product offerings and customers as the demand for soy based products continue to grow.

Organic and Natural Food Ingredients: The natural and organic foods market is one of the fastest growing segments in the food industry. The Food Group markets a range of grain sweeteners and maltodextrins under the names Maisweet, Arrosweet and Oatsweet with sweeteners carrying a high dextrose equivalent (DE) and maltodextrins carrying a lower equivalent. Organic and natural vegetable oils are sold to customers throughout the United States, Hong Kong and Japan. Organic snack coatings will be launched during 2003 in response to heavy customer demand.

Custom Ingredients: The Company produces a number of unique functional food ingredients on a contract basis utilizing customer's proprietary technology. Products include:

Benefiber: A soluble guar based fiber food ingredient, produced under a

manufacturing agreement for a Japanese customer, whereby the Japanese based customer has the sole and exclusive rights to the product specifications. The product is also sold to a U.S. based customer for U.S. distribution.

Betatrim: Fractionalized oat based food ingredients produced under agreement for domestic customers.

Microgard: A natural food preservative.

Dairy Blends: The Group produces custom blended powdered dairy ingredients for several customers in the United States.

Powdered Honey and Molasses: The Group produces and markets dried sweeteners such as powdered honey and molasses, which are sold to food manufacturers.

Technical Processing and Spray Drying: Technical processing and spray drying is contracted with various customers to produce a variety of food ingredients.

Aseptic Packaged Products: Processing and packaging of shelf stable liquid products is performed at Nordic Aseptic. The Sunrich Food Group packages aseptic products for some of the leading consumer branded food companies in the United States and also has its own proprietary branded products being marketed under the trade names Rice Um and Soy Um.

Opta

Opta Food Ingredients, Inc. (Opta) is an innovator in the value-added food ingredients market. Opta is the worlds largest supplier of oat fiber to the food industry based upon management's knowledge and estimates of this market, a developer of value-added starch-based texturizers and resistant starches and a manufacturer of proprietary stabilizer blends.

Opta's food ingredients are used by more than 350 customers in the U.S., Canada, Latin America, Western Europe, the Middle East, Asia and the Pacific Rim, including 12 of the largest U.S. consumer packaged food companies and 3 of the world's largest quick service restaurant chains. Opta has an excellent reputation for product quality, and innovation and technical expertise in developing value-added solutions for major food and food service companies.

Opta works closely with consumer food and foodservice companies to identify product formulation, cost and/or productivity issues and develop solutions to these problems based on proprietary, value-added, highly functional food ingredients and ingredient systems.

Opta has added a unique portfolio of products and this has expanded the Food Group's specialty food ingredient business on the basis of two main technology platforms: fiber-based texturizers which include Canadian Harvest(TM) Oat Fibers and Stabilized Bran products, and Opta Ingredient Systems(TM) which include OptaGrade(R), OptaMist(R), OptaFil(R), CrystaLean(R), OptaMax(R), Shimizu Konjac Flour, Blanver's Best microcrystalline cellulose (MCC) and other proprietary stabilizer blends

In addition to helping food manufacturers improve the healthfulness of their food products, Opta's family of texturizing ingredients can improve the overall quality of food products, reduce formulation costs and meet specific processing requirements. The Company believes that all of its products are GRAS (Generally Regarded As Safe, see Regulation section for a further description) under current FDA regulations.

Opta's major products are as follows:

Fiber-Based Products

Canadian Harvest: Canadian Harvest Oat Fibers are a family of insoluble fiber products derived from oat hulls. Oat Fibers are used commercially to increase yield and enhance texture in ground meat products, to add strength and reduce breakage of taco shells and ice cream cones, and to enhance texture and increase the fiber content of cereals, breads, cookies and crackers. Opta also offers Canadian Harvest Stabilized Brans derived from oat, wheat

and corn, as well as wheat germ. The Stabilized Brans are heat-treated to extend shelf life and ground to meet customer needs for appropriate particle size.

Opta Ingredient Systems

Opta Ingredient Systems are proprietary blends of texturizing agents and other ingredients that are primarily developed and sold for use in the dairy, salad dressing and soy-based product categories. Many of the Ingredient Systems contain one of Opta's unique and proprietary starch-based texturizers which are described below.

OptaGrade: OptaGrade is a natural, starch-based texturizing agent that is used commercially in a variety of dairy products including natural, imitation and processed cheeses, sour cream, cream cheese and cottage cheese. Fat free cheeses made with OptaGrade have shown superb meltability with none of the off-taste or rubbery texture found in most fat free and reduced fat cheeses. By using OptaGrade in cottage cheese, food manufacturers are able to reduce total formulation costs while delivering excellent taste, texture and appearance. Cottage Cheese is a two component system: the solid cheese curd and the liquid portion known as dressing. The curd is the more expensive of the two. Thus, if a high quality cottage cheese can be produced with a higher proportion of dressing than previously used, then overall formulation costs will be reduced. Opta has successfully reformulated fat-free, low fat and full fat cottage cheeses for several customers in which dressing-to-curd ratios were increased, thereby reducing overall formulation costs. These reformulations incorporated OptaGrade into the dressing. OptaGrade lends itself very well to this application in that it enhances cling of the dressing to the curd and develops the right level of viscosity. This is critical to increasing the dressing-to-curd ratio, maintaining quality and realizing the cost savings. OptaGrade is also used to improve the taste and texture of reduced fat and fat free cream cheeses. In sour cream, OptaGrade is used to create a smooth, creamy texture, and allows for a "cleaner" all natural ingredient label. Formulations for fat-reduced or fat-free sour creams typically contain several ingredients that aid in replacing the fat-like attributes of the full-fat product. These ingredients may include fairly expensive hydrocolloids such as xanthan gum, alginates, agar or others. Opta successfully reformulated the light sour cream product of a multinational consumer food company by simplifying the formulation. This was made possible due to the fat replacement and textural properties of OptaGrade. Based on direct feedback from this customer, OptaGrade improved the taste, texture and appearance of the product while reducing formulation costs by over $500,000 on an annualized basis.

OptaMist: OptaMist is also a starch-based texturizing agent that improves the taste, texture and appearance of dairy products, yogurt, natural and processed cheese products, salad dressings and mayonnaise. While the functionality of OptaMist is similar to that of OptaGrade, its unique processing flexibility allows it to be used in food products made within a wide variety of processing

systems.

OptaFil: OptaFil is a starch-based opacifying agent and whitener used in reduced fat or fat free dairy and non-dairy creamers, whipped toppings, puddings, beverages, cheeses and salad dressings.

CrystaLean: CrystaLean is an enzyme-resistant, starch-based bulking and texturizing agent designed to enhance texture and add fiber to food products including baked goods and extruded products such as cereals and snack foods and to nutrition bars and nutritional beverages.

OptaMax: OptaMax is a starch-based texturizing agent developed to increase yields and improve the texture of reduced fat natural cheese including Mozzarella, Cheddar, Colby, Monterey Jack and Feta.

Konjac Flour: Under a distribution agreement with Shimizu International, Inc. of Japan, Opta is the exclusive North American distributor for konjac flour for food ingredient applications. A unique and very versatile texturizing agent obtained from the konjac plant commonly cultivated in East Asia, konjac flour provides excellent heat and freeze thaw stability when used to thicken or gel processed foods. Based upon current sales levels, the Company does not believe the distribution agreement with Shimizu is material.

Microcrystalline Cellulose (MCC): Under a distribution agreement with Blanver Farmoquimica, Ltda. of Brazil, Opta is the exclusive distributor of MCC for food related applications in the United States. MCC, commonly known and labeled as cellulose gel, is a naturally derived stabilizer, texturizing agent and fat replacer. It is used extensively in reduced fat salad dressings, numerous dairy products including cheese, frozen desserts and whipped toppings and bakery products. Based upon current sales levels, the Company does not believe the distribution agreement with Blanver is material.

Canadian Organic Food Group

The Canadian Organic Food Group was recently formed with the objective of becoming the dominant player in the Canadian natural and organic foods sector, vertically integrated from supply through distribution.

With the recent acquisitions of Wild West and Simply Organic, the Company is building a Canadian organic and natural foods distribution network that will support the organization's current branded products as well as further integrated product developments.

Wild West is a well-established business specializing in the distribution of organic and natural foods throughout Western Canada and Simply Organic is a growing certified organic distribution business serving the Central Canada market. Combined purchasing and product sourcing opportunities exist for these operations including consolidated purchasing of organic fruits and vegetables from key suppliers and expanded distribution opportunities for certain products based on existing supply arrangements.

In April, 2002, the Company launched a full line of organic dairy products under the brand name mu, and in July 2002 acquired certain assets and the business of Organic Kitchen Inc., a company that provides organic feeds and partners with processors to market organic poultry and other meat products to the mass markets.

The Canadian Organic Food Group's major products are as follows:

Organic Dairy - Full line of packaged organic milk and organic butter products under the tradename mu.

Organic Poultry - Current products include organic chicken and organic turkey sold under the Organic Kitchen trademark and various private label names.

Fresh Organic Produce - Both Simply Organics and Wild West distribute a full line of organic fruits and vegetables.

Natural and Organic Grocery - Wild West distributes approximately 2,400 natural and organic grocery items from a broad range of North American suppliers. Simply Organic also distributes a select number of organic and natural grocery items.

Major Developments during 2002

The three Canadian acquisitions and one startup business in 2002 have given the Company a major presence in Canada in the rapidly growing organic and natural foods market. The acquisition of Opta has further strengthened and enhanced the Company's presence and profile in the value-added food ingredients industry, including a greater global presence, as 15 to 20% of Opta's sales are internationally based.

During 2002, the Food Group commenced commercial application of its three year contract with a major customer for the supply of aseptic soy milk from its Nordic Aseptic facility. The production from this contract has contributed to improved performance at this facility, which had operating and startup losses of approximately $3 million in the 16 months prior to April, 2002.

Competition

The Food Group's specialty grain and inputs operation competes with large companies in the U.S. commercial grain procurement market. Within the last several years competition from other suppliers sourcing U.S., Canadian, South American and Chinese origin product has increased. The Food Group's organic specialty grains compete in the smaller niche U.S. commercial organic grains market. Key to competing in these markets is access to transportation, supply and relationships with organic producers.

The grain and inputs business is centered in Hope, Minnesota alongside the Union Pacific Railroad. The railroad is used for the grain elevator business and distribution of products nationally. The Hope facility is 70 miles south of Minneapolis/St. Paul, which gives it access to the Mississippi River for grain transporting and "containerized" shipments to the west coast for export. The facility is centrally located within the heart of soy and corn producers. The Group has an established IP grain producer network with approximately 1,500 producers, with many relationships existing for over 20 years. The Group has also been an organic certified handler and processor for a number of years and has ample grain processing and storage facilities to meet the needs of its producers and customers.

Specialty food ingredients are unique niche items usually developed or processed for specific customers. The Food Group competes with other product developers and specialty processors for the specialty ingredient business. The food

ingredients industry is intensely competitive. Competitors include major chemical companies with food ingredient divisions, other food ingredient companies, stabilizer companies and those consumer food companies that also engage in the development and sale of food ingredients. Many of these competitors have financial and technical resources as well as production and marketing capabilities that are greater than those of the Company. In addition, many of the Company's competitors have experience that is significantly greater than that of the Company in the testing of new or improved products.

The Company's Aseptic packaged products compete with numerous other manufacturers of similar aseptic packaged products.

The Canadian Organic Food Group competes against conventional food distributors that are much larger than Wild West and Simply Organic and other organic and natural foods distributors which are approximately the same size. Organic Kitchen and Sunrich Valley compete against other providers of organic meat and organic dairy products as well as significantly larger food companies that provide specialty or high end products that compete with organic products.

The Food Group's competitive advantages are:

- Integrated from the seed through finished product.
- Established IP grain producer network.
- Focus on natural and organic food products.
- Technical staff and expertise that identifies product specifications to meet the needs of the end user and create innovative products and processes.
- Flexible manufacturing facilities.

Distribution, Marketing and Sales

The Food Group grains and inputs unit ensures that it provides its customers with the highest quality organic, non-GMO and IP specialty grains, by serving as a grower's supplier of seed, purchaser of the grower's specialty crops and distributor of IP specialty products. The Food Group's "full circle" approach allows it to satisfy the specific needs of foreign and domestic food manufacturers and processors by providing products in the varieties and quantity needed in a timely fashion; transporting products to meet customers' needs by being able to package in containers, truck, rail or barge; providing product information and technical support during the growing, processing, and marketing phases, and offering complete service of product, including grading, formulation, processing, quality control and packaging.

Utilizing a technically sophisticated customer account team, the Food Group believes that the most effective way to solve each customer's problem is to gain a thorough understanding of the customer at all levels, build solid working relationships throughout the customer's organization, be knowledgeable of the market segment in which the customer competes, and have a detailed technical understanding of the customer's problem as well as its preferred solution. The Company takes a multidisciplinary approach in order to achieve this level of customer understanding and service. Members of the Food Group's direct sales force are teamed up with the appropriate technical personnel to work as "consultants" in defining and developing a range of potential solutions to their formulation and product development problems. In all cases, the Food Group's strategy is to provide outstanding service and responsiveness, which the Company believes, will lead to additional opportunities with existing and

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prospective customers.

The Canadian Organic Food Group's primary distribution coverage includes central and western Canada. It competes through the breadth of its product line, providing excellent product quality and consistency and by maintaining strong relationships with customers, growers, and suppliers.

Suppliers

The Food Group's raw materials and packaging needs are sourced from various suppliers who provide products that contractually are required to comply with certain specifications. Products are sourced from over 1,000 suppliers with availability subject to world market conditions. There are a number of alternative sources of supply for all raw materials with critical customer supply relationships highlighted below.

IP and organic grains are primarily sourced from over 1,500 North American growers and suppliers via annual contracts or spot market purchases. There is ample supply of grains to satisfy the Food Group's needs with expanding production in other parts of the world to provide additional supply if crop or market conditions limit the North American supply. The Food Group has the ability to divert available product based on market demand and customer requirements in order to maximize return.

Dairy ingredients are purchased from a number of suppliers, primarily dairy producer cooperatives. Product is purchased in the spot market with certain ingredients purchased via short-term supply contracts.

Oat hulls are primarily sourced from a major food company and there is ample supply to meet production requirements.

Maltodextrin is purchased on contract from several suppliers. There is substantial production capacity among these suppliers for maltodextrin. Organic maltodextrins are produced by the Food Group from organic grains sourced from contract growers.

Honey, molasses, high fructose corn syrup and flour are purchased based on required specifications in the spot market. The supply for these ingredients is sufficient to meet current demand. Supply shortfalls would have an effect on availability and price and would be reflected in finished product pricing for the Group.

Other ingredients such as guar, oat flour and carbon are supplied by process customers and are not sourced directly from Food Group suppliers.

The Canadian Organic Food Group sources products from over 500 suppliers. Overall supply is sufficient. Supply related to fresh produce items is controlled through spot pricing and changes are reflected in prices to end customers.

Regulation

The Food Group is affected by governmental agricultural regulations and policies. State and federal fertilizer, pesticide, food processing, grain buying and warehousing, and wholesale food regulations are examples of regulations that affect this Group. Government-sponsored price supports and acreage set aside programs are two examples of policies that may affect this Group. There can be

no assurance that government policies will not change from time to time in a manner adverse to the Food Group's business regulations or that may present delays and costs that could adversely affect this Group.

In addition, several of the Food Group's business activities are subject to U.S. environmental regulations. The Food Group is involved in the manufacture, supply, processing and marketing of organic seed and food products and, as such, is voluntarily subject to certain organic quality assurance standards. The Food Group is currently in compliance with all state and federal fertilizer, pesticide, food processing, grain buying and warehousing, and wholesale food-handling regulations. Regulatory agencies include the United States Department of Agriculture (USDA), which monitors both the food processing and agricultural grain business.

Certain food ingredient products are regulated under the 1958 Food Additive Amendments to the Federal Food, Drug and Cosmetic Act of 1938 (the "Act"), as administered by the FDA. Under the Act, pre-marketing approval by the FDA is required for the sale of a food ingredient which is a food additive unless the substance is GRAS under the conditions of its intended use by experts qualified by scientific training and experience to evaluate the safety of food ingredients. A food additive is any substance, "the intended use of which results or may reasonably be expected to

result, directly or indirectly, in its becoming a component or otherwise affecting the characteristics of any food." Such pre-marketing approval for ingredients that are not GRAS, which is issued in the form of formal regulation, requires a showing both that the food ingredient is safe under its intended conditions of use and that it achieves the function for which it is intended. GRAS status can be established in two ways, either by "self-affirmation" in which the producer determines on its own that the ingredient is GRAS, or by the issuance of a "GRAS affirmation regulation" by the FDA in response to a GRAS petition. A food ingredient may be deemed GRAS under the conditions of its intended use based upon its history of common use in foods prior to 1958, or based upon scientific procedures which produce the same quantity and quality of scientific evidence as would be required for the FDA to issue a pre-market approval of the sale of a food additive.

In either case, in order to establish that a product is GRAS, it must not only actually be safe in its intended use, but it must be generally recognized as such. If a food ingredient is not entitled to GRAS status, pre-market approval must be sought through the filing of a Food Additive Petition.

Countries other than the U.S. also regulate the sale of food ingredients. Regulations vary substantially from country to country, and the Company takes appropriate steps to comply with such regulations as necessary.

Many of the Food Group products are being marketed pursuant to GRAS self-affirmation. The Food Group believes that most products for which it has retained commercial rights are GRAS. However, such status cannot be determined until actual formulations and uses are finalized. Thereafter, the group decides whether self-affirmation procedures or a GRAS petition will be appropriate. Certain of the Company's products may require a Food Additive Petition and in the event that one is required, the Company may elect to sell or license its rights to another party. There can be no assurance that the Company will be successful in bringing its products to market based on its determination that such products meet these criteria.

The Food Group endeavours to comply in all material respects with applicable environmental regulations. Some of the key regulations include:

Air Quality - regulated by EPA and certain city/state air pollution control groups. Emission reports are filed annually.

Waste Treatment/Disposal - solid waste is either disposed of by a third-party or in some cases the Company has a permit to haul and land apply the sludge. Agreement exists with local city sewer districts to treat waste at specified levels of BOD and TSS.

Sewer - agreements with the local city sewer districts to treat waste as specified limits of BOD and TSS. This requires weekly/monthly reporting as well as annual inspection.

Hazardous Chemicals - various reports are filed with local city/state emergency response agencies to identify potential hazardous chemicals being used.

Research and Development

The Food Group has developed a number of new soy ingredients and alternatives to accommodate new product adaptation of these ingredients into various food items. The expanding interest to incorporate soy based foods in consumers' diets creates numerous opportunities to develop soy ingredients that can be incorporated into food developer's menu items. The Food Group continues to research products and processing systems that are required to serve the growing natural and organic foods markets and continues to expand in areas such as organic oils and organic snack coatings.

The nature of a number of the Food Groups products and processes requires the Company to create and maintain a number of patents and trade secrets. The Group's policy is to protect its technology by, among other things, filing patent applications for technology relating to the development of its business in the U.S. and in selected foreign jurisdictions.

The Group's success will depend, in part, on its ability to protect its products and technology under U.S. and international patent laws and other intellectual property laws. The Company believes that it owns or has the right to use all proprietary technology necessary to manufacture and market its products under development. There can be no assurance, however, that patent applications relating to the Company's products or technology will result in patents being issued or that current or additional patents will afford protection against competitors with similar technology.

The Company also relies on trade secrets and proprietary know-how and confidentiality agreements to protect certain of its technologies and processes. There can be no assurance that the Company's outside partners and contract manufacturers will be prevented from gaining access to the Company's proprietary technology and confidential information.

Employees

The Food Group has 475 full-time employees. There is one union at the Company's St. Thomas, Ontario facility that covers approximately 11 employees. This contract was renewed in August 2002 and expiries in 2004. Management considers

relations with its employees to be good.

Properties

The Food Group operates from eleven processing facilities (10 owned, 1 leased) in five U.S. states and one Canadian province. The leased property is for 23,775 square feet. Monthly rent costs are currently $11,812 and increase every August 1st by 2.5% until expiry of the lease on July 31, 2005. The Group also owns and leases a number of office and distribution locations and also leases and utilizes public warehouses to satisfy its storage needs. For more details please see Item 2. - Properties.

The Environmental Industrial Group

The Environmental Industrial Group has two principal business lines:

(1) The manufacture and distribution of industrial mineral based products such as specialty sands, bentonite clays, silica free abrasives, garnets and other products for the foundry, shipbuilding, bridge repair and steel industries. Many of these products can subsequently be recycled; and

(2) The recycling of waste industrial mineral by-products and materials from site reclamation projects; these materials are cleaned, crushed and blended to specific chemistry for resale to cement, steel and related industries.

This Group, like the Food Group, has also been built through several acquisitions starting with the initial acquisition of Barnes Environmental and Industrial in 1995. In 2000, George F. Pettinos (Canada) Limited (PECAL) and Temisca, Inc. were acquired followed by the acquisitions of Virginia Materials and 51% of International Materials in 2001. In late 2002, the 49% minority interest in International Materials was also acquired.

The Environmental Industrial Group's processing of cement additives and certain abrasives slows down during the January to March period, corresponding to reduced cement production and difficult winter operating conditions. The foundry and steel businesses are not considered seasonal. The establishment of the Louisiana manufacturing facility during 1998 and the subsequent acquisition of Virginia Materials helps to mitigate the seasonality of the Environmental Industrial Group sales.

The distribution of products is freight sensitive for lesser value added products and is focused on the Ontario and Quebec markets while the higher value products such as abrasives and garnets are shipped throughout the U.S. The annual volume of materials processed and distributed is approximately 180,000 tonnes.

Major Developments during 2002

During the year the Company acquired the 49% minority interest in International Materials.

From its acquisition of Virginia Materials in October 2001 the Group planned on adding a second plant location in Baltimore, Maryland, close to its supply of coal slag. Due to regulatory delays this plant has not yet become operational. Management is hopeful that approval will be obtained in 2003.

Major Products

Barshot/Crystalgrit: The Environmental Industrial Group has a licence agreement with Crystalgrit, Inc. from Quebec, Canada, the patent holder of "Specular

Hematite as an Impact Material" which gives the Group the exclusive right to market this material in the two central Canadian provinces, Great Lakes and Northeast Atlantic

region states and the state of Alabama and the non-exclusive right for the balance of North America. The Company pays 5.5% of the net sales price on products sold under the license agreement to a maximum of CDN $175,000 per year. The Group also has the first right of refusal for a licence in 5 other US states.

Specular Hematite: Marketed under the name "Barshot" or "Crystalgrit" as a recyclable abrasive providing higher profit margins for the user and competing with existing materials such as garnet, staurolite, aluminum oxide, various slags and steel grit.

The Group is continuing to develop agents/distributors primarily for the U.S. exclusive territory, focusing on companies and contractors capable of recycling Barshot or Crystalgrit.

Slag Abrasives: The Environmental Industrial Group markets copper slag abrasives under the name "Ebony Grit" into the Ontario and Quebec markets. With the acquisition of Virginia Materials the Environmental Industrial Group expanded its product offering with a coal slag abrasive under the name of "Blackblast". This product is marketed primarily into the Virginia, North Carolina, West Virginia and Alabama markets and will be expanded and offered across the entire Environmental Industrial Group network going forward.

Garnets: The Environmental Industrial Group is a producer of garnets for the water jet cutting, water filtration and abrasive industries. The Group also has an exclusive agreement with a garnet supplier in China, complimenting this with a Distributor Agreement with a garnet sand supplier in India. These high value products are sold to the water jet cutting and wet and dry abrasive blasting markets.

Silica Sands: The Environmental Industrial Group supplies major foundry customers in Quebec and Ontario with silica products. The acquisition of Temisca Inc. in 2000 provided the Group with a lower cost and secured supply of silica raw materials which has allowed the Group to remain a key supplier in this market. The properties of the Temisca silica sands are suited to the filtration, frac sand, golf course sand and abrasive applications.

Resin Coated Sand: Based upon management's understanding of the market, the Group is a dominant supplier of resin coated sand in Ontario and Quebec via products which are manufactured at the Group's Hamilton facility and through the distribution of a U.S. sourced product. Resin coated sand is used exclusively by the foundry industry.

Zircon Sands: The Group recycles high value added products, and in this regard has an agreement with a large automobile manufacturer in southern Ontario to recycle very high value zircon sand used in the manufacturing of engine castings. This product is produced at the Waterdown location, with a portion of the recycled product sold back to the automobile manufacturer, and the remainder sold into the industrial materials market.

The Environmental Industrial Group is committed to providing quality products and services. The Environmental Industrial Group is ISO-9002 registered at its

Waterdown and Hamilton locations. By the end of 2003, the Group is striving to have all of its operations ISO-9002 registered. ISO-9002 is an independent Quality Management System which requires documentation, standardized procedures and employee training for all processes affecting product quality and service.

Competition

The Environmental Industrial Group conducts business throughout North America with a focus on key regions. Key regions comprise the Quebec-Detroit corridor, New York, Norfolk, Virginia and the Louisiana Gulf region, all of which are areas of high volume ship repairs and bridge cleaning activities. The Group is competitive in abrasive and value added products in surrounding areas such as Michigan, New Jersey and Ohio.

The Group competes against a variety of competitors servicing the foundry, steel, abrasive, water jet and filtration industries. Each of these product categories are normally served by as many as three competitors. The Group competes through a combination of exceptional product quality and customer service combined with competitive pricing in these markets.

In 1994, the Waterdown site was awarded a Certificate of Approval from the Ontario Ministry of Environment and Energy to recycle non-hazardous and hazardous solid waste. To obtain the certificate management was required to file an operations and management plan with its initial application. Along with maintaining a bond of CDN $750,000 with the Ontario Ministry of Environment, the Company is limited in the amount of hazardous waste that it can store and receive on any one day as well as the overall length of time hazardous wastes can be stored. The

Company is subject to periodic audits by the Ministry to ensure proper storage, proper classification of hazardous wastes and security of materials as well as controls and monitoring of ground and storm water management, contingency plans and site inspections. The significance of this Certificate of Approval is that the Environmental Industrial Group can recycle certain types of solid waste, which could not be recycled without a Certificate of Approval, as many materials have been declared hazardous by the Ontario Ministry of Environment and Energy. The Certificate of Approval has no fixed expiry date, however the Company must comply with requirements listed in the terms of the Certificate of Approval, as summarized above to maintain its good standing.

Materials that can be recycled under the Certificate of Approval represent approximately 25% of the materials processed by the Environmental Industrial Group. The Certificate of Approval serves as a barrier to entry for other operators.

In general, the Environmental Industrial Group's competitive advantages include:

- Geographic location of facilities, strategically located near raw material sources.
- Superior knowledge of many industrial minerals and the markets for these materials.
- Long-standing relationships with both generators and users of industrial waste streams.

- Efficient and cost effective material handling and processing skills.

- Expertise necessary to provide customers with materials of a consistent and reliable quality and the ability to adjust chemical composition as required.

- Exclusive licence and supply arrangements.

Suppliers

Most of the Environmental Industrial Group's critical raw materials are purchased through approved suppliers to ensure the highest quality and the supplier's ability to adhere to the Group's requirements.

There is an abundance of inorganic materials that are increasingly becoming subject to federal, provincial and state legislative restrictions. The Group expects the supply of contaminated materials from remediation projects to continue to increase, due to increased awareness by the general public and the resulting laws that will require these wastes to be recycled in the future.

The Environmental Industrial Group receives materials from in excess of 2,000 suppliers. While the Group has several alternative sources of supply for many of the inputs it requires, it also has several key supplier relationships, which are summarized below.

The Group obtains its key abrasive raw materials from certain Canadian mines and a U.S. power plant. Ebony Grit, a product produced from copper slag is supplied on an exclusive basis by a Canadian mining and refining company. Specular Hematite reserves at the current mine supplier are estimated to be sufficient to supply the Group's needs for many years. Blackblast, a product produced from coal slag is supplied on an exclusive basis by a U.S. power plant.

The Group has a non-exclusive right to distribute certain high purity silica sand to the foundry industry in Quebec and Ontario for US Silica.

The Group represents Bentonite Performance Minerals, focusing on sales to the foundry market, as well as other bentonite sales to the industrial market in Quebec and Ontario.

The Group produces industrial garnet derived from a waste mining stream at its Keesville, New York facility. In addition the group has an exclusive North American Agreement to market garnet from a supplier in India and a second agreement with a supplier in China.

Regulation

The Environmental Industrial Group's business primarily involves the handling of materials, which are inorganic and mineral based. These types of materials are generally benign and do not give rise to environmental problems.

Accordingly, to date there has been low potential for environmental liabilities to arise. The Ontario Ministry of Environment and Energy has the right to inspect the Waterdown site and review the results of third party monitoring and perform its own testing. Similar rights of inspection exist at the facility in Norfolk, Virginia. Almost all of the Company's environmental regulation is

standard to the respective industries with the exception of the permits in Ontario and Virginia to recycle certain types of solid waste including items listed as hazardous materials. In both locations the Company is subject to monthly reporting and periodic audits as well as having a financial bond in place with the respective government should there be a contamination.

Based on known existing conditions and the Group's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position.

Research and Development

Environmental: In 2002, the Environmental Industrial Group continued to evaluate the processing and recycling of a number of waste mineral streams into higher value added products. These spent materials, originating primarily from the foundry, steel and industrial sectors can often be separated back into their original composition, which increases the value of the recycled product and can lead to a greater number of markets.

Specular Hematite: In 2002, the Environmental Industrial Group continued to study the use of Specular Hematite in a number of value-added markets, requiring fast cutting and cleaning speed, as well as developing new markets in nuclear shielding, non-slip flooring and ballast products.

Employees

The Environmental Industrial Group has 77 employees. The Environmental Industrial Group has two union sites, one in Waterdown, Ontario and one at its Hamilton, Ontario location. Both contracts have been extended to 2005. Management considers relations with employees to be good.

Properties

The Environmental Industrial Group operates from seven locations. The primary operating facility with administrative, laboratory and principal production is located in Waterdown, Ontario. In addition, the Group owns a production facility in Hamilton, Ontario, a distribution/warehouse facility in Lachine (Montreal), Quebec and the Temisca sand property in located in northern Quebec. The Group also leases production/distribution facilities in New Orleans, Louisiana, Norfolk, Virginia and Keesville, New York. For more details please see Item 2 Properties.

Steam Explosion Technology Group

The Company has developed a steam explosion technology known as the "StakeTech System", including process engineering and the hardware required.

The patented StakeTech System provides a method for the rapid and continuous steam treatment of biomass under high pressure. The suitable raw materials include wood chips, sugarcane bagasse, cereal straws and waste paper. In their natural state, these materials are not easily separated into their component parts. By processing with the addition of high-pressure steam, the StakeTech System breaks the chemical and physical bonds that exist between the components of these materials allowing their subsequent separation and processing into products and components that potentially have wide and diverse applications. The Company has demonstrated its equipment and technology on a commercial scale in several applications.

For the past several years the group has focussed its marketing efforts on the production of pulp for paper firm non-woody fibers and the production of celluose derivatives. The Group is also pursing a number of food based

applications with both external parties and internally through the Company's Food Group.

StakeTech's steam explosion business is not affected by seasonality.

Major Developments in Steam Explosion Technology in 2002

In 2002, the Steam Explosion Technology Group continued to focus on marketing pulping systems to China through its agent, Pacitec Inc. (Pacitec). In 2002, Pacitec maintained its exclusive rights for the Chinese market and continues to actively pursue the sale of StakeTech Systems.

In conjunction with Pacitec, the Company is currently pursuing equipment sales to several separate projects in China. The final stage of these contracts is to establish irrevocable lines of credit with the Chinese clients.

Competition

The Company is focussing its marketing efforts on applying the Steam Explosion Technology to the production of pulp for paper from non-woody fibres. The Company believes the ability of StakeTech Systems to operate at high pressure presents advantages in terms of reducing chemical requirements and improving product yields.

The Company's success in marketing to the pulp and paper industry will depend on the extent to which the StakeTech System can be shown to have advantages over the technology of existing suppliers. These existing suppliers include Ahlstrom, Kvaerner, Metso and Andritz. The Company is aware of other groups that are attempting to develop and market new pulping processes. These include the NACO process from Italy, the Saicca process from Spain and the Anbokem process from Canada.

It is anticipated that competition from suppliers of alternative systems and equipment in these markets will be strong and that the potential advantages for the StakeTech System will have to be demonstrated.

Suppliers

Waste biomass such as straw is currently available in abundant supply in many parts of the world. If other economic uses for waste biomass increase, the Company may find that the supply of such raw materials is reduced and this could have a materially adverse effect on the Company's steam explosion technology business.

In respect of the manufacturing of the customized steam explosion technology systems, the Company provides equipment fabricators with detailed drawings and equipment specifications. All major equipment components have at least two alternate suppliers.

Regulation

Stake steam explosion technology may use chemicals in addition to steam to treat fibrous material. This technology does not generally produce appreciable pollutants and the Company believes that its existing facilities are in full compliance with applicable laws concerning the environment. To date the Company has not found it necessary to spend significant amounts in order to comply with

applicable environmental laws. It is anticipated that future sales or licenses of the Company's technology will be made where the StakeTech System is but one part of a larger process, as for example in the manufacture of pulp. In these instances, the overall project may be subject to federal, state or local provisions regulating the discharge of materials into the environment. Compliance with such provisions may result in significant increases in the costs associated with the overall project.

Proprietary Technology

The Company recognizes that there exists a threat of others attempting to copy the Company's proprietary StakeTech System and/or appropriate the technology. To mitigate this risk, the normal business practice of the Steam Explosion Technology Group includes the signing of confidentiality agreements with all parties to which confidential information is supplied including all customers and licensees. The Company also holds several patents on its equipment and process technology.

In 2000, the Company received approval of a patent application made under the Patent Cooperation Treaty (PCT) agreement. This patent application covers certain proprietary equipment designs relating to the StakeTech System

and this approval served as the basis for a patent application made in China in January 2001. China is a signatory to the PCT.

Financial Exposure Related to Bonding and Guarantees

To enter markets such as China, the Company expects to have to provide substantial performance guarantees in the form of process guarantees and equipment guarantees. These guarantees will need to be backed by bank guarantees and/or surety bonds. The Company endeavours to reduce the associated risks, however there will always remain a possibility that the Company's guarantees or bonds could be called, rightfully or wrongfully and/or the equipment supplied fails to meet the guarantees and warranties provided resulting in potential financial losses to the Company.

Research and Development

During 2002, Steam Explosion research and development activities related to client specific investigations and focused on the production of pulp from straw from China and other food based applications.

Employees

The Steam Explosion Technology Group has 3 employees; 2 engaged in technical support, systems design and R&D, and 1 engaged in marketing, sales and engineering. Since the division subcontracts out the production of its equipment, it does not anticipate significantly increasing the size of its work force until it receives a contract for its equipment. Stake has engaged other engineering and sales resources to assist in product testing and contractual negotiations for the Company's Steam Explosion Technology Group.

Corporate Office

The corporate office of Stake is located in owned premises in Norval, Ontario. Nine staff are employed in a variety of management, financial and administration

roles.

Environmental Hazards

The Company believes, with respect to both its operations and real property, that it is in material compliance with environmental laws at all of its locations and specifically with the requirements of its Certificate of Approval issued by the Ontario Ministry of the Environment and Energy on the Environmental Industrial Group property in Waterdown, Ontario.

Employees

As of March 7, 2003 the Company had 564 employees broken out by division below:

Divisions	Number of Employees
Food Group	475
Environmental Industrial Group	77
Steam Explosion and Corporate Office	12
Total	564

Item 2. Properties

Food Group

The Food Group operates from the following locations which are owned unless otherwise noted:

Location	State/Province	Group/Sub Group	Description
Hope	Minnesota	SunRich Food Group	Head office
Alexandria-two facilities	Minnesota	SunRich Food Group	Soymilk proc
Bertha	Minnesota	SunRich Food Group	Drying and b
Fosston	Minnesota	SunRich Food Group	Processing a
Cambridge	Minnesota	Opta	Oat fiber pr
Cresco	Iowa	SunRich Food Group	Milling
Afton	Wyoming	SunRich Food Group	Soymilk proc
Bedford	Massachusetts	Opta	Head office
Louisville (Leased) (1)	Kentucky	Opta	Oat fiber pr

Galesburg	Illinois	Opta	Starch based
Richmond (Leased) (2)	British Columbia	Wild West	Office and d
Mississauga (Leased) (3)	Ontario	Simply Organic	Office and d
St. Thomas	Ontario	Opta	Brans and wh
Norval	Ontario	Sunrich Valley and Organic Kitchen	Head office

(1) Lease has an expiry date of July 2005.

(2) Lease has an expiry date of September 2007.

(3) Lease has an expiry date of December 2007.

Environmental Industrial Group

The Environmental Industrial Group operates from the following locations which are owned unless otherwise noted:

Location	State/Province	Group	Description
Waterdown	Ontario	EIG	Head office, processing and distributio
Hamilton	Ontario	EIG	Processing and distribution
Lachine	Quebec	EIG	Distribution
Bruno de Guiges	Quebec	EIG	Specialty sands
New Orleans (Leased) (4)	Louisiana	EIG	Abrasives processing
Norfolk (Leased) (5)	Virginia	EIG	Processing and distribution
Keeseville (Leased) (6)	New York	EIG	Garnet processing and distribution

(4) Lease has an expiry date of December 2003.

(5) Lease has an expiry date of October 2010 and an option to purchase for $2 million before October 2006.

(6) Lease has an expiry date of September 2010.

Steam Explosion Technology Group and Executive Offices

The Company's Executive Group, Steam Explosion Technology Group, Sunrich Valley and Organic Kitchen operations are located at 2838 Highway 7, Norval, Ontario, a property owned by the Company.

Item 3. Legal Proceedings

The SunRich Food Group. has commenced a suit against a supplier for failure to adhere to the terms of a contract. The Company and its legal counsel believe that this claim has merit. The Company has ceased co-packing arrangements under the existing contract and has commenced packing under separate arrangements. It cannot however be determined if there will be any recovery by the Company at this time and the Group is expensing the costs of pursuing this suit on a monthly basis. Other than this action, the Group has not been and is not currently a party to any material litigation other than stated above.

The supplier has counter-sued the Company for breach of contract. The Company believes this suit is without merit.

Opta has filed a claim against a former wholesaler in Germany for non-payment of invoices totalling $77,000 and the former wholesaler has filed a counterclaim alleging that they are eligible for compensation based on Opta Foods purported termination of the distribution agreement, which they allege existed. Under German law the maximum award the wholesaler could be entitled to receive is $130,000.

The Canadian Organic Food Group which includes Sunrich Valley, Organic Kitchen, Simply Organic and Wild West has not been and is not currently a party to any material litigation.

The Environmental Industrial Group has not been and is not currently a party to any material litigation.

The Steam Explosion Technology Group has not been and is not currently a party to any material litigation.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of the Company's shareholders during the fourth quarter of the year ended December 31, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common shares trade in US$ on The Nasdaq Small Cap Market tier of The Nasdaq Stock Market under the symbol STKL, and in CDN$ under the symbol SOY on the Toronto Stock Exchange. The following table indicates the high and low bid prices for Stake's common shares for each quarterly period during the past two years as reported by Nasdaq. The prices shown are representative inter-dealer prices, do not include retail mark ups, markdowns or commissions and do not necessarily reflect actual transactions.

Trade Prices on Nasdaq (US Dollars)

2002	HIGH	LOW

First Quarter	$2.68	$1.97
Second Quarter	$3.48	$2.58
Third Quarter	$3.07	$2.31
Fourth Quarter	$3.41	$2.39
2001	HIGH	LOW
First Quarter	$1.75	$1.38
Second Quarter	$2.45	$1.49
Third Quarter	$2.05	$1.41
Fourth Quarter	$2.17	$1.63

The following table indicates the high and low bid prices for Stake's common shares for each quarterly period since the company's listing on the Toronto Stock Exchange. The Company listed on the Toronto Stock Exchange on November 6, 2001, therefore information is only provided for the fourth quarter of 2001.

Trade Prices on TSX (Canadian Dollars)

2002	HIGH	LOW
First Quarter	$4.17	$3.15
Second Quarter	$5.39	$3.74
Third Quarter	$4.75	$3.48
Fourth Quarter	$5.27	$3.75
2001	HIGH	LOW
Fourth Quarter - 11/06/01 forward	$3.85	$2.65

At December 31, 2002, the Company has approximately 650 shareholders of record. Based on proxy requests from shareholders and nominee holders at the last annual meeting date, the Company estimates that there are at least an additional 4,000 beneficial holders of the Company's common shares.

Stake has never paid dividends on its common stock and does not anticipate paying dividends for the foreseeable future. The receipt of cash dividends by United States shareholders from a Canadian corporation, such as Stake, may be subject to Canadian withholding tax.

Issuance of securities and use of proceeds

Claridge Convertible Debenture

In December 2002, Stake issued to Claridge a $5 million convertible debenture due November 30, 2004, bearing interest at the rate of 5.5% per annum and convertible into common shares of the Company at a price of $3.00 per share on or after November 30, 2003. The funds were specifically used for the acquisition of Opta. In conjunction with the debenture, the Company issued 250,000 common share purchase warrants with an exercise price of $3.25, expiring November 30, 2004.

Options and warrants exercised during the year

During the year ended December 31, 2002, employees and directors exercised 246,740 common share options and an equal number of common shares were issued for net proceeds of $397,000. Subsequent to December 31, 2002, directors, officers and employees exercised 214,825 common share options and an equal number of common shares were issued for net proceeds of $392,000.

During the year ended December 31, 2002, 656,150 warrants were exercised and an equal number of common shares were issued for net proceeds of $1,474,000. Subsequent to December 31, 2002, 291,000 warrants were exercised and an equal number of common shares were issued for net proceeds of $641,000.

These funds were used for general business purposes including working capital and capital expenditures in existing businesses and for the recent Food Group acquisitions.

Bank Financing

The Company completed two bank refinancings in 2002 and has completed a further refinancing in March, 2003.

The first refinancing in March, 2002, was used to consolidate a number of separate banking and private lending relationships. This facility included a CDN$5 million line of credit, a $5 million line of credit, and a $15 million reducing term facility.

In November, 2002, Stake entered into a tender facility agreement with the banks for $17 million, to be used solely for the purchase of Opta's outstanding common shares pursuant to the cash tender offer.

In February, 2003, the Company entered into an amended and restated banking agreement. This amended facility increased the term debt to $21.7 million and the U.S. line of credit to $9 million. The incremental proceeds from this facility, in addition to cash on hand, were used to repay the tender facility. The term of the facility is two years with a renewal option by the lender and the Company. Principal payments are made quarterly and amortize over 7 years. The Company fully intends to renew the facility which matures in March, 2005.

Item 6. Selected Financial Data

The following information has been summarized from the Company's consolidated financial statements.

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

Canadian GAAP

	2002	2001	2000	1999	1998
Revenues	120,898	89,822	63,821	29,699	13,860
Net earnings	3,766	19	2,118	957	516
Total assets	115,287	80,061	58,304	22,246	10,105
Long-term debt (includes current portion)	36,749	16,648	19,811	2,582	1,318
Other long-term obligations including future taxes (includes current portion)	4,963	4,487	2,516	895	619
Basic earnings per share	$0.09	$0.00	$0.09	$0.06	$0.04
Diluted earnings per share	$0.09	$0.00	$0.09	$0.06	$0.04
Cash dividends	--	--	--	--	--

Note: The above table for the years 1998 to 2001 have been converted from Canadian dollars to U.S. dollars at a rate of convenience of $1.00 U.S. to $1.5928 CDN.

United States GAAP

	2002	2001	2000	1999	1998
Revenues	120,898	92,362	68,445	31,836	14,880
Net earnings	3,701	(231)	1,869	975	513
Total assets	114,929	79,708	61,450	24,550	10,497
Long-term debt (includes current portion)	36,749	16,648	21,044	2,849	1,369
Other long-term obligations including future taxes (includes current portion)	4,963	4,487	2,673	988	643
Basic earnings per share	$0.09	$(0.01)	$0.08	$0.06	$0.03
Diluted earnings per share	$0.09	$(0.01)	$0.08	$0.06	$0.03
Cash dividends	--	--	--	--	--

Exchange rates (U.S. GAAP)					
Period end	1.5703	1.5490	1.5000	1.4859	1.4836

Average rate	1.5776	1.5928	1.4852	1.4433	1.5333

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Overview

The Company's consolidated financial statements include the results of the organization's three principal operating groups: the Food Group, accounting for approximately 80% of 2002 revenues, with a focus on vertically integrated sourcing, processing and selling of soy and other natural and organic food products; the Environmental Industrial Group accounting for approximately 20% of 2002 revenues, with a focus on processing, distributing and recycling industrial minerals; and the Steam Explosion Technology Group accounting for less than 1% of 2002 revenues, with a focus on developing and commercializing proprietary steam explosion technology for processing of biomass into higher value products. All three operating groups are considered high growth ethical businesses, focused on environmental responsibility and the health and well being of its communities.

The Management's Discussion and Analysis (MD&A), detailed below, is presented in four parts; Results of Operations, Liquidity and Capital Resources, Business Outlook and Risks and Uncertainties, and should be read in

conjunction with the audited consolidated financial statements and accompanying notes contained on pages F-1 to F-36 of this Annual Report.

In 2002, the Company adopted the United States dollar as its reporting currency for presentation of its consolidated financial statements. With the acquisitions completed in 2001 and 2002, a significant portion of the Company's revenues, assets and earnings are attributable to its U.S. based operations. Historical consolidated results have been restated using a translation of convenience for Canadian GAAP purposes, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of $1.00 U.S. to $1.5928 CDN.

In 2002, the Company completed four acquisitions; Organic Kitchen, Wild West, Simply Organic and Opta, and also launched a new business unit, Sunrich Valley. All four acquisitions and the business launch served to complement the Company's vertically integrated growth strategy in the rapidly vertically integrated growing, value-added natural and organic foods markets. The acquisitions of Organic Kitchen, an integrated organic poultry producer, Wild West, a Western Canada based natural and organic foods distributor and Simply Organic, a Central Canada based natural and organic foods distributor, in addition to the start-up of Sunrich Valley, which markets organic dairy products, have positioned Stake Technology Ltd. as a major player in the Canadian natural and organic foods markets. The acquisition of Opta, with operations in both the United States and Canada, further strengthened the Company's presence in the value-added food ingredients market. Opta is the world's largest supplier of oat fiber to the food industry.

In 2001, the Company acquired Jenkins and Gournoe, Inc. (First Light Foods). First Light Foods owns several trademarked brands. This acquisition complemented the Company's vertically integrated soymilk strategy.

Revenues in 2002 increased by 34.6% to $120,898,000 from $89,822,000 in 2001 (2000 - $63,821,000). Gross margin on revenues improved to 16.1% from 13.8% in the prior year (2000 - 14.4%). Net earnings for the year increased to $3,766,000 or $0.09 per basic common share compared to $19,000 or $0.00 per basic common share in 2001 (2000 - $2,118,000 or $0.09 per basic common share).

Operating results in 2002 improved significantly over 2002 due to a number of factors including the turnaround at the Company's aseptic packaging operation, Nordic Aseptic, and improved results in other Food Group operations, including grain sales and food ingredients. The Environmental Industrial Group also reported improved earnings due in most part to the acquisition of Virginia Materials in the fourth quarter of 2001. The growth of the Group was partially offset in 2002 by the general economic slowdown in the foundry and steel industries and the impact of the September 11th tragedy on the bridge repair and shipbuilding industries, however, these industries have shown improvement in the latter half of 2002.

Three of the four acquisitions noted above were completed late in fiscal 2002 and therefore did not have a significant impact on operating results in 2002.

Operating results in 2001 decreased versus 2000 as a result of a number of factors, including the significant losses at Nordic Aseptic, weak market/economic conditions that impacted the Environmental Industrial Group, partially due to the September 11th tragedy, and increased costs of operating a growing public company.

The assets of the Company increased by $35,226,000 or 44.0% to $115,287,000 at December 31, 2002, due primarily to growth within existing operations and the acquisitions completed during the year, all in accordance with the Company's growth strategy. Long-term debt increased to $36,749,000, mainly as a result of financing related to acquisitions.

Results of Operations

2002 Operations Compared With 2001 Operations

Consolidated

Revenues in the year ended December 31, 2002, increased by 34.6% to $120,898,000 from $89,822,000 in 2001. Earnings increased to $3,766,000 or $0.09 per common share from $19,000 or $0.00 per common share in 2001.

The increase in the Company's revenues of $31,076,000 in 2002 is due to a number of factors including increased sales of aseptic packaged soymilk products of $12,808,000, increased sales of bulk grains of $9,647,000, specialty beans and dietary fiber of $3,089,000, the three acquisitions and one start-up within the Canadian natural and organic foods business in 2002 totalling $2,585,000, the acquisition of Opta Food Ingredients, Inc. in December 2002, adding $1,942,000, and the acquisitions of the business and certain assets of Virginia Materials & Supplies, Inc. and the outstanding common shares of International Materials and Supplies, Inc. (Virginia Materials) in October, 2001 of $5,351,000.

Net earnings for the year ended December 31, 2002 increased to $3,766,000 from $19,000 in 2001, due to improved financial performance at Nordic Aseptic, the Company's aseptic packaging operations of $1,990,000 after tax, as well as improved volumes and margins in dietary fiber of $624,000 after tax and certain

grain and agronomy products of $276,000 after tax. In addition, cost reduction programs implemented throughout the Company and certain price increases in the Environmental Industrial Group combined with the October 2001 Virginia Materials acquisition of $1,097,000 after tax contributed to improved earnings. The Company realized reduced borrowing costs as a result of new banking arrangements implemented in 2002 of $232,000 after tax, and had a reduced effective tax rate due to the reversal of a valuation allowance recorded against tax loss carry forward of $550,000 partially offset by the write-down of the Company's 32% investment in Easton Minerals Limited of $366,000, reduction in Steam Explosion Technology earnings of $187,000 after tax and net higher corporate costs of approximately $300,000 after tax. The Company wrote down the value of the investment to $nil since the shares have not traded since early 2002 and a potential financing to facilitate a business merger in 2002 did not materialize.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the net earnings for the year ended December 31, 2002 under U.S. GAAP were $3,701,000 or $0.09 per common share versus a loss of ($231,000) or ($0.01) per common share in 2001. Note 18 to the consolidated financial statements itemizes the nature of these differences.

Cost of goods sold increased by 31.0% to $101,431,000 for the year ended December 31, 2002 compared to $77,450,000 for the year ended December 31, 2001. Consistent with the revenue increase, the increase in cost of sales resulted from increased sales of certain food based products, the acquisitions completed during 2002 and a full year's revenue relating to acquisitions made in 2001.

The Company's consolidated gross margin improved to 16.1% in the year ended December 31, 2002 from 13.8% in 2001. The key drivers of this improvement are provided in the segmented operations information detailed below.

Selling, general and administrative expenditures increased 28.2% in the year ended December 31, 2002 to $14,281,000 from $11,142,000 in 2001. The increase in administrative costs is consistent with the growth in food operations, the 2002 acquisitions, the Virginia Materials acquisition completed in October 2001 and increased Corporate costs to support a rapidly growing public company. These increases were partially offset by a reduction in amortization expense as a result of the Company adopting the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002, whereby goodwill and indefinite life intangibles are no longer amortized. Amortization of goodwill and intangibles included in selling, general and administrative expenses in the year ended December 31, 2001 was $492,000.

Interest expense decreased to $1,413,000 in the year ended December 31, 2002 from $1,745,000 in 2001. The decrease in borrowing costs relates mainly to a decrease in the effective borrowing rate due to the consolidation of a number of loans under the new financing arrangements which resulted in lower interest rates and a decrease in floating interest rates on certain debt instruments versus 2001.

Interest and other income was $218,000 in the year ended December 31, 2002, compared to $326,000 in the year ended December 31, 2001. Included in the results for the year ended December 31, 2002 is a write-down of the Company's 32% investment in Easton Minerals Limited of $366,000, offset by a gain in the sale of non-core assets of $285,000, which included certain surplus real estate properties obtained in the acquisitions of Barnes Environmental International and Northern Food & Dairy, Inc.

Provision for income taxes increased to $401,000 in the year ended December 31, 2002, compared to $147,000 in 2001. The effective tax rate decreased from 88.6% in 2001 (2001 included a tax refund of $85,000 related to the reassessment of an acquired business) to 9.6% in 2002 mainly due to the realization of certain loss carry-forwards

including the realization of the previously unrecorded Nordic loss carry-forwards of $550,000 and tax planning strategies implemented by the Company.

Segmented Operations Information

Food Group

The Food Group contributed $96,319,000 or 79.7% of total Company consolidated revenues in the year ended December 31, 2002 versus $69,973,000 or 77.9% in the same period in 2001. The increase of $26,346,000 or 37.7% (of which 31.4% was generated through internal growth), was due primarily to increased sales of aseptic packaged soymilk at Nordic Aseptic of $12,808,000, an increase in sales of bulk grains and specialty beans of $9,528,000, a supply contract cancellation fee of $1,557,000 and the acquisitions of the Canadian natural and organic food companies and Opta in the second half of 2002.

Gross margin in the Food Group increased by $4,364,000 in the year ended December 31, 2002 to $13,197,000, or 13.7%, from $8,833,000 or 12.6% in 2001. The increase in gross margin reflects the positive impact of improved product margins on organic feed, dietary fiber and various other specialty processed products of $664,000, the impact of the turnaround at Nordic Aseptic of $3,262,000, cost reduction initiatives undertaken throughout the Group, the supply contract cancellation fee of $1,557,000 and acquisitions completed in 2002, offset by lower margins on bulk grains and certain retail consumer products of $862,000.

Selling, general and administrative expenses increased to $8,301,000 in the year ended December 31, 2002 versus $6,297,000 in the year ended December 31, 2001. The increase is due primarily to an increase in payroll and related costs (as the organization continues to support the growth in operations), selling, general and administrative expenses incurred through acquisitions and legal costs of approximately $200,000, due in most part to an action against a former supplier for failure to adhere to the terms of a supply contact, as detailed in Part II - Other Information.

Interest expense decreased to $1,034,000 in the year ended December 31, 2002 from $1,423,000 in the year ended December 31, 2001. The decrease was due to the refinancing of the majority of the Group's debt in March 2002, in addition to reductions in floating interest rates on certain debt instruments versus 2001, as noted above.

The Food Group net earnings increased to $3,166,000 in the year ended December 31, 2002 from $310,000 in 2001 as a result of the improved financial performance at Nordic Aseptic, improved volumes and margins on grains, specialty beans and dietary fiber. Net earnings also benefited from internal cost control programs, the supply contract cancellation fee, a one-time gain on sale of property and the reversal of a valuation allowance on the Nordic loss carry-forwards that was previously provided.

Environmental Industrial Group

The Environmental Industrial Group contributed $24,422,000 or 20.2% of the Company's consolidated revenues in the year ended December 31, 2002, versus $19,490,000 or 21.7% in 2001, an increase of $4,932,000 or 25.3%. Revenues were

favourably impacted by the acquisition of Virginia Materials in October 2001 of $5,351,000, partially offset by weak market and economic conditions in the Canadian steel and foundry businesses, the economic impact of the September 11th tragedy on the demand for abrasives and continued competition in the silica and coated sands markets.

Gross margin in the Environmental Industrial Group increased to $6,112,000 in the year ended December 31, 2002 versus $3,256,000 in the year ended December 31, 2001, an increase of $2,856,000 or 87.7%. The increase in margin resulted primarily from the acquisition of Virginia Materials and improvements in price and sales mix, offset by a decrease in volume as a result of the economic conditions noted above. As a percentage of revenues, gross margin improved to 25.0% in 2002 from 16.7% in 2001.

Selling, general and administrative expenses increased to $2,933,000 in the year ended December 31, 2002 from $2,326,000 in 2001. The increase is due in most part to a full year of expenses in relation to Virginia Materials.

Interest expense was $320,000 in the year ended December 31, 2002 compared to $291,000 in 2001. The increase was due to an increase in debt as a result of the acquisition of Virginia Materials.

Net earnings improved significantly in the year ended December 31, 2002 to $1,741,000 versus $491,000 in 2001, due in most part to the addition of Virginia Materials and improved price and sales margins on certain products, offset by unfavourable economic and market conditions in the Canadian steel and foundry businesses and increased competitive pressures in key product groups.

Steam Explosion Technology Group

Revenues of $157,000 in the year ended December 31, 2002 and $359,000 in 2001 were derived primarily from licence fees. The decrease in revenues over the prior year is due to the uncertainty of collection of the second half of the annual licence fees. The remainder of the licence fee revenue will be recorded once collection becomes certain.

Cost of goods sold for the year ended December 31, 2002 was nil versus $76,000 in 2001 (mainly amortization charges). The asset was fully amortized in 2001, and therefore no amortization was recorded in 2002.

Selling, general and administrative expenses were $332,000 in the year ended December 31, 2002 compared to $270,000 in 2001. These costs reflect payroll and related expenses required to manage and maintain the business and prepare for implementation of the first sale of a StakeTech Steam Explosion Pulping System in China.

For the year ended December 31, 2002 the Group had a net loss before taxes of $204,000 compared to a net loss before taxes of $17,000 in 2001.

Corporate Activities

Selling, general and administration expenses were $2,715,000 in the year ended December 31, 2002 compared to $2,249,000 in the year ended December 31, 2001. The increase was due to an increase in the costs of administering a growing public company including incremental payroll and related costs, public relations, professional fees and financing costs, in addition to accrued costs

in the settlement of a legal action as detailed in Part II - Other Information.

Commitments and contingencies

(a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company. Legal counsel has concluded the outcome of these claims or potential claims is not determinable.

(b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.

(c) In the normal course of business, the Food Group holds grain for the benefit of others. The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.

(d) Letters of credit:

i) An irrevocable letter of credit for $475,000 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

ii) An irrevocable letter of credit for $195,000 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

iii) Additional letters of credit totalling $28,000 have been placed with third parties as security on transactions occurring in the ordinary course of operations.

(e) Commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

	$
2003	1,672,000
2004	1,595,000
2005	1,514,000
2006	1,474,000
2007	1,339,000
2008 and thereafter	1,430,000
	9,024,000

2001 Operations Compared With 2000 Operations

Consolidated

Revenues in 2001 increased by $26,001,000 or 40.7% to $89,822,000, from $63,821,000 in 2000. Net earnings in 2001 decreased to $19,000 or $0.00 per common share compared to $2,118,000 or $0.09 per common share for the year ended December 31, 2000. The increase in the Company's revenues in 2001 was due to a number of factors including the acquisitions of First Light Foods ($6,031,000) and Virginia Materials ($883,000) plus the full year impact of the acquisitions completed in 2000. (PECAL, Northern, Nordic and Temisca).

Earnings decreased due to a number of factors including the significant operating issues at Nordic Aseptic, weak market/economic conditions that impacted the Environmental Industrial Group, increased costs of operating a growing public organization and the reversal of a valuation allowance recorded against tax loss-carryforwards, fully realized in 2000.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the loss for 2001 under U.S. GAAP was ($231,000) or ($0.01) per common share versus earnings of $1,869,000 or $0.08 per common share in 2000. Note 18 to the audited financial statements itemizes these differences.

Cost of goods sold increased by 41.7% to $77,450,000 for the year ended December 31, 2001 compared to $54,650,000 for the year ended December 31, 2000. Consistent with the revenue analysis above, the increase in cost of good sold was related to the increase in revenues resulting from the acquisitions completed in 2000 and 2001.

The Company's consolidated gross margin was 13.8% in 2001 compared to 14.4% in 2000. Excluding the impact of the losses incurred related to Nordic Aseptic, gross margin increased to in excess of $13,000,000 or 14.8%.

Selling, general and administration expenditures increased 57.1% in 2001 to $11,142,000 compared to $7,091,000 for the year ended December 31, 2000. The increase in administrative costs was due to the acquisitions made in 2000 and 2001, increased bad debt provisions, the higher costs of operating a larger public company and increased amortization of trademarks, patents and goodwill.

Interest expense increased to $1,745,000 in 2001 from $959,000 in 2000. The bulk of this increase was due to the Food Group's debt obligations related to acquisitions completed in 2000. Interest expense related to the increase in the Food Group totalled $1,423,000 ($698,000 in 2000). Canadian debt held by the Environmental Industrial Group and Corporate Office represents $322,000 of interest expense in 2001 ($261,000 in 2000).

Interest and other income decreased to $326,000 in 2001 from $407,000 in 2000.

The effective income tax rate increased in 2001 to 88.6% (2000 - (34.6%)) due in most part to loss carry forward benefits realized in 2000 and a proportionate increase in non-deductible expenses in 2001. In 2000 the Company recorded the benefit of previously unrecognized Canadian tax loss carry forwards of $1,128,000 and provided a tax provision of $542,000 on the net earnings of the Food Group. Due to the complex US tax structure, the Company was unable to recognize the tax benefit of Nordic Aseptic's start-up losses. The Company has since restructured the Food Group, which provides for more effective tax strategies.

Food Group

The Food Group contributed $69,973,000 or 77.9% of total Company consolidated revenues in 2001 versus $43,836,000 or 68.7% in 2000. The increase of $26,137,000 in Food Group sales (59.6%) was due to a number of factors including the acquisition of First Light Foods in 2001, which contributed revenues of $6,031,000, increased revenues at Nordic in 2001 versus 2000 of $6,288,000, the impact of the Northern acquisition completed in 2000, which resulted in additional revenues of $17,652,000, partially offset by a decrease in waxy corn sales of $4,531,000.

Gross margin in the Food Group increased by $3,119,000, an increase of 54.6% to $8,833,000 in 2001, or 12.6% of revenues, versus $5,714,000 in 2000, or 13.0% of revenues, representing 71.4% of the Company's 2001 consolidated gross margin. The increase in gross margin resulted from the acquisitions noted above, combined with improved product margins on food ingredient and organic feed products, partially offset by the significant losses incurred at Nordic during the year. Excluding losses at Nordic, gross margin increased to 13.8% of revenues versus 13.0% in the prior year.

Selling, general and administrative expenses increased to $6,297,000 in 2001 versus $4,440,000 in 2000. The increase was due primarily to the acquisition of First Light Foods in 2001, the full impact of the Northern and Nordic acquisitions in 2000, increased research and development costs as a result of expanded development initiatives, the costs of a study of opportunities related to the European soy foods market, and increased payroll and related costs as the organization continues to support the growth in operations.

Interest expense on long-term debt and other interest increased to $1,423,000 in 2001 versus $698,000 in 2000. The increase was due to the impact of the acquisitions noted above, in addition to increased use of operating lines of credit throughout the year to support Nordic losses and capital expansion projects.

Pre-tax earnings of the Food Group were $496,000 in 2001 versus $772,000 in 2000. Results were positively impacted by the additions of First Light Foods and Northern, but negatively impacted by the near $2,000,000 pre-tax loss at Nordic

Net earnings improved to $310,000 in 2001 versus $230,000 in 2000.

Environmental Industrial Group

The Environmental Industrial Group contributed $19,490,000 or 21.7% of the total Company consolidated revenues, versus $19,642,000 or 30.8% in 2000. Revenues were favourably impacted by the acquisition of Virginia Materials in 2001 plus the full effect of the Temisca and PECAL acquisitions completed in 2000. These increases were partially offset by the economic impact of the September 11th

tragedy on the demand for abrasives in New York City, weak market and economic conditions in the steel and foundry businesses, and increased competition in the silica sands market.

Gross margin in the Environmental Industrial Group increased to $3,256,000 in 2001 versus $3,148,000 in 2000, representing 26.3% of the Company's consolidated gross margin in 2001. The increase in gross margin resulted primarily from the acquisition offset by economic impacts as noted above. As a percentage of revenues, gross margin improved to 16.7% in 2001 from 16.0% in 2000.

Selling, general and administrative expenses increased to $2,326,000 in 2001 versus $1,512,000 in 2000. The increase was due in most part to the acquisition of Virginia Materials in 2001, the full effect of the Temisca and PECAL acquisitions in 2000 and increased costs related to provisions for doubtful accounts.

Interest expense increased to $291,000 in 2001 versus $261,000 in 2000. The increase in interest expense resulted from additional borrowings required to finance the acquisitions noted above, and increased use of operating lines at times during the year to support internal expansion projects.

Pre-tax earnings of the Environmental Industrial Group were $661,000 in 2001 versus $1,619,000 in 2000. Results were positively impacted by the additions of Virginia Materials, Temisca and PECAL, but negatively impacted by unfavourable economic and market conditions and increased competitive pressures in key product groups.

Net earnings were $491,000 in 2001 versus $1,578,000 in 2000 as a result of the factors noted above.

Steam Explosion Technology Group and Corporate Activities

Revenues for the Steam Explosion Technology Group were $359,000 in 2001 versus $343,000 in 2000. Both periods reflect revenues earned from steam explosion licence fees and consulting. No steam explosion equipment sales were recorded in either 2001 or 2000.

Gross margin in the Steam Explosion Technology Group was $283,000 in 2001 versus $309,000 in 2000. The gross margin as a percentage of revenue of 78.8% (90.1% in 2000) reflects the nature of the revenues with minimal associated cost of goods sold.

The Steam Explosion Technology Group and Corporate selling, general and administration expenses were $2,519,000 in 2001 versus $1,139,000 in 2000. The increase was due to an increase in the costs of administering a growing public company including incremental payroll and related costs, public relations and professional fees, in addition to the ongoing marketing and travel costs incurred to secure a steam explosion equipment sale in China.

The net loss before taxes of $991,000 in 2001 versus $818,000 in 2000 reflects the increase in selling, general and administration expenses noted above offset by the positive effect of exchange gains and interest and other income noted above.

Liquidity and Capital Resources (at December 31, 2002)

Current assets

Cash and cash equivalents increased to $7,012,000 at December 31, 2002 (2001 - $3,364,000), primarily due to the conversion of $6,307,000 of short term investments held at December 31, 2001 to cash and the removal of the restriction on $1,147,000 of cash, as detailed below, offset by funding of certain working capital, capital projects and acquisitions.

As of December 31, 2002 the Company had restricted cash of $nil (2001 - $1,147,000) and short term investments of $2,038,000 (2001 - $6,307,000). The restricted cash at December 31, 2001 related primarily to funds restricted from the December 2001 private placement. These funds were subsequently received by the Company in April 2002 based on the Form S-3 registration statement being declared effective and clearance of the Ontario Securities Commission hold period.

The short term investments held at December 31, 2002 consist of short-term money market investments with maturity dates greater than 90 days from acquisition, obtained in the acquisition of Opta. The short term investments held at December 31, 2001 were funds held in a mutual fund corporation which held cash equivalents. These securities were disposed in 2002 and the proceeds invested in cash equivalents, as noted above.

Trade accounts receivable increased to $18,144,000 at December 31, 2002 from $8,377,000 at December 31, 2001. Trade receivables attributable to the Food Group as at December 31, 2002 were $14,889,000 (2001 - $5,088,000). The increase was primarily due to an increase in grain sales late in the year, an increase in sales of aseptic and soy concentrate products, the supply contract cancellation fee of $1,557,000 which was received in early 2003 and the impact of acquisitions completed in 2002. Trade receivables in the Environmental Industrial Group were $3,255,000 compared to $3,289,000 in 2001.

The note receivable of $1,034,000 at December 31, 2002 (2001 - $2,303,000) and the product rebate payable included in long-term payables of $1,330,000 (2001 - $1,209,000) are related to an agreement with a major

customer to supply product. This agreement required the Food Group to expand a food processing plant to the customer's specifications, which was completed in 2000. In accordance with the terms of the agreement the customer committed to pay 36 monthly instalments of $119,000, expiring September 2003. The agreement also requires the Company to provide the customer with a rebate based on product purchases beginning in October 2003 until such time as $1,720,000 is repaid. Upon the application of purchase accounting in 2000, both the receivable and payable were fair valued using a discount rate of 9.5 %.

Inventories increased $9,168,000 to $22,989,000 at December 31, 2002. Inventories in the Food Group increased $8,167,000 to $18,492,000, primarily due to increased inventory of aseptic packaging goods, the acquisition of Opta, an increase in natural and organic product inventories in Canada as a result of acquisitions and seasonal grain inventories. Inventories in the Environmental Industrial Group increased $1,001,000 to $4,497,000, due in most part to the committed purchase of raw material inventories from the previous owner of Virginia Materials, as agreed in the October 2001 acquisition. The Steam Explosion Technology Group is not required to carry significant inventories.

Property, plant and equipment

In the year ended December 31, 2002, the Company spent $4,464,000 (2001 - $3,907,000) on capital expenditures. Of this, the Food Group expended $3,306,000, with the larger projects being the acquisition of a boiler for the production facility in Afton, Wyoming and the acquisition of a CIP system for Nordic Aseptic. The Environmental Industrial Group expended $1,058,000, of which, $268,000 was spent on equipment refurbishment for a new plant to be opened in Baltimore, Maryland and the remaining on general additions and replacements. The Corporate Office and Steam Explosion Technology Group expended $100,000, primarily on office and computer equipment to accommodate continued expansion.

Goodwill and intangibles

Goodwill increased to $12,212,000 at December 31, 2002 from $8,540,000 at December 31, 2001. The increase relates to the contingent consideration component and revised estimate of the deferred purchase consideration related to the acquisition of Virginia Materials and the Canadian natural and organic food acquisitions. No goodwill was recorded on the acquisition of Opta.

Indefinite life trademarks, valued at $2,498,000 at December 31, 2002 remained unchanged from December 31, 2001. During the year the Company adopted the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" The new standard eliminates the amortization of goodwill and certain intangibles. The Company believes that its trademarks "Rice Um" and "Soy Um", acquired through the acquisition of First Light Foods have an indefinite life and in accordance with the standard are no longer being amortized. The Company will assess the carrying value of these trademarks on an annual basis to determine if there is an impairment in their value.

Definite life trademarks, obtained in the acquisition of Organic Kitchen in July 2002 and the acquisition of Wild West in November 2002, increased to $207,000 at December 31, 2002 (2001 - $nil). These trademarks are being amortized over the life of the asset.

Future income taxes

Net future income tax assets of $10,007,000, (including current portion of $115,000) as at December 31, 2002 (2001 - net future income taxes liability of $1,159,000) relate principally to loss carry-forwards recorded on the acquisition of Opta, loss carry-forwards available in the Food Group, scientific research expenditures credits available in Canada and differences between the accounting and tax basis of assets and liabilities primarily related to property, plant and equipment and intangibles.

Other assets

Other assets increased to $1,080,000 at December 31, 2002 versus $840,000 as at December 31, 2001. In 2002, the Company deferred $276,000 (December 31, 2001 - $32,000) in costs related to the start-up of an organic dairy business based in Canada. Amortization of these costs commenced in July 2002 and will be amortized on a straight-line basis to December 31, 2003. In 2000, the Company deferred $482,000 of pre-operating costs related to Nordic Aseptic, which comprised the operating losses from April to December 31, 2000 that were related to the start-up phase of the plant. This amount is being amortized equally over a 36-month period. As at December 31,

2002, the unamortized balance of these items is $358,000 (2001 - $353,000). Readers should note that these pre-operating costs would have been expensed under U.S. GAAP.

In 2002, the Company deferred financing related costs of $796,000 and has a net balance remaining of $619,000 at December 31, 2002 (2001 - $24,000). These costs are related to the conversion and consolidation of substantially all of the Company's and its subsidiaries' outstanding debt to one major Canadian bank and its U.S. subsidiary. While the amortization period for the term loan is seven years, these costs are being written off over two years, which represents the first renewal date of the agreement.

Investments decreased to $nil at December 31, 2002 from $366,000 at December 31, 2001 as a result of a write-down in the Company's equity investment in Easton Minerals Limited.

At December 31, 2002, other items were $103,000 versus $97,000 at December 31, 2001.

Current liabilities

Accounts payable and accrued liabilities increased to $19,664,000 at December 31, 2002 from $12,831,000 at December 31, 2001. The increase is primarily due to an increase in base business and the acquisitions completed in 2002.

Customer deposits of $421,000 at December 31, 2002 (2001 - $1,389,000) relate to cash deposits made by Food Group customers in 2002 for purchases to be completed throughout the 2003 season. No recognition of revenue or accrual of costs is booked on these transactions until the goods are shipped. The significant decrease from the prior year relates to one particular customer who chose not to place funds on deposit prior to December 31, 2002 due to a change in internal policy, but is expected to continue to purchase goods from the Food Group throughout 2003.

New Financing Arrangement Replacing Existing Lines of Credit and Long Term Debt

During 2002, the Company entered into a new financing arrangement with a major Canadian bank and the bank's U.S. subsidiary. Subsequent to December 31, 2002, the Company entered into an amended financing arrangement with the existing lenders and a bank syndication agreement. The amended arrangement increased the term loan by $7,800,000 to $21,700,000 and the U.S. line of credit facility by $4,000,000 to $9,000,000. The Canadian line of credit facility remained unchanged at CDN $5,000,000. The term loan is repayable quarterly and amortizes over seven years. All three facilities bear interest at various reference rates including U.S. bank prime, U.S. LIBOR and/or Canadian bank prime plus a premium based on certain financial ratios of the Company. The term loan has a two year maturity at which point the facility is renewable at the option of the lender and the Company. The Company fully expects to renew this facility.

Total debt of $15,447,000 outstanding at December 31, 2001 was repaid during 2002 with the proceeds of the new financing arrangement.

The three facilities described above are collateralised by a first priority security against substantially all of the Company's assets in both Canada and the United States.

Bank indebtedness

Net bank indebtedness at December 31, 2002 is $3,963,000 (2001 - $1,206,000). The increase relates primarily to an increase in working capital requirements and capital acquisitions.

Long term debt

At December 31, 2002, the Company's long-term debt, including current portion, is $36,749,000, an increase of $20,101,000 from December 31, 2001. Included in long-term debt is a $13,900,000 term loan, noted above prior to the amended arrangement, a $5,000,000 convertible debenture with a fair value at December 31, 2002 of $4,697,000, $15,186,000 in a tender facility obtained to facilitate the December 2002 acquisition of Opta, and $2,966,000 in other long-term debt. The tender facility was repaid subsequent to December 31, 2002 with cash and the incremental proceeds from the amended facilities as noted above. The increase from the prior year relates primarily to incremental financing obtained to finance the acquisition of Opta in the form of the convertible debenture and the tender facility.

Long-term payables

Total long-term payables (including current portion) at December 31, 2002 were $4,963,000, compared to $2,665,000 at December 31, 2001. Long-term payables consist of (1) the product rebate payable to a major customer as previously discussed, (2) deferred purchase consideration related to the acquisition of Virginia Materials, (3) preference shares of subsidiary companies, and (4) amounts payable to former shareholders of acquired companies.

The increase in 2002 is due in most part to the increase in amounts due to former shareholders of acquired companies of $2,675,000, of which $1,871,000 is due to former shareholders of Opta for untendered shares, which was paid subsequent to December 31, 2002. The remaining amount payable to former shareholders of acquired companies relates to the contingent consideration portions of the acquisitions of Virginia Materials completed in 2001, and Wild West and Simply Organic completed in 2002.

Cash flows

Net cash and cash equivalents increased $3,648,000 during fiscal 2002 (2001 - $2,728,000) to $7,012,000 as at December 31, 2002 (2001 - $3,364,000).

For the year ended December 31, 2002, cash provided by operations before working capital changes was $6,989,000 (2001 - $3,394,000), an increase of $3,595,000 or 106%. The increase was due primarily to increased net earnings throughout the Company and the non-cash write-off of the Easton Minerals Limited investment, offset by the non-cash realization of loss carry-forwards.

Cash provided by operations after working capital changes was $72,000 for the year ended December 31, 2002 (2001 - $320,000), reflecting the utilization of funds for non-cash working capital of ($6,917,000) (2001 - $3,074,000). This utilization consists principally of an increase in accounts receivable ($4,712,000), an increase in inventories ($3,086,000) and a decrease in customer deposits ($969,000), offset by a an increase in accounts payable and accrued liabilities ($1,271,000) and decrease in other current assets ($579,000). The usage of cash flows to fund working capital in 2002 reflects the increase in working capital requirements required to fund the rapid growth in operations and the supply contract cancellation fee which was subsequently collected in January 2003.

Cash used in investment activities of $18,546,000 in 2002 (2001 - $11,042,000),

reflects cash used to complete acquisitions, net of cash acquired, of $21,919,000 (2001 - $2,172,000) and acquisitions of property, plant and equipment of $4,464,000 (2001 - $3,907,000), offset by a decrease of short term investments for proceeds of $6,307,000 (2001 - increase of ($6,307,000)) and payments received on a note receivable of $1,425,000 (2001 - $1,393,000).

Cash provided by financing activities was $22,031,000 in the year ended December 31, 2002 (2001 - $13,383,000), consisting primarily of net borrowings from long-term facilities of $17,943,000 (2001 - net repayments of ($5,146,000)), net increase in operating lines of credit of $2,757,000 (2001 - net decrease of ($1,020,000)), decrease in restricted cash of $1,147,000 (2001 - increase of ($1,147,000)), net proceeds from the issuance of common shares of $2,091,000 (2001 - $20,813,000), offset by payment of deferred purchase consideration to the former owner of Virginia Materials of ($982,000) (2001 - $nil), deferred financing costs of ($796,000) (2001 - $nil) and the purchase and redemption of preference shares of subsidiary companies of ($129,000) (2001 - ($117,000)).

Business Outlook

The natural and organic foods industries in the North American market are currently estimated to be in excess of $10 billion, with a large number of companies competing in specific segments of the market. However, there are relatively few companies well positioned to take advantage of this rapidly growing market, currently estimated to be growing at 15 to 20% annually. The Food Group's vertically integrated business model coupled with its growth strategy based on a combination of internal growth and acquisitions, has positioned the Company as a leader in the North American natural and organic foods market.

The Company plans to continue to exercise this growth strategy in the future.

Based on current market projections and annualized results of the acquisitions completed in 2002, the Company expects revenues in 2003, excluding additional potential acquisitions, to be approximately $175,000,000, a 45% increase over 2002. In addition, the Company's business plan includes strategies and initiatives designed to improve the underlying performance of the operations and to improve the quality of earnings. Specifically, the Company is looking to improve the strategic synergies across its Food Group operations, vertically integrating wherever possible. Initiatives to improve the productivity of the operations include continued training and development of employees, consolidated procurement and internal services programs, improved information systems to provide better analysis and timely decision-making and plant rationalization programs.

The Company expects to continue its rapid growth through an effective balance of internal growth and acquisitions, all in support of its vertically integrated field to table strategy. Maintaining liquidity and having available sources of cash will be imperative if the Company is to continue to grow. At December 31, 2002 the Company had $9,050,000 in cash and short term investments plus $4,206,000 in unused bank lines. The new bank financing, previously described in the Business Overview and in Note 8 of the Consolidated Financial Statements, provided an additional $11,800,000 in term debt and line of credit availability. In March 2003 the Company repaid the tender facility used to acquire Opta, the term loans assumed on acquisition of Wild West and Opta, and former shareholders of Opta, for a total $19,060,000. The Company's remaining cash and unused lines plus cash generated from operations are sufficient to finance capital

maintenance estimated at $1,500,000 to $2,000,000, remaining debt service of $1,475,000 and payment of the remaining current portion of long-term payables of $1,588,000, plus finance targeted internal growth and expansion within the Company's current facilities. The Company also has $1,080,000 in potential option proceeds related to options that expire in 2003 and are currently in the money. It is unknown if any proceeds will be received from these or other options and warrants that do not expire in 2003 during the year. In order to finance significant acquisitions the Company would need additional sources of cash which could be obtained through a combination of additional bank or subordinated financing, a private or public offering, or the issuance of shares in relation to an acquisition or a divestiture. The Company intends to maintain a target debt to equity ratio of 0.6 to 1. Risks associated with rapid growth are detailed below.

The Company will continue to devote significant effort to increase returns on capital by improving its investment in working capital and capital projects with increased accountability and measurement.

As previously stated, the Company will continue to pursue strategic alternatives for its non-core operations; the Environmental Industrial Group and the Steam Explosion Technology Group. However, the Company will only divest itself of these operations if and when a strategy that is beneficial to the shareholders of Stake Technology Ltd. is identified. In 2002, the Environmental Industrial Group provided approximately 20% of the Company's consolidated revenues and net earnings of $1,741,000. Based on current market projections, the Company anticipates the Group's results in 2003 will improve upon 2002 results. The Steam Explosion Technology Group continues to focus on selling the steam explosion technology to the China market and is also pursuing a number of potential food applications. The outlook for the Group for 2003 is uncertain due to the time and effort required to complete the signing of each contract.

Risks and Uncertainties

The Common Shares of the Company are speculative in nature and involve a high degree of risk. Accordingly, in analyzing an investment in these securities, prospective investors should carefully consider the following risk factors, together with all of the other information appearing, or incorporated by reference, in this document, in light of his or her particular financial circumstances and/or investment objectives.

Future Capital Needs to Maintain Current Growth Rates

The Company's two facilities in Alexandria, MN operate at, or near, capacity on many of their processing lines. Continued growth in these operations is reliant upon the Company's ability to increase capacity through internal capital projects, new facilities or acquisition. The Company's ability to raise capital, through equity and/or debt financing, is directly related to its ability to continue to grow and improve returns from operations. Additional capital through equity financing may also result in additional dilution to the Company's current shareholders and a decrease in the share price if the Company is unable to realize returns equal to or above the Company's current return rate. The Company will not be able to maintain its growth rate and its strategy as a consolidator within the natural and organic food industries without further capital.

Food Competitors Larger Than the Company

The Company carries on its businesses in competition with companies and individuals with financial resources and staffs larger than the Company's and the Company is, therefore, subject to competitive factors over which it has little control or can otherwise affect.

Technological Innovation by Competitors Could Make the Company's Products Less Competitive

Competitors include major chemical companies, other food ingredient companies and consumer food companies that also engage in the development and sale of food ingredients. Many of these companies are engaged in the development of texturizers and other food ingredients and have introduced a number of texturizers into the market. Existing products or products under development by our competitors could prove to be more effective or less costly than any products which have been or are being developed by us.

Protection of Intellectual Property and Proprietary Rights

The Company and particularly the Food Group and Steam Technology Group depend in part, on their ability to protect intellectual property rights. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to our technologies would make it easier for our competitors to offer similar products, which could result in lower sales or gross margins.

Governmental Regulation and Policies

The Company and its subsidiaries are, and are expected to continue to be, subject to substantial federal, state, provincial and local environmental regulation. Specific risks to the Company would include labeling and other regulatory rules specific to the natural and organic foods industry, governed by the USDA and/or Federal Food and Drug Administration and environmental regulation with the Company's Environmental Industrial Group, regulated by the Ontario Ministry of Environment and Energy and the Commonwealth of Virginia, Department of Environment Quality, specifically related to the recycling of solid waste material. These regulations as well as others common to the industries that the Company participates in can present delays and costs that can adversely affect business development and growth. Any changes to current regulations may impact the development, manufacturing and marketing of the Company's products, and may have a negative impact on future results

Acceptance of Steam Explosion Technology

The Steam Explosion Technology Group has yet to gain wide acceptance within the industry and consequently earnings can fluctuate from quarter to quarter. Its patented steam technology, while proven, has yet to develop a firm customer base. The success of this division will depend upon its ability to promote commercial acceptance of the StakeTech System.

Lack of Dividends; Dividend Restrictions and Potential Withholding Taxes on Dividends

Stake has never paid dividends on its common shares and does not contemplate paying cash dividends in the foreseeable future. Moreover, Stake is precluded under the terms of various agreements with its creditors from paying dividends until the related indebtedness has been satisfied. It is the Company's intention to retain future earnings to fund growth. Accordingly, investors will not receive a return on investment in Stake common shares through the payment of dividends in the foreseeable future and may not realize a return on investment even if they sell their shares. Any future payment of dividends to Stake security holders will depend on decisions that will be made by the Board of

Directors and will depend on then existing conditions, including the Company's financial condition, contractual restrictions, capital requirements and business prospects. Also if dividends are paid by the Company, the receipt of cash dividends by United States shareholders from a Canadian corporation, is subject to a 5 - 15% Canadian withholding tax.

Customer Concentration

The Company has one customer, the Hain Celestial Group, whose purchases from the Company in 2002 amounted to more than 10% of the Company's revenue. The Company plans to continue to mitigate this risk going forward by broadening its customer base and product offering.

Integration of Acquired Companies

The Company's growth strategy inherently asserts that acquisitions will be integrated successfully. However, the Company's ability to integrate current and future acquisitions will have a direct impact on the Company's future results. Failure to integrate acquisitions in a timely and efficient manner may have a negative impact on the future results of the Company.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk

The primary objective of our investment activities is to preserve principal and limit risk. To achieve this objective, the company maintains its portfolio in a variety of securities, including both government and corporate obligations and money market funds. These securities are generally classified as cash and cash equivalents or short-term investments and are recorded on the balance sheet at fair value with unrealized gains or losses reported through profit and loss.

Debt in both fixed rate and floating rate interest carry different types of interest rate risk. Fixed rate debt may have their fair market value adversely affected by a decline in interest rates. In general, longer date debts are subject to greater interest rate risk than shorter dated securities. Floating rate term debt gives less predictability to cash flows as interest rates change. As at December 31, 2002, the weighted average interest rate of the fixed rate term debt was 9.0% and $7,663,000 of the Company's outstanding term debt is at fixed interest rates. Variable rate term debt of $29,086,000 at an interest rate of 3.2% is partially hedged by variable rate cash equivalent investments. The Company looks at varying factors to determine the percentage of debt to hold at fixed rates including, the interest rate spread between variable and fixed (swap rates), the Company's view on interest rate trends, the percent of offset to variable rate debt through holding variable rate investments and the companies ability to manage with interest rate volatility and uncertainty. For every 1% increase (decrease) in interest rates the Company's after tax earnings would (decrease) increase by approximately $200,000. Given the short duration of fixed rate debt changes in interest rates would have a negligible affect on fixed rate debt valuations.

Foreign currency risk

All U.S. subsidiaries use the U.S. dollar as their functional currency and as of January 1, 2002 the United States dollar has become the Company's reporting currency. The subsidiaries are subject to risks typical of multi-jurisdiction

businesses, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely affected by changes in these or other factors. The Company is exposed to foreign exchange rate fluctuations as the financial results of Stake's Canadian Corporate office and its Canadian subsidiaries are translated into U.S. dollars on consolidation. A 10% movement in the levels of foreign currency exchange rates in favour of (against) the Canadian dollar with all other variables held constant would result in an increase (decrease) in the fair value of the Company's net assets by $2,263,000.

The Environmental Group has Canadian based receivables and payables that on a net basis provide limited exchange exposure. The Canadian Organic Food Group has exposure of U.S. dollars as its U.S. payables are greater than U.S. receivables. U.S. based Food operations have no exposure to other currencies since almost all sales and purchases are made in U.S. dollars. It is the Company's intention to hold excess funds in the currency in which the funds are likely to be used, which will from time to time; potentially expose the Company to exchange rate fluctuations when converted into U.S. dollars.

Commodity risk

The Food Group enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Exchange purchase and sales contracts may expose the Company to risk in the event that a counter-party to a transaction is unable to fulfill its contractual obligation. The Company manages its risk by entering into purchase contracts with pre-approved producers. The Company has a risk of loss from hedge activity if a grower does not deliver the grain as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to

market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold. At December 31, 2002 the Company owned 503,000 bushels of corn with a weighted average price of $2.08 and 278,000 bushels of soy beans with a weighted average price of $7.37. The Company has at December 31, 2002 net long positions on corn and soy beans of 20,000 and 13,000 bushels respectively. Therefore a change in the commodity prices would not have a material impact on the Company. There are no futures contracts in the other Food Group segments, Environmental Industrial Group, the Steam Explosion Technology Group or related to Corporate office activities.

Item 8. Financial Statements and Supplementary Data

Financial statements are set forth on pages F-1 through F-40 of this Report and are incorporated herein by reference.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

10. Directors and Executive Officers of the Registrant

(a) Identification of directors and executive officers as at March 7, 2003 is set forth below:

Name Directors:	Age	Year First Elected Director/ Officer	Position With Company	Class of Shares
Jeremy N. Kendall	63	1978	Chairman of the Board, CEO & Director	Common
Cyril A. Ing	70	1984	Secretary and Director	Common
Joseph Riz	55	1986	Independent Director	Common
James Rifenbergh	72	1996	Independent Director	Common
Allan Routh	52	1999	Director and President of the SunRich Food Group	Common
Dennis Anderson	58	2000	Director and Executive Vice President - SunRich Food Group	Common
Larry (Andy) Anderson	54	2000	Director and Vice President of the SunRich Food Group	Common
Katrina Houde	44	2000	Independent Director	Common
Camillo Lisio	49	2001	Independent Director	Common
Stephen Bronfman (A)	39	2001	Director	Common
Robert Fetherstonhaugh (A)	47	2001	Director	Common
Other executive officers:				
Steven R. Bromley	43	2001	Executive Vice President, Chief Financial Officer	Common
David Kruse	35	2000	President, CEO Environmental Industrial Group	Common
Arthur J. McEvily	51	2002	President, CEO- Opta	Common
All Directors and Executive Officers as a group				Common

(1) Percentage ownership is calculated based on 41,984,118 total common shares outstanding at December 31, 2002, plus all common shares subject to an option currently exercisable, which at December 31, 2002 totaled 1,613,480 of which 911,875 are related to directors and officers noted above and described below. The remaining 701,605 are options vested to other employees of the Company. This calculation does not include options that have not vested or warrants or underwriter options/warrants currently outstanding. Therefore, the "Percentage of Class" column is based on 43,597,598 common shares.

(A) Pursuant to a subscription agreement between the Company and Claridge and the Claridge Group dated September 28, 2001, so long as any member of the Claridge Group remains the beneficial owner of at least five percent (5%) of the Company's issued and outstanding common shares, the Company will nominate for election and recommend to its shareholders a person designated by Claridge to serve on the Company's Board of Directors. For so long as the beneficial holdings of Claridge shall be at least fifteen

percent (15%) of the Company's issued and outstanding common shares, the Company shall nominate a second designee of Claridge. Claridge currently beneficially owns more than fifteen percent (15%) of the Company's issued and outstanding common shares. Messrs. Bronfman and Fetherstonhaugh presently serve on the Company's Board pursuant to this agreement.

The Chart below details the number of vested director and executive officer options by plan and option price:

Employee/Director	Plan	Option Price	Expiry Date	Vested Options
Jeremy Kendall	1998	$1.06	Dec. 11/03	6,000
	2001	$1.86	Dec. 11/03	225,000
	2001	$1.86	Dec. 31/03	102,500
	2001	$1.86	Dec. 31/04	27,500
	2002	$3.00	Dec. 16/07	8,000
				369,000
Cyril Ing	1996	$1.31	Dec. 20/05	10,000
	2001	$1.06	Dec. 11/03	6,875
	2001	$1.86	Dec. 11/03	18,750
	2001	$1.86	Dec. 31/03	13,750
	2001	$1.86	Dec. 31/04	7,500
	1996	$2.10	Dec. 12/06	2,250
	1996	$2.10	Dec. 31/03	3,750
	2002	$3.00	Dec. 16/07	6,000
				68,875
Joseph Riz	1996	$1.31	Dec. 20/05	10,000
	1998	$1.06	Dec. 11/03	7,500

	2001	$1.86	Dec. 11/03	18,750
	2001	$1.86	Dec. 31/03	13,750
	2001	$1.86	Dec. 31/04	7,500
	1996	$2.10	Dec. 31/03	6,000
	2002	$3.00	Dec. 16/07	6,000
				69,500
James Rifenbergh	1996	$1.31	Dec. 20/05	10,000
	1998	$1.06	Dec.11/03	7,500
	1999	$1.06	Aug. 01/05	50,000
	2001	$1.86	Dec. 11/03	40,000
	1998	$2.10	Dec. 31/03	6,000
	2002	$3.00	Dec. 16/07	6,000
				119,500
Allan Routh	1999	$1.06	Aug. 01/05	140,000
Dennis Anderson	1999	$1.31	Oct. 01/05	6,000
Larry (Andy) Anderson	1999	$1.31	Oct. 01/05	4,500
Katrina Houde	1996	$1.31	Dec. 20/05	10,000
	1998	$2.10	Dec. 31/03	6,000
	2002	$3.00	Dec. 16/07	6,000
				22,000
Camillo Lisio	2001	$1.61	Aug. 21/06	10,000
	1999	$2.10	Dec. 31/03	6,000
	2002	$3.00	Dec. 16/07	6,000
				22,000
Stephen Bronfman	2001	$2.10	Dec. 31/03	10,000
	2002	$3.00	Dec. 16/07	6,000
				16,000
Robert Fetherstonhaugh	1999	$2.10	Dec. 31/03	10,000
	2002	$3.00	Dec. 16/07	6,000
				16,000
David Kruse	1993	$1.31	Dec. 20/05	12,500
	2001	$1.06	Aug. 02/05	6,000
	2001	$1.86	Dec. 11/03	5,000
				23,500
Steven R. Bromley	1999	$1.53	Jul. 04/06	20,000
	2002	$2.15	Mar. 11/07	6,000
	2002	$3.07	Aug. 13/07	4,000
	2002	$3.00	Dec. 16/07	5,000
				35,000
				911,875

Summary of Employee/Director Executive Officer Vested Stock Option Plans:

Expiry date	Exercise Price	# Held by Directors / Executive Officers	#Held by Employees /Consultants	Total
2003	$1.06 - $2.10	513,125	236,325	749,450
2004	$1.06 - $1.86	42,500	138,460	180,960
2005	$1.06 - $1.38	259,000	151,900	410,900
2006	$1.53 - $2.10	32,250	123,300	155,550
2007	$2.15 - $3.07	65,000	51,620	116,620
Total		911,875	701,605	1,613,480

(b) Set forth below is a biographical description of each director and officer of the Company:

Jeremy Kendall has served as a Director of the Company since September 1978. In June 1983, he was elected Chairman of the Board and Chief Executive Officer of the Company. He is Chairman of the Board of all of the Company's subsidiaries except 1108176 Ontario Limited. He is also Chairman of Jemtec Inc. (6/91 to present), a distributor of electronic home incarceration equipment and Easton Minerals Ltd. (1/95 to present) a mineral exploration company. In the past 5 years, Mr. Kendall has served on the following Boards of Directors: BI Inc. (9/81 to 11/00), producer of electronic home incarceration equipment, Brigdon Resources Inc. (6/93 to 2/99), oil and gas exploration company, Redaurum Ltd. (6/94 to 12/98), mineral exploration and production company and Wisper Inc. (6/95 to 3/02), a provider of wireless electronic equipment and services. Mr. Kendall is also a Director of a number of private and charitable organizations.

Cyril Ing is a Professional Engineer, was elected a Director in January 1984 and became an employee in August 1985. He was an independent consultant specializing in engineering projects involving the combustion of biomass from May of 1982 to August 1985. Mr. Ing retired from full time employment in March 1990. For the 10 years prior to retirement he was President of the Conat Group, a holding company, whose major subsidiary, Westair Systems Inc., is a distributor and manufacturer of industrial dehumidification equipment. In the past 5 years, Mr. Ing has served on the following Boards of Directors: Wisper Inc. (11/99 to present) and Jemtec Inc. (11/99 to present).

Joseph Riz was elected a Director of the Company in July 1986 and currently serves as Chairman of the Company's Audit Committee and as a member of the Corporate Governance Committee. From 1985 to present Mr. Riz has served as Managing Director of Tricapital Management Ltd., a merchant banking and financial advisory firm. Since 1989 Mr. Riz has served on the Board of Directors of Telepanel Systems Inc, a manufacturer of electronic pricing equipment for retail stores.

James Rifenbergh was elected to the Board of Directors in April 1996 and currently serves on the Audit Committee. Mr. Rifenbergh is Past President and

Chairman of Brown Printing Company of Waseca, Minnesota, a large printing company with plants throughout the United States. He is also a Director of a number of other private companies and organizations. In the past 5 years, Mr. Rifenbergh has not served on any other reporting issuers.

Allan Routh was elected to the Board of Directors in September 1999. Mr. Routh is President of the Company's Grains and Soy Products Group and prior to March 2003 was President and Chief Executive Officer of the SunRich Food Group, Inc., a wholly-owned subsidiary of the Company. Mr. Routh has been involved in the soy industry since 1984. Mr. Routh is presently serving a term on the Board of Directors of the Soyfoods Association of North America and served as its President between 1999 and 2000. In the past 5 years, Mr. Routh has not served on any other reporting issuers Board of Directors.

Dennis Anderson was elected to the Board of Directors in September 2000. Mr. Anderson was the Executive Vice President of the SunRich Food Group, Inc., a wholly owned subsidiary of the Company prior to stepping down from day to day operations in June 2002. Mr. Anderson was the owner of Northern Food and Dairy, Inc. for five years prior to it's acquisition by the Company. In the past 5 years, Mr. Anderson has not served on any other reporting issuers Board of Directors.

Larry (Andy) Anderson was elected to the Board of Directors in September 2000. Mr. Anderson is a CPA and acts as a Vice President of the SunRich Food Group, Inc.. Prior to his involvement with the SunRich Food Group, Mr.

Anderson was a partner in a Minneapolis CPA firm. In the past 5 years, Mr. Anderson has not served on any other reporting issuers Board of Directors.

Katrina Houde was elected to the Board of Directors in December 2000 and also serves as a member of the Audit Committee. Ms. Houde has been an independent consultant since March 2000. From January 1999 to March 2000, Ms. Houde was President of Cuddy Food Products, a division of Cuddy International Corp., a large international poultry company with 2,200 employees worldwide. Ms. Houde was Chief Operating Officer of Cuddy International Corp. from January 1996 to January 1999 and held progressively more senior positions with Cuddy since joining them in September 1991. In the past 5 years, Ms. Houde has not served on any other reporting issuers Board of Directors.

Camillo Lisio was elected to the Board of Directors in August 2001 and serves on the Corporate Governance Committee as Chairman. Mr. Lisio is an independent consultant and spent 18 years with Saputo Inc., a food company operating in the dairy and grocery products sector, until his decision to pursue other business and personal interests in April 2001. Mr. Lisio was President and Chief Operating Officer of Saputo Inc. from April 1998 to April 2001. In the past 5 years Mr.Lisio served on reporting issuers Board of Directors of Saputo Inc., (March 1998 to April 2001) and Uniforet Inc, an integrated Forest products company, (October 1998 to April 2001).. Mr. Lisio has also served as a director of Santa Cabrini Hospital, the International Dairy Foods Association and the National Dairy Council of Canada.

Stephen Bronfman was elected to the Board of Director in October 2001. Mr. Bronfman is Chairman of Claridge Inc. In 2002 Mr. Bronfman was Chairman of Claridge SRB Investments Inc., a privately held company with worldwide interest, formed in 1998 to manage his existing holdings and to evaluate future investment opportunities. Claridge currently owns approximately 17.1% of the issued and

outstanding common shares of the Company. Mr. Bronfman has been active in numerous business and civic affairs. In the past five years Mr. Bronfman served on the Board of Directors of The Seagram Company, Ltd. from November, 1999 to December, 2000 and was Co-Chairman of the Executive Committee of the Montreal Expos Baseball Club a non reporting issuer. Mr. Bronfman also sits on the Board of Directors of The David Suzuki Foundation; The Saidye Bronfman Centre for the Arts; The Samuel and Saidye Bronfman Family Foundation; and The Summit School Foundation.

Robert Fetherstonhaugh was elected to the Board of Directors in December 2001 and serves on the Corporate Governance Committee. Mr. Fetherstonhaugh is a Chartered Accountant and has been the President of Claridge Inc since December 2002. Mr. Fetherstonhaugh joined Claridge Inc. in May 2001 as Executive Vice President. Mr. Fetherstonhaugh has a broad business background both in North America and internationally, previously serving as Deputy Chairman of Trader Classified Media, an international publishing company from 1998 to 2001 and as a partner at KPMG. In the past five years Mr. Fetherstonhaugh served as a director of Trader Classified Media and Cryopak Industries Inc., a manufacturer of quality temperature controlling products which are marketed to a wide-range of industries.

David Kruse is a Certified Management Accountant and joined the Company in 1997. Mr. Kruse was appointed President of the Environmental Industrial Group in 2002 and Vice President and Chief Operating Officer of the Environmental Industrial Group in 2000. In the past 5 years, Mr. Kruse has not served on any reporting issuers Board of Directors

Steven Bromley is a Certified General Accountant and joined Stake in June 2001. The Board of Directors appointed Mr. Bromley Executive Vice President and Chief Financial Officer in November 2002. Mr Bromley was appointed Vice President, Finance and Chief Financial Officer in September 2001. Prior to joining the Company, Mr. Bromley spent over 13 years in the Canadian dairy industry in a wide range of financial and operational roles with both Natrel Inc. and Ault Foods Limited. From 1997 to 1999 he served on the Board of Directors of Natrel, Inc.. In the past 5 years, Mr. Bromley has not served on any other reporting issuers Board of Directors.

Arthur McEvily was named President and Chief Executive Officer of Opta Foods in February 2000. Previously, he was named Executive Vice President in January 1999, Senior Vice President, Commerical Development in December 1997 and served as Vice President Applications, Technical Service and New Product Commercialization from August 1996 to December 1997. He served as Vice President Sales and Business Development of the Opta from December 1993 to July 1996. Mr. McEvily received a B.Sc. in Biochemistry from Marlboro College, Marlboro, Vermont and a Ph.D. in chemistry at the University of North Carolina at Chapel Hill. He was a postdoctoral fellow at Harvard Medical School.

Audit Committee

The following three independent Directors are members of the audit committee: Joseph Riz, Jim Rifenbergh and Katrina Houde.

Mr. Riz is chairman of the Audit Committee. The Audit Committee's duties and responsibilities are documented in a formal audit committee charter. These duties include (a) providing oversight of the financial reporting process and management's responsibility for the integrity, accuracy and objectivity of

financial reports and related financial reporting practices; (b) recommending to the Board of Directors the appointment of the Company's auditors; (c) providing oversight of the adequacy of the Company's system of internal controls; and (d) providing oversight of management practices relating to ethical considerations and business conduct, including compliance with laws and regulations.

The audit committee meets formally four times a year, once to review the Form 10K and annual audited financial statements and before each quarter's earnings are filed to review interim financial statements and Form 10Q which is filed with the Securities and Exchange Commission/Nasdaq in the U.S. and the Toronto Stock Exchange and Ontario Securities Commission in Canada. Other meetings may be held as at the discretion of the Chair of the Audit Committee. During, 2002, the audit committee met four times. The Audit Committee has free and unfettered access to PricewaterhouseCoopers, the Company's auditors.

During 2002 the committee implemented a company wide policy related to reporting of concerns in accounting or internal controls. This policy gives all employees of the Company direct access to the Audit Committee for concerns dealing with accounting practices, internal controls or other matters affecting the Company's well being.

Corporate Governance (Executive Committee) and Compensation Committee

The following three independent Directors are members of the Corporate Governance (Executive Committee) and Compensation Committee: Camillo Lisio, Joesph Riz and Robert Fetherstonhaugh.

On September 13, 2001 the Company created, by board resolution, the Corporate Governance Committee. This committee also acts as the Company's Compensation Committee. The Company and the Corporate Governance Committee have developed a set of formal Corporate Governance Policies that are monitored on an ongoing basis to ensure that the Company is in compliance with its Corporate Governance Policies.

The function of the Compensation Committee is to determine the compensation of the CEO as well as to review and approve the compensation recommended by the CEO for all other senior officers and employees of the Company. In addition, this committee oversees the Option Plans of the Company.

The Governance Committee met formally four times during 2002. In addition, several telephone meetings were held during the year for administrative matters connected to the responsibilities of this Committee.

Board Compensation

In addition to annual grants of options, Directors who are not Company officers receive an annual retainer of $4,000, a director fee of $1,500 for each board meeting attended in person as well as $500 for participating in committee meetings and telephone meetings. In addition, all Directors are reimbursed for travel and administrative expenses to attend meetings and manage their board responsibilities. The Corporate Secretary receives an additional $500 per quarter for his additional responsibilities.

(c) Identification of Executive Officers of Registrant:

The following table shows certain information with respect Stake's Executive

Officers as of March 7, 2003:

Name	Year First Elected Director /Officer	Executive Officers of Stake
Jeremy N. Kendall *	1978	Chairman of the Board, CEO & Director
Allan Routh *	1999	Director, President and CEO of the SunRich Food Gro
Dennis Anderson *	2000	Director and Executive Vice President of the SunRic
David Kruse *	2000	President and CEO of the Environmental Industrial G
Steven R. Bromley *	2001	Executive Vice President & Chief Financial Officer
Arthur J. McEvily *	2002	President and Chief Executive Officer of Opta Foods

* Director and Executive Officer biographies are detailed in the preceding pages

There are no family relationships between any of the Officers or Directors of the Company.

Executive Officers of the Company are elected by the Board of Directors at its first meeting after each Annual Meeting of Shareholders and serve a term of office until the next Annual Meeting. Executive officers elected by the Board of Directors at any other time serve a term of office until the next Annual Meeting.

John D. Taylor, former President and COO of Stake, resigned from the Company and Board of Directors in January, 2003. Mr. Taylor received no additional stock options in 2002 and exercised 201,000 vested options in 2003. During 2002, Mr. Taylor's total compensation was approximately $121,000.

The Annual Meeting of Shareholders for 2003 will be held on June 18, 2003 at a location in downtown Toronto, Ontario, Canada.

Item 11. Executive Compensation

The following tables set forth all remuneration paid by the Company and its subsidiaries during the last three years ended December 31, 2002, 2001, and 2000 to its C.E.O. and top four Executive Officers as well as top two divisional employees earning in excess of US$100,000:

SUMMARY COMPENSATION TABLE

Annual Compensation

Name and Principal Occupation	Year	Salary	Bonus	Other Annual Compensation (3)	Restricted Stock Awards
Jeremy N. Kendall - CEO	2002	$176,391	$18,149	$11,173	--
	2001	$167,332	$13,347	$14,001	--
	2000	$169,263	$45,590	$6,910	--
Steven R. Bromley - Executive Vice President & CFO	2002	$118,926	$6,992	$18,056	--
	2001	$60,282	$6,236	$10,425	--
David Kruse - President, CEO Environmental Industrial Group	2002	$86,730	3,828	$10,246	--
	2001	$83,925	$1,358	$11,049	--
	2000	$62,618	$8,457	$12,345	--
Allan Routh - Director and President of the Sunrich Food Group	2002	$130,000	--	$2,906	--
	2001	$116,923	$40,000	$5,370	--
	2000	$110,000	$20,000	$6,555	--
Dennis Anderson - Director and Executive Vice President of Operations of the Sunrich Food Group (1)	2002	--	$19,878	--	--
	2001	$130,960	$18,689	$2,619	--
	2000	$18,689	--	$761	--
Arthur J. McEvily - President (2)	2002	$17,833	--	--	--

(1) Mr. Dennis Anderson did not receive a salary in 2002.

(2) Arthur McEvily joined the Company in December 2002; therefore his compensation reflects the month of December, 2002 only.

(3) Other annual compensation represents taxable benefits for automobile use or reimbursement of costs, life insurance, retirement savings contributions, and interest on short-term loans.

(4) All Other compensation is the value received over exercise price of stock options exercised.

Executive employment contracts

Mr. Jeremy Kendall, Chairman & CEO, entered into an employment contract with the Company in October 2001 for a period through February 26, 2020. The contract anticipates that on February 26, 2005, his 65th birthday, Mr. Kendall may elect to relinquish the role of CEO and maintain being the Chairman of the Board, subject to shareholder and Board approval, at a reduced level of compensation. The contract provides for consulting fees to be paid on a sliding scale over time until February 20, 2020 to Mr. Kendall or his spouse. These consulting fees are to be paid even if Mr. Kendall retires fully, the Company no longer requires his services or if Mr. Kendall passes away before February 26, 2020.

Mr Allan Routh, President of the Sunrich Food Group, Inc. has an annual employment contract of a minimum $100,000 renewable on a mutual basis between Mr. Routh and the Company each August 1st.

Opta Foods has change in control agreements with Mr. McEvily and four other officers of Opta. These contracts entitle the employees to a predetermined compensation benefit if their job descriptions change materially after the acquisition by Stake.

None of the other executives listed in the Summary Compensation Table above have employment contacts.

The following table contains information concerning individual grants of stock options made during the last completed fiscal year, to the following executive officers:

OPTION GRANTS IN PAST FISCAL YEAR TO EXECUTIVE OFFICERS

Name	Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise on base price (US$/Share)	Expiratio
Jeremy N. Kendall - C.E.O.	40,000	9.7%	$3.00	December 1
Steven R. Bromley - Executive Vice President & C.F.O	30,000	18.1%	$2.15	March 11
	20,000		$3.07	August 13
	25,000		$3.00	December 1

No options were granted to Mr. Kruse, Mr. Routh, Mr. Anderson or Mr. McEvily during 2002.

DECEMBER 31, 2002 OPTION VALUES

(a)	(b	(
Name	Number of Unexercised Options at 12/31/02 Vested/Not Yet Vested	Value of Unexercised i 12/31/02 Vested

Jeremy N. Kendall - CEO	369,000 / 33,500	$471,672
Steven R. Bromley - Executive Vice President & CFO	35,000 / 90,000	$39,470
David Kruse - President and CEO Environmental Industrial Group	23,500 / 1,500	$41,941
Allan Routh - Director and President of the Sunrich Food Group	140,000 / 60,000	$292,180
Dennis Anderson- Director and Executive Vice President of the Sunrich Food Group	6,000 / 4,000	$11,022

Except for the options exercised by Mr. Taylor, no other executive officers exercised options during 2002.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information concerning share ownership of all persons known by the Company to own beneficially 5% or more of the Company's outstanding Common Shares and all directors and officers of the Company as a group as of March 7, 2003.

Name and Address of Holder	Class of Share	Amount of Ownership	Percent of C
Claridge Israel LLC c/o Davies Ward Phillips & Vineberg LLP 625 Madison Avenue Floor 12 New York, New York 10022 (2)	Common	7,281,812	17.1%
Gruber & McBaine Capital Management 50 Osgood Place, San Francisco California USA 94133 (3)	Common	3,928,600	9.2%
RBC Global Investment Inc. Royal Trust Tower 77 King Street West Toronto, Ontario M5K 1H1 (4)	Common	2,750,000	6.5%
Dennis Anderson 2214 Geneva Road NE, Alexandria Minnesota USA 56308	Common	3,806,335	9.0%
All Directors and Executive Officers As a group (sixteen) -(a) excluding Dennis Anderson who is disclosed above and (b) not	Common (5)	1,796,570(a) 5,602,905(b)	4.2% 13.2%

excluding Mr. Anderson's shares

(1) Percentage ownership is calculated based on total Common Shares outstanding at March 7, 2003 of 42,489,943. This total does not include warrants or options that have vested or have not yet vested.

(2) Record and beneficial holder. Mr. Bronfman as Chairman of Claridge Inc. has voting and investment decision power.

(3) Beneficial holders not known. Mr. Gruber and McBaine have voting and investment decision power.

(4) Beneficial holders not known. Mr. M. George Lewis as President & CEO of RBC Global Investment Management Inc. has voting and investment decision power.

(5) For details of shares owned by Executive Officers and Directors see Share Ownership of Directors and Executive Officers below.

Item 13. Certain Relationships and Related Transactions

Rental property

The Company leases certain real estate to Dennis Anderson under operating leases that expire in August 2010. Annual rental under each of the leases is negligible.

Item 14 - Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of disclosure controls pursuant to Exchange Act Rules 13a-14 and 15d-14. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective in ensuring that all material information has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

Item 15. Exhibits, Financial Statements and Reports on Form 8-K

STAKE TECHNOLOGY LTD. (a) Documents filed as part of this Report	Form 10-K Page
1. Consolidated Financial Statements	F-1
Independent Auditors' Report	F-2
Consolidated Balance Sheets as at December 31, 2002 and 2001	F-3
Consolidated Statements of Retained Earnings - For the Years ended December 31, 2002, 2001 and 2000	F-4

Consolidated Statements of Earnings -
For the Years ended December 31, 2002, 2001 and 2000 F-5

Consolidated Statements of Cash Flows -
For the Years ended December 31, 2002, 2001 and 2000 F-6

Notes to Consolidated Financial Statements -
For the Years ended December 31, 2002 and 2001 F-7-F-40

3. Exhibits

2A. Agreement and Plan of Merger dated as of October 25, 2002 among Opta Food Ingredients, Inc., Stake Technology Ltd. and Stake Acquisition Corp. (incorporated herein by reference to the Company's Form 8-K, SEC file No. 0-9989, filed November 6, 2002, Exhibit 2.1).

3i Amalgamation of Stake Technology Ltd and 3754481 Canada Ltd. (formerly George F. Pettinos (Canada) Limited) (incorporated herein by reference to the Company's Form 10-KSB, SEC file No. 0-9989, for the year ended December 31, 2000, Exhibit 3.1).

3ii Bylaw No. 14 approved by shareholders - June 17, 1997 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31 1997, SEC file No. 0-9989, Exhibit 3.3).

10A. 1993 Employee/Director Stock Option Plan dated May 19, 1993 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 1995, , SEC file No. 0-9989, Exhibit 10.18).

10B. 1996 Employee/Director Stock Option Plan dated September 27, 1996 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 1996, SEC file No. 0-9989, Exhibit 10.22).

10C. 1998 Stock Option Plan dated December 12, 1997 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 1998, SEC file No. 0-9989, Exhibit 10.16).

10D. 1999 Stock Option Plan dated February 18, 1999 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 1999, SEC file No. 0-9989, Exhibit 10.19)..

10E. 2001 Stock Option Plan dated March 13, 2001 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 2001, SEC file No. 0-9989, Exhibit 10.14).

Exhibits (continued)

10F. 2002 Stock Option Plan dated March 26, 2002 (previously filed with Form 10-K for the year ended December 31, 2002, SEC file No. 0-9989 filed on March 31, 2003, Exhibit 10.1(f)).

10G.	Credit Agreement with Bank of Montreal dated February 28, 2002 (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 2001, SEC file No. 0-9989, Exhibit 10.12).
10H.	Facility B Loan Authorization Agreement with Harris Trust and Savings Bank (incorporated herein by reference to the Company's Form 10-KSB for the year ended December 31, 2001,SEC file No. 0-9989, Exhibit 10.13).
10I.	Credit Agreement dated as of November 25, 2002 among Stake Acquisition Corp., certain Lenders and Harris Trust and Savings Bank, as Administrative Agent (previously filed with Form 10-K for the year ended December 31, 2002, SEC file No. 0-9989, filed on March 31, 2003) *.
10J.	Debenture Purchase Agreement dated as of December 4, 2002 between Stake Technology Ltd. and Claridge Israel LLC (previously filed with Form 10-K for the year ended December 31, 2002, SEC file No. 0-9989, filed on March 31, 2003, Exhibit 10.3(d)).
10K.	Amended and Restated Credit Agreement dated as of February 21, 2003 among Stake Technology Ltd. (the "Company"), certain affiliates of the Company, Bank of Montreal and Harris Trust and Savings Bank. (previously filed with Form 10-K for the year ended December 31, 2002, SEC file No. 0-9989, filed on March 31, 2003, Exhibit 10.3(e)).
10L.	Employment Agreement dated October 1, 2001 between the Company and Mr. Jeremy Kendall **
10M.	Employment Agreement dated August 2, 1999.between the Sunrich, Inc (a wholly-owned subsidiary of the Company) and Mr. Allan Routh **
10N.	Employment Agreement dated January 26, 2001 between the Opta Food ingredients, Inc. (a wholly-owned subsidiary of the Company) and Mr. Arthur McEvily. **
10O.	Production Agreement and Addendum dated August 6, 2001 between The Hain Celestial Group and Nordic Aseptic, Inc. (a wholly owned subsidiary of the Company) previously filed with Form 10KA2, SEC file No. 0-9989, filed on June 26, 2003. ***
21	List of subsidiaries (previously filed with Form 10-K for the year ended December 31, 2002 filed on March 31, 2003, Exhibit 21).
24	Powers of Attorney (previously filed with Form 10-K for the year ended December 31, 2002 filed on March 31, 2003, Exhibit 24).
99.1	Certification by Jeremy Kendall, Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification by Steven Bromley, Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* This exhibit does not include the Exhibits and Schedules thereto as

listed in its table of contents. The Company undertakes to furnish any such Exhibits and Schedules to the Securities and Exchange Commission upon its request.

** Filed herewith

*** Portions of the Production Agreement have been omitted pursuant to a request for confidential treatment made pursuant to Rule 24b-2 of the Exchange Act.

Filings of Form 8K in the last Quarter of 2002

Form 8K filed November 6, 2002 relating to the Agreement and Plan of Merger dated as of October 25, 2002 among Opta Food Ingredients, Inc., Stake Technology Ltd. and Stake Acquisition Corp. Accession # 0001169232-03-000763

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1984, the registrant has duly caused this report to be signed on its behalf by the undersigned. Thereunto duly authorized.

STAKE TECHNOLOGY LTD.

Steven R. Bromley /s/ Steven R. Bromley
Executive Vice President and Chief Financial Officer

Date: March 27, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this report below.

Signature	Title	Dat
* Jeremy N. Kendall	Chairman, Chief Executive Officer And Director (Principal Executive Officer)	Mar
/s/ Steven R. Bromley Steven R. Bromley	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	Mar

*		Mar
Cyril A. Ing	Director and Corporate Secretary	
*		Mar
Joseph Riz	Director	
*		
Jim Rifenbergh	Director	Mar
*		
Allan Routh	Director	Mar
*		
Dennis Anderson	Director	Mar
*		
Katrina Houde	Director	Mar
*		
Camillo Lisio	Director	Mar
*		
Stephen Bronfman	Director	Mar
*		
Robert Fetherstonhaugh	Director	Mar

* By his signature set forth below, Steven R. Bromley, pursuant to a duly executed power of attorney filed with the Securities and Exchange Commission as an exhibit to this report, has signed this report on behalf of and as Attorney-In-Fact for this person.

/s/ Steven R. Bromley - Steven R. Bromley -Attorney-in-Fact

Stake Technology Ltd.

Consolidated Financial Statements
(expressed in U.S. dollars)

[LETTERHEAD OF PRICEWATERHOUSECOOPERS]

February 28, 2003 (except as to note 8, which is of March 5, 2003)

Auditors' Report

To the Shareholders of Stake Technology Ltd.

We have audited the consolidated balance sheets of Stake Technology Ltd. as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Stake Technology Ltd.
Consolidated Balance Sheets
As at December 31, 2002 and 2001
(Expressed in thousands of U.S. dollars)

	2002 $	2001 $
Assets (note 8)		
Current assets		
Cash and cash equivalents	7,012	3,364
Restricted cash	--	1,147
Short-term investments	2,038	6,307
Accounts receivable - trade	18,144	8,377
Current portion of note receivable (note 3)	1,034	1,256
Inventories (note 4)	22,989	13,821
Prepaid expenses and other current assets	958	1,258
Future income taxes (note 11)	115	663
	52,290	36,193
Note receivable (note 3)	--	1,047
PropProperty, plant and equipment, net (note 5)	37,033	30,883
Goodwill and intangibles, net (note 6)	14,992	11,098
Future income taxes (note 11)	9,892	--
Other assets (note 7)	1,080	840
	115,287	80,061
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	3,963	1,206
Accounts payable and accrued liabilities	19,664	12,831
Customer deposits	421	1,389
Current portion of long-term debt (note 8)	11,650	2,634
Current portion of long-term payables (note 9)	3,458	1,067
	39,156	19,127
Long-term debt (note 8)	25,099	14,014
Long-term payables (note 9)	1,505	1,598
Future income taxes (note 11)	--	1,822
	65,760	36,561
Shareholders' Equity (note 19)		
Capital stock (note 10)	38,020	35,875
Authorized		
Unlimited common shares without par value		
Issued		
41,984,118 (December 31, 2001 - 41,081,228) common shares		
Contributed surplus	2,914	2,910
Retained earnings	7,470	3,704
Currency translation adjustment	1,123	1,011
	49,527	43,500
	115,287	80,061

Commitments and contingencies (note 14)

F-3

(See accompanying notes to consolidated financial statements)

Stake Technology Ltd.
Consolidated Statements of Retained Earnings
For the years ended December 31, 2002, 2001 and 2000
(Expressed in thousands of U.S. dollars)

	2002 $	2001 $	2000 $
Retained earnings - Beginning of the year	3,704	3,685	1,567
Net earnings for the year	3,766	19	2,118
Retained earnings - End of the year	7,470	3,704	3,685

F-4

(See accompanying notes to consolidated financial statements)

Stake Technology Ltd.
Consolidated Statements of Earnings
For the years ended December 31, 2002, 2001 and 2000
(Expressed in thousands of U.S. dollars, except per share amounts)

	2002 $	2001 $	2000 $
Revenues	120,898	89,822	63,821
Cost of goods sold	101,431	77,450	54,650
Gross profit	19,467	12,372	9,171
Selling, general and administrative expenses	14,281	11,142	7,091
Earnings before the following	5,186	1,230	2,080
Interest expense	(1,413)	(1,745)	(959)
Interest and other income	218	326	407
Foreign exchange gain	176	355	45
	(1,019)	(1,064)	(507)
Earnings before income taxes	4,167	166	1,573

Provision for (recovery of) income taxes (note 11)	401	147	(545)
Net earnings for the year	3,766	19	2,118
Net earnings per share for the year (note 15)			
Basic	0.09	0.00	0.09
Diluted	0.09	0.00	0.09

F-5

(See accompanying notes to consolidated financial statements)

Stake Technology Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2002, 2001 and 2000
(Expressed in thousands of U.S. dollars)

	2002 $	2001 $	2000 $
Cash provided by (used in)			
Operating activities			
Net earnings for the year	3,766	19	2,118
Items not affecting cash			
Amortization	4,130	3,706	1,750
Future income taxes	(1,000)	(142)	(876)
Write-down of investment	366	--	--
Other	(273)	(189)	(218)
	6,989	3,394	2,776
Changes in non-cash working capital, net of businesses acquired (note 12)	(6,917)	(3,074)	(2,741)
	72	320	35
Investing activities			
Decrease (increase) in short-term investments	6,307	(6,307)	--
Acquisition of companies, net of cash acquired	(21,919)	(2,172)	(3,365)
Acquisition of property, plant and equipment	(4,464)	(3,907)	(3,361)
Proceeds from notes receivable	1,425	1,393	341
Other	105	(49)	(409)
	(18,546)	(11,042)	(6,794)
Financing activities			
Increase (decrease) in line of credit facilities	2,757	(1,020)	1,243
Borrowings under long-term debt and tender facility	34,883	1,042	11,027
Repayment of long-term debt	(16,940)	(6,188)	(7,135)

Repayment of deferred purchase consideration	(982)	--	--
Proceeds from the issuance of common shares, net of issuance costs	2,091	20,813	606
Financing costs	(796)	--	--
Decrease (increase) in restricted cash	1,147	(1,147)	251
Purchase and redemption of Preference Shares of subsidiary Companies	(129)	(117)	(173)
	22,031	13,383	5,820
Foreign exchange gain on cash held in foreign currency	91	67	28
Increase (decrease) in cash and cash equivalents during the year	3,648	2,728	(911)
Cash and cash equivalents - Beginning of year	3,364	636	1,547
Cash and cash equivalents - End of year	7,012	3,364	636

See note 12 for supplemental cash flow information

(See accompanying notes to consolidated financial statements)

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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1. Description of business and significant accounting policies

Stake Technology Ltd. (the Company) was incorporated under the laws of Canada on November 13, 1973 and operates in three principal businesses. The Food Group processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy and other natural and organic food products. The Environmental Industrial Group processes, distributes and recycles industrial minerals. The Steam Explosion Technology Group markets proprietary steam explosion technology systems for the pulp and food processing industries. The Company's assets, operations and employees at December 31, 2002 are located in the United States and Canada.

The Company's significant accounting policies are outlined below. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. Differences arising from the application of accounting principles generally accepted in the United States are described in note 18.

Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash and short-term deposits with a maturity at acquisition of less than 90 days.

Restricted Cash

Restricted cash consists of amounts held in escrow related to the private placements completed in 2001, subject to registration statements filed with the Securities and Exchange Commission being declared effective. Upon release of these funds, the amounts are classified as cash and cash equivalents.

Short-term investments

Short-term investments consist of portfolio investments in other companies and deposits with a maturity at acquisition of greater than 90 days, and are valued at market.

Inventories

Raw materials and finished goods inventories are valued at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis.

Inventories of grain are valued at market. Changes in market value are included in cost of goods sold. The Food Group generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Futures and purchase and sale contracts are adjusted to market price and gains and losses from such transactions are included in cost of goods sold. The Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization.

Amortization is provided on property, plant and equipment on the diminishing balance basis or, in the case of certain U.S.-based subsidiaries, straight-line basis at rates based on the estimated useful lives of the assets as follows: 10% to 33% for office furniture and equipment, machinery and equipment and vehicles and 4 to 8% for buildings. Amortization is calculated from the time the asset is put into use.

Goodwill and intangibles

The Company adopted the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002. This new standard eliminates the need for amortization of goodwill and indefinite life intangible assets. Goodwill represents the excess of the purchase price over the assigned value of net assets acquired. Under the transitional provisions of the

standard, a goodwill impairment test was carried out and no impairment was identified on January 1, 2002.

In accordance with the new standard, the Company has assessed the carrying value of goodwill for possible impairment, and has determined that no such impairment exists as at December 31, 2002. Certain of the Company's trademarks are intangible assets with an indefinite life. The Company has further determined that there is no impairment in the value of these indefinite life trademarks. As required by the standard, the new rules related to goodwill and other intangible assets have been applied prospectively. On a pro-forma basis, the impact of adopting the new standard on prior year's earnings is:

	2001 $	2000 $
Net earnings for the year	19	2,118
Add back: goodwill and trademark amortization, net of tax	492	329
Adjusted net earnings for the year	511	2,447
Adjusted net earnings per common share		
- Basic	0.02	0.11
- Diluted	0.02	0.10

Other assets

i) Pre-operating costs

Net costs incurred in the pre-operating stage of a start-up business are deferred until the business reaches commercial operation or the passage of a certain period of time as predetermined by management.

During 2001, the Company initiated the start-up of an organic dairy business based in Canada. Certain pre-operating costs totaling $308 (2001 - $32) have been deferred. Amortization of these costs on a straight-line basis commenced in July 2002 and will result in these costs being fully amortized by December 31, 2003.

During 2000, the Company acquired Nordic Aseptic, Inc., which was considered a start-up business from the date of acquisition to December 31, 2000. Certain operating costs, net of income earned during the pre-operating period totaling $482 were deferred. Amortization of these costs commenced January 1, 2001 and are being amortized on a straight-line basis over three years.

ii) Deferred financing costs

Costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the related financing agreement.

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iii) Investments

The Company has a 32% (2001 - 32%) investment in Easton Minerals Limited. This investment is considered impaired and the carrying value at December 31, 2002 is nil (2001 - $366).

All other subsidiaries are 100% owned at December 31, 2002. On November 1, 2002, the Company acquired the remaining 49% minority interest in International Materials & Supplies, Inc. Investments in these subsidiaries are recorded using the consolidation method, whereby revenues and expenses are consolidated with the results of the Company.

Revenue recognition

i) Food Group

Grain revenues are recorded at the time of shipment. Revenues from custom processing services are recorded upon provision of services and upon completion of quality testing. All other Food Group revenues are recognized upon the sale and shipment of a product or the providing of a service to a customer. Revenues are generally recorded at the time of shipment unless there is a specific agreement with the customer for FOB destination. Customer rebates are recorded at the earlier of when the related revenue is recognized and when the rebate is determinable or when a reasonable estimate is available.

ii) Environmental Industrial Group

Revenues from the sale of industrial minerals are recognized upon the sale and shipment of the related minerals. Revenues from recycling activities are recognized upon the sale and shipment or the disposal of non-hazardous material received.

iii) Steam Explosion Technology Group

The percentage of completion method is used to account for significant contracts in progress when related costs can be reasonably estimated. The Company uses costs incurred to date as a percentage of total expected costs to measure the extent of progress towards completion.

Revenues from consulting and contract research are recognized when the service is completed.

License fees related to the right to sell the Company's technologies are recorded as revenues over the term of the license, when collectibility is reasonably assured.

Change in reporting currency

The Company historically prepared and filed its consolidated financial statements in Canadian dollars. On January 1, 2002, the Company adopted the United States (U.S.) dollar as its reporting currency for presentation of its consolidated financial statements. With the recent acquisitions of a number of companies in the United States, a significant portion of the Company's net earnings are earned by its U.S. operations. Historical consolidated results have been restated using a translation of

convenience, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of $1 U.S. to $1.5928 CDN. The functional currency of all operations located in the United States of America is the United States dollar. The functional currency of all operations located in Canada is the Canadian dollar.

Foreign currency translation

The Company's Canadian operations are self-sustaining operations, with the exception of the Corporate office, which is considered to be an integrated operation. The assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Monetary assets and liabilities of the Corporate office are translated at exchange rates in effect at the balance sheet date. All other assets and liabilities of the Corporate office are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates prevailing during the period. Unrealized gains or losses resulting from translating self-sustaining operations are accumulated and reported as currency translation adjustment in shareholders' equity. Unrealized gains or losses resulting from translating the Corporate office accounts are included in the determination of earnings.

Customer deposits

Customer deposits principally include prepayments by the Food Group's customers for merchandise inventory to be purchased during the spring planting season.

Income taxes

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

Employee stock compensation

Employee/director stock options granted by the Company contain exercise prices which are equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock. No compensation expense is recorded upon issuance of stock options

to employees. Stock options granted have a maximum life of six years and usually vest over a four year period.

Derivative instruments

The Food Group enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Exchange purchase and sales contracts may expose the Company to risk in the event that a counter party to a transaction is unable to fulfill its contractual obligation. The Company manages its risk by entering into purchase contracts with pre-approved producers.

The Company has a risk of loss from hedge activity if a grower does not deliver the grain as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold.

Earnings per share

Basic earnings per share are computed by dividing the income available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Use of estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Business acquisitions

2002

During 2002, the Company acquired four businesses (2001 - three businesses). The acquisitions have been accounted for using the purchase method, and accordingly, the consolidated financial statements include the

results of operations of the acquired businesses from the date of the acquisitions. The purchase price has been allocated to the assets acquired and the liabilities assumed based on management's best estimate of fair values.

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2. Business acquisitions, continued

The net assets acquired in 2002 and the consideration given are summarized below:

	Opta Food Ingredients, Inc. (a) $	Other Acquisitions (b) $	Total $
Net assets acquired			
Cash	7,611	(188)	7,423
Short term investments	2,038	--	2,038
Non-cash working capital	5,580	49	5,629
Property, plant and equipment	5,020	410	5,430
Goodwill and intangibles	--	1,790	1,790
Future income tax asset	10,056	--	10,056
Long-term debt	(1,705)	(258)	(1,963)
	28,600	1,803	30,403
Consideration given			
Contingent consideration	--	304	304
Due to former shareholders	1,871	--	1,871
Cash	26,729	1,499	28,228
	28,600	1,803	30,403

(a) Opta Food Ingredients, Inc.

On December 4, 2002 the Company completed a cash tender offer for the outstanding common shares of Opta Food Ingredients, Inc. (Opta). Approximately 92.6% of the outstanding common shares were tendered on December 4, 2002 for $2.50 per share in cash in accordance with the tender offer. On December 18, 2002 the Company amalgamated Opta with Stake Acquisition Corp, a wholly owned subsidiary. As a result of this amalgamation, the 7.4% of the outstanding common shares of Opta were converted to a right to receive $2.50 per share in cash from the Company, amounting to $1,871. This amount was disbursed subsequent to December 31, 2002.

Opta is a leading innovator, manufacturer and marketer of

proprietary food ingredients that improve the nutritional content, healthfulness, texture and taste of its customers' food products. Opta is the world's largest supplier of oat fiber to the food industry.

(b) Simply Organic Co. Ltd.

On December 1, 2002 the Company acquired 100% of the outstanding common shares of Simply Organic Co. Ltd. (Simply Organic) for cash consideration of $187. In addition, contingent consideration of $160 may be payable if certain predetermined profit targets are achieved by the acquired business. The full amount of contingent consideration has been accrued at December 31, 2002, however, no contingent consideration was paid in 2002.

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2. Business acquisitions, continued

Simply Organic is an Ontario, Canada based distributor of a broad range of regionally and internationally grown and produced certified organic food products, distributed throughout much of Ontario to mass market and natural food retail outlets.

Wild West

On November 1, 2002, the Company acquired 100% of the outstanding common shares of 632100 B.C. Ltd., successor to Wild West Organic Harvest Co-Operative Association (Wild West) for cash consideration of $889. In addition, contingent consideration of $144 may be payable if certain predetermined profit targets are achieved by the acquired business. The full amount of contingent consideration has been accrued at December 31, 2002, however, no contingent consideration was paid in 2002.

Wild West is a British Columbia, Canada based distributor of certified organic and natural food products throughout Western Canada to mass market and natural food retail outlets.

Virginia Materials and International Materials

Under the terms of the Virginia Materials acquisition completed on October 31, 2001, the Company agreed to pay the vendor contingent consideration equivalent to 50% of the pre-tax profit generated by these businesses for a two year period from the date of acquisition. In December 2002, the Company reached an agreement with the vendor to fix the contingent consideration for the period from January 1, 2003 to October 31, 2003 at $500. This amount has been reflected in accounts payable and accrued liabilities at December 31, 2002 and an equivalent amount has been reflected in goodwill. During the year ended December 31, 2002, the Company paid $1,031 (2001 - $89) in respect of the contingent consideration. The payment of this amount resulted in an equivalent increase in goodwill.

On November 1, 2002, the Company acquired the remaining 49% minority interest in International Materials & Supplies, Inc. (International Materials), for cash consideration of $125.

Organic Kitchen

On July 2, 2002, the Company acquired organic feed and related inventories, the Organic Kitchen trademark and the businesses of Organic Kitchen Inc. and Cloud Mountain Inc. (together forming Organic Kitchen). Consideration consisted of $297 paid in cash on closing. In addition, the Company will pay 10% of the pre-tax profits earned to December 31, 2005, up to a maximum of $1,268. This contingent consideration will be recorded as an increase to goodwill when the amount of the contingency is determinable. No contingent consideration was paid in 2002.

Organic Kitchen Inc. owns the trademark "Organic Kitchen" which is utilized in the sale of various organic products in Canada. Cloud Mountain Inc. sources organic animal feed for the production of organic animals. The acquisition of these businesses is in line with the Company's strategy to expand its natural and organic food business in Canada.

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2. Business acquisitions, continued

2001

The net assets acquired in 2001 and the consideration given are summarized below:

	Virginia Materials and International Materials (a) $	First Light Foods (b) $	Total $
Net assets acquired			
Cash	9	--	9
Non-cash working capital	342	--	342
Property, plant and equipment	1,440	--	1,440
Other long-term assets	43	--	43
Goodwill and intangibles	1,562	2,511	4,073
Long-term debt	(338)	--	(338)
Net future income tax liability	(81)	(698)	(779)
	2,977	1,813	4,790
Consideration given			
Common shares	--	796	796

Warrants	--	8	8
Note payable	--	659	659
Deferred purchase consideration	1,145	--	1,145
Contingent consideration paid	89	--	89
Cash	1,743	350	2,093
	2,977	1,813	4,790

(a) Virginia Materials and International Materials

On October 31, 2001, the Company's wholly owned subsidiary, Virginia Materials, Inc. (Virginia Materials), acquired certain assets of Virginia Materials and Supplies, Inc. including inventory, equipment and other long-term assets, as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials) for cash consideration (including acquisition costs) of $1,743, deferred purchase consideration of $1,145 and contingent consideration.

The deferred purchase consideration will be paid on the purchase of the vendor's inventory. During 2002, the Company recorded an additional $609 in deferred purchase consideration. The recording of this liability in 2002, resulted in a corresponding increase in goodwill. During the year the Company paid $982 (2001 - $109) in deferred purchase consideration. The remaining deferred purchase consideration will be paid in 2003.

Virginia Materials is a supplier of abrasives to the shipbuilding and bridge repair industry. International Materials produces industrial garnets as a by-product from a mining operation and processes these garnets for sale to the water filtration, water jet cutting and abrasives markets.

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2. Business acquisitions, continued

(b) First Light Foods

On February 1, 2001, the Company acquired 100% of the common shares of Jenkins and Gournoe, Inc., which operated in the United States under the name of First Light Foods. Consideration consisted of the issuance of 833,333 common shares, $350 in cash, a $659 note payable plus interest at 8.5% (subsequently paid in 2002) and 35,000 warrants exercisable at $1.70 for five years to February 2006. In addition, contingent consideration may be payable on this acquisition; (a) if certain predetermined profit targets are achieved by the acquired business, up to an additional 140,000 warrants may be issued in 2002 through to 2005, and (b) a percentage of gross profits in excess of $1,100 per annum from 2001 to 2005 will be paid to the vendors of First Light Foods. Contingent consideration will be recorded as an increase to trademarks, when

the amount of the contingency is determinable. No contingent consideration was paid in 2002 (2001 - $nil).

First Light Foods owns several trademarked brands that are marketed as the private label brands of a major food chain. The acquisition of First Light Foods complemented the Food Group's a vertically integrated soymilk strategy.

3. Note receivable

Prior to the Company's acquisition of Northern Food & Dairy Inc. (Northern) on September 15, 2000, Northern signed an agreement with a major customer to supply a natural food product. This agreement required Northern to expand its food processing plant to the customer's specifications. In accordance with the terms of the agreement, the customer is required to pay Northern 36 monthly instalments of $119 commencing October 2000. The agreement also requires Northern to provide the customer with a product rebate beginning three years after production at the new plant commences until $1,720 is repaid.

Upon acquisition of Northern on September 15, 2000, the Company assigned fair values of $3,425 to the note receivable and $1,075 to the product rebate payable based on the cash flows associated with these financial instruments discounted at a rate of 9.5%.

During 2002, Northern received payments of $1,425 (2001 - $1,393) and recorded imputed interest income of $156 (2001 - $271) on the note receivable. Imputed interest expense of $121 (2001 - $106) was recorded on the product rebate payable.

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4. Inventories

	2002 $	2001 $
Raw materials	7,859	6,026
Finished goods	11,750	6,323
Grain	3,380	1,472
	22,989	13,821

Grain inventories consist of the following:

	2002 $	2001 $
Company owned grain	3,338	1,338
Unrealized gain (loss) on		
Sales and purchase contracts	(79)	100
Futures contracts	121	34
	3,380	1,472

5. Property, plant and equipment

	2002		
	Cost $	Accumulated Amortization $	Net $
Land and buildings	22,423	1,033	21,390
Machinery and equipment	24,904	10,714	14,190
Office furniture and equipment	1,546	640	906
Vehicles	575	28	547
	49,448	12,415	37,033

	2001		
	Cost $	Accumulated Amortization $	Net $
Land and buildings	14,211	1,720	12,491
Machinery and equipment	23,707	6,128	17,579
Office furniture and equipment	1,205	630	575
Vehicles	545	307	238
	39,668	8,785	30,883

Included in land and buildings at December 31, 2002, are certain properties held for sale totalling $5,020 (2001 - $nil). These properties consist primarily of Opta's head office located in Bedford, MA which has a value of $4,800. The 45,000 square foot facility was deemed to be excessive for the needs of the organization at the time of acquisition and as a result was put up for sale. Included in machinery and equipment is equipment under capital lease with a cost of $490 (2001 - $670) and net book value of $277 (2001 - $453).

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6. Goodwill and intangibles

	2002 $	2001 $
Goodwill - at cost, less accumulated amortization of $985 (2001 - $985)	12,212	8,540
Trademarks (indefinite life)	2,498	2,498

Trademarks (definite life) - at cost, less accumulated amortization of $6 (2001 - $nil)	207	--
Patents and licenses, net	75	60
	14,992	11,098

7. Other assets

	2002 $	2001 $
Pre-operating costs, net of accumulated amortization of $432 (2001 - $161)	358	353
Deferred financing costs, net of accumulated amortization of $201 (2001 - $nil)	619	24
Investments	--	366
Other	103	97
	1,080	840

8. Long-term debt and banking facilities

	2002 $	2001 $
Term loan (a)	13,900	--
Tender facility (b)	15,186	--
Convertible debenture (c)	4,697	--
Other long-term debt (d)	2,966	16,648
	36,749	16,648
Less: current portion	(11,650)	(2,634)
	25,099	14,014

(a) During 2002, the Company entered into a new financing arrangement with a major Canadian bank and the bank's U.S. subsidiary. Under the terms of this financing arrangement, total debt of $15,447 was repaid on March 15, 2002 with the proceeds of the new agreement as follows:

Term loan

Principal payable quarterly based on a seven year amortization. The term loan has a two year maturity and is renewable at the option of the lender and the Company.

Interest on the term loan is payable at the borrower's option at

U.S. dollar base rate or U.S. LIBOR plus a margin based on certain financial ratios of the Company (3.0% as at December 31, 2002). As at December 31, 2002, $13,900 (2001 - $nil) was still outstanding.

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8. Long-term debt and banking facilities, continued

Subsequent to December 31, 2002, the Company amended its financing arrangement. The amendment syndicated the financing arrangement to a group of banks which includes existing lenders and increased the term loan by $7,800 to $21,700. As part of the amendment, the term loan matures in March of 2005. The Company fully intends to renew this term loan at that time. However, for financial statement purposes, the principal payments have been categorized as due in 2005.

The term loan and the Canadian and U.S. line of credit facilities described above are collateralized by a first priority security against substantially all of the Company's assets in both Canada and the United States.

(b) On December 4, 2002, the Company entered into a tender financing arrangement with its principal lender to facilitate the Company's tender offer to purchase all of the outstanding common shares of Opta (note 2).

The tender facility had a maximum borrowing base of $17,000. As at December 31, 2002, $15,186 of this facility had been utilized. Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including the bank's prime plus 100 basis points, or LIBOR plus 200 basis points (3.3% as at December 31, 2002).

Subsequent to December 31, 2002, the tender facility was repaid with cash of $3,886, the incremental proceeds from the amended term loan of $7,800 and the utilization of the additional line of credit facilities of $3,500.

(c) On December 4, 2002, in conjunction with the acquisition of Opta, the Company issued a $5,000 convertible debenture, with interest payable quarterly at 5.5% per annum. The debenture is convertible at the option of the holder at any time after November 30, 2003, or earlier under certain circumstances at the conversion price of $3.00 per share. The Company has the option to repay the debenture at any time subject to certain restrictions within its amended banking arrangement. The convertible debenture expires and is fully payable on November 30, 2004.

In conjunction with the issuance of the convertible debenture, the Company issued 250,000 share purchase warrants with an exercise price of $3.25. The warrants and the convertible right inherent in the debenture have been fair valued at $317, as at December 4, 2002, and have been classified as a component of shareholders' equity. As

a result, the fair value attributed to the debt component of the convertible debenture was $4,683.

At December 31, 2002 the accreted fair value of the convertible debenture was $4,697. The effective interest rate on the debenture at December 31, 2002 was 9.6%.

The convertible debenture is collateralized by a second priority security interest against certain of the Company's assets in the United States and Canada.

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8. Long-term debt and banking facilities, continued

(d) Other long-term debt consists of the following:

	2002 $	2001 $
Note payable with required annual payments of $95, interest at 5% payable semi-annually, uncollateralized	285	377
Term loan assumed on acquisition of Wild West, payable in monthly instalments of $4 until July 2007. Interest payable monthly at the Canadian prime rate plus 11%, collateralized by certain assets in Canada. This loan was fully repaid subsequent to December 31, 2002	299	--
Term loan assumed on acquisition of Opta, payable in quarterly instalments of $27 including interest at 7.4% due June 2003, collateralized by certain assets in the United States. This loan was fully repaid subsequent to December 31, 2002	1,705	--
Other debt with a weighted average interest rate of 9.2%, due in varying instalments through July 2007	354	490
Capital lease obligations due in monthly payments through 2006, with a weighted average interest rate of 8.5%	323	334
Long-term debt repaid on March 15, 2002 with proceeds from the new financing arrangement (as detailed in (a)) with a weighted average interest rate of 8.5%	--	15,447
	2,966	16,648

(e) As part of the new financing agreement as described in (a) above, the Company also entered into two line of credit facilities, as

follows

i) $3,169 (CDN $5,000) line of credit facility:

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including Canadian or U.S. bank prime, or Canadian bankers' acceptances, plus a margin based on certain financial ratios of the Company (3.2% as at December 31, 2002). As at December 31, 2002 $494 (CDN $780) of this facility has been utilized. This amount has been offset with cash on hand at the same institution for financial statement presentation purposes.

ii) $5,000 line of credit facility

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including U.S. bank prime, or LIBOR, plus a margin based on certain financial ratios of the Company (3.0% as at December 31, 2002). As at December 31, 2002 $3,963 of this facility has been utilized.

Subsequent to December 31, 2002 the Company amended its financing arrangement As a result the U.S. line of credit facility was increased by $4,000 to $9,000. The Company used the incremental proceeds on the term loan, drew on the U.S. line of credit facility to the extent of $3,500 and utilized $3,886 of cash on hand to repay the tender facility obtained to finance the acquisition of Opta (note 2).

(f) In addition to the line of credit facilities noted above, the Company has a $200 margin financing facility, of which $93 was utilized as at December 31, 2002 (2001 - $200) and is included in the current portion of the long-term debt.

(g) The loans and capital leases detailed above require payments as follows:

	$
2003	11,650
2004	7,251
2005	17,671
2006	90
2007 and thereafter	87
	36,749

(h) Interest expense on long-term debt for the year ended December 31, 2002 was $1,292.

(i) The fair value of long-term debt is not materially different from the carrying amount.

9. Long-term payables

	2002 $	2001 $
Product rebate payable	1,330	1,209
Deferred purchase consideration	667	1,040
Preference shares of subsidiary companies	291	416
Payable to former shareholders of acquired companies	2,675	--
	4,963	2,665
Less: Current portion	(3,458)	(1,067)
	1,505	1,598

10. Capital stock

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of special shares without par value.

The following is a summary of changes in capital stock:

	Warrants and rights		Common s	
	Number	$	Number	
Balance as at December 31, 1999	331,404	--	20,653,788	
Warrants exercised (a)	(234,959)	--	234,959	
Warrants expired	(96,445)	--	--	
Options exercised (b)	--	--	298,225	
Shares and warrants issued to acquire Northern (a)	500,000	19	7,000,000	
Balance as at December 31, 2000	500,000	19	28,186,972	1
Shares and warrants issued to acquire First Light Foods (a)	35,000	8	833,333	
Options exercised (b)	--	--	999,425	
April 2001 private placement (c)	705,750	507	1,411,498	
May 2001 private placement (c)	1,200,000	762	2,400,000	
September 2001 private				

placement (c)	2,250,000	1,650	3,000,000	
December 2001 private placements (c)	--	--	4,250,000	
Balance as at December 31, 2001	4,690,750	2,946	41,081,228	3
Warrants exercised (c)	(656,150)	(430)	656,150	
Warrants issued (a)	250,000	263	--	
Warrants repurchased (a)	(60,000)	(43)	--	
Options exercised (b)	--	--	246,740	
Convertible right associated with convertible debenture	--	54	--	
Balance as at December 31, 2002	4,224,600	2,790	41,984,118	3

(a) During 2002, 656,150 warrants were exercised at prices ranging from $1.75 to $2.40 for net proceeds of $1,474. (2001 - nil warrants, $nil net proceeds; 2000 - 234,959 warrants, $332 net proceeds).

In conjunction with the convertible debenture issued in 2002 (note 8) the Company issued 250,000 warrants with a fair value of $263, an exercise price of $3.25, and an expiry date of November 30, 2004. The convertible right issued in conjunction with the convertible debenture has a fair value of $54.

On April 2, 2002, 60,000 shareholder warrants with an exercise price of $1.75 per unit, were repurchased by the Company for a net cost of $39.

F-21

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars, except per share amounts)

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10. Capital stock, continued

(b) Employee/director option plans

The Company grants options to employees and directors from time to time under employee/director stock option plans. The Company has authorized 3,586,800 (2001 - 2,086,800) shares to be made available for the stock option plans. The following is a summary of grants during the year.

Grant date	Expiry date	Exercise price	Number of options
March 11, 2002	March 11, 2007	$2.15	114,000
August 13, 2002	August 13, 2007	$3.07	98,100
November 7, 2002	November 7, 2007	$3.04	43,000
December 16, 2002	December 16, 2007	$3.00	160,000
			415,100

Employee/director stock options granted by the Company contain an exercise price, which is equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

The 415,100 options granted during 2002 vest as follows: 116,620 options vested in 2002, 74,620 vest per annum in 2003 to 2006.

During 2002, 246,740 (2001 - 999,425; 2000 - 298,225) options were exercised and the equivalent number of common shares were issued for net proceeds of $397 (2001 - $1,037; 2000 - $274).

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

	2002	
Outstanding at beginning of year	2,050,700	1,8
Granted	415,100	1,2
Exercised	(246,740)	(9
Retracted	(17,800)	(
Outstanding exercisable at year end	2,201,260	2,0
Weighted average fair value of options granted during the year	$2.79	

10. Capital stock, continued

Details of employee/director stock options as at December 31 are as follows:

Expiry Date	Exercise Price Range	Vested Outstanding Options	Weighted Average Price	Total Outstanding Options	Weight
2003	$1.06 to $2.10	749,450	$1.81	773,000	
2004	$1.06 to $1.86	180,960	$1.61	200,960	
2005	$1.06 to $1.38	410,900	$1.15	532,800	
2006	$1.53 to $2.10	155,550	$1.81	275,000	
2007	$2.15 to $3.07	116,620	$2.85	419,500	
		1,613,480	$1.69	2,201,260	

The weighted average remaining contractual life for vested outstanding options and total outstanding options is 2.2 and 2.7 years respectively.

On January 7, 2000, all options with an option price in excess of $1.06 were repriced to $1.06. In addition, on March 5, 2000, the Board approved a resolution extending the exercise period of 304,375 options from March 10, 2001 to December 31, 2003.

Subsequent to year-end, 213,225 options were exercised to acquire an equivalent number of common shares for net proceeds of $389.

The fair value of the options granted during 2002, 2001 and 2000 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% for each year, an expected volatility of 60% (2001 - 30%; 2000 - 51%), a risk-free interest rate of 3% (2001 - 3%; 2000 - 5%), and an expected life of one to six years.

Pro-forma net earnings (loss), reflecting stock compensation expense for 2002, 2001 and 2000 are as follows:

	2002	200
Number of options granted	415,100	1,238,12
Total fair value	$ 630	50
Net earnings for the year as reported	3,766	1
Stock compensation expense:		
Options vested in current year from current year grants	126	41
Options vested in current year from prior years grants	115	6
	241	47
Pro-forma net earnings (loss) for the year	3,525	(45
Pro-forma net earnings (loss) per common share		
- Basic	0.08	(0.0
- Diluted	0.08	(0.0

10. Capital stock, continued

(c) In 2001, the Company completed four private placements. The Company issued 11,061,498 common shares and 4,155,750 warrants to acquire 4,155,750 common shares for total proceeds of $19,776 net of issuance costs. The following is a summary of the warrants issued:

Expiry date	Exercise price	Warrants	$
March 31, 2004	$1.75	705,750	507
March 31, 2004	$2.40	1,200,000	762
September 30, 2004	$2.40	2,250,000	1,650
		4,155,750	2,919

In addition, pursuant to the private placement agreements, the Company granted to their agents:

i) Compensation warrants exercisable until June 8, 2003 to purchase 144,000 option units at $2.00 per unit. If exercised in full, the Company will issue 144,000 common shares and 72,000 warrants exercisable at $2.40 to acquire 72,000 common shares, which expire on March 31, 2004.

Subsequent to December 31, 2002, these warrants were exercised in full and the subsequently issued warrants were also exercised. The Company issued 246,000 shares for net proceeds of $533.

ii) Compensation warrants exercisable until September 28, 2003 to purchase 150,000 option units at $2.00 per unit. If exercised in full, the Company will issue 150,000 common shares and 112,500 warrants exercisable at $2.40 to acquire 112,500 common shares, which expire on September 30, 2004.

(d) During 1997, the shareholders of the Company agreed to reduce the stated capital account of the Company's common shares by $15,712 through the elimination of the deficit.

11. Income taxes

The Company's effective income tax rate on consolidated earnings has been determined as follows:

	2002	2001	2000
Canadian statutory income tax rate	39.0%	42.0%	42.0%
Increase (decrease) by the effects of			
Reduction in valuation allowance	(13.2%)	(25.8%)	(71.7%)
Differences in foreign, capital gains manufacturing and processing and future income tax rates	(3.7%)	(1.5%)	(2.5%)
Application of prior years losses and scientific research expenditures carried forward	--	--	(27.7%)
Current year non-capital loss not recognized	--	--	18.2%
Other	(12.5%)	73.9%	7.1%
Effective income tax rate	9.6%	88.6%	(34.6%)

Net earnings before income taxes	4,167	166	1,573
Provision for (recovery of) income taxes	401	147	(545)

11. Income taxes, continued

Future income taxes of the Company comprise the following:

	2002 $	2001 $
Differences in property, plant and equipment basis	4,946	(2,829)
Capital and non-capital losses	6,443	759
Tax benefit of scientific research expenditures	2,112	1,334
Other	613	56
	14,114	(680)
Valuation allowance	(4,107)	(479)
	10,007	(1,159)

	2002 $	2001 $
Future income tax asset	10,007	663
Future income tax liabilities	--	(1,822)
	10,007	(1,159)

The Company has approximately $5,020 (2001 - $4,090) in Canadian scientific research expenditures, which can be carried forward indefinitely to reduce future years' taxable income. The Company also has approximately $120 (2001 - $95) in Canadian scientific research investment tax credits.

The Company has U.S. non-capital loss carry-forwards of approximately $20,963 as at December 31, 2002 (2001 - $1,664) available to reduce future federal and state income taxes and expire in varying amounts from 2008 to 2020.

A valuation allowance of $4,107 (2001 - $479) has been recorded to reduce the net benefit recorded in these consolidated financial statements related to the capital and non-capital loss carry-forwards. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these future tax assets.

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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12. Supplemental cash flow information

	2002 $	2001 $	2000 $
Changes in non-cash working capital, net of businesses acquired:			
Accounts receivable - trade	315	1,138	(4,712)
Inventories	(3,086)	(3,383)	(1,506)
Prepaid expenses and other current assets	579	(404)	(295)
Accounts payable and accrued liabilities	1,271	(135)	(1,817)
Customer deposits	(969)	533	(261)
	(6,917)	(3,074)	(2,741)
Cash paid for:			
Interest	1,632	1,789	851
Income taxes	1,373	405	279

	2002 $	2001 $	2000 $
Non-cash investing and financing activities:			
Common shares and warrants issued in the acquisition of First Light Foods	--	804	--
Common shares and warrants issued in the acquisition of Northern Food & Dairy, Inc.	--	--	6,644

13. Related party transactions and balances

In addition to transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

(a) During 2002, the Company charged affiliated companies $nil for services rendered (2001 - $84).

(b) Included in other current assets as at December 31, 2002 is $75 (2001 - $33) due from officers/directors of the Company. Subsequent to December 31, 2002, $50 was received in respect of this amount.

(c) Included in other long-term debt as at December 31, 2001 were uncollateralized loans of $1,097 due to shareholders, which were repaid during 2002.

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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14. Commitments and contingencies

(a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company. Legal counsel has concluded the outcome of these claims or potential claims is not determinable.

(b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.

(c) In the normal course of business, the Food Group holds grain for the benefit of others. The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.

(d) Letters of credit:

i) An irrevocable letter of credit for $475 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

ii) An irrevocable letter of credit for $195 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

iii) Additional letters of credit totalling $28 have been placed with third parties as security on transactions occurring in

the ordinary course of operations.

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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14. Commitments and contingencies, continued

(e) Commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

	$
2003	1,672
2004	1,595
2005	1,514
2006	1,474
2007	1,339
2008 and thereafter	1,430
	9,024

15. Earnings per share

The calculation of basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share reflect the dilutive effect of the exercise of warrants and options as disclosed in note 10. The number of shares for the diluted earnings per share was calculated as follows:

	2002	2001	2000
Weighted average number of shares used in basic earnings per share	41,547,302	32,220,352	22,975,986
Dilutive potential of the following			
Employee/director stock options	765,034	150,191	381,744
Warrants	747,459	85,392	--
Weighted average number of shares used in diluted earnings per share	43,059,795	32,455,935	23,357,730

Warrants to purchase 250,000 common shares, options to purchase 301,100 common shares and the convertible debenture convertible into 1,666,667 common shares have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect.

16. Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, restricted cash, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities and customer

deposits. The fair values of these instruments approximate their carrying value due to their short-term maturities.

The Company's financial instruments that are exposed to credit risk include cash and cash equivalents, short term investments and accounts receivable. The Company places its cash, cash equivalents and short term investments with institutions of high creditworthiness. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that it accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectibility of the accounts.

Information on the Company's other financial instruments is contained in other notes to the consolidated financial statements. .

F-28

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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17. Segmented information

The Company operates in three segments: a) the Food Group, processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy, natural and organic food products; (b) the Environmental Industrial Group, processes, distributes, and recycles industrial minerals; and (c) the Steam Explosion Technology Group, markets proprietary steam explosion technology systems for the pulp and food processing industries. Management has identified its segments based on the nature of the products and services being sold and its organizational structure in support of these segments. Operating segments have been aggregated within the Food Group segment. The Company's assets, operations and employees are located in Canada and the United States

Industry segments.

	Food Group $	Environmental Industrial Group $	Steam Explosion Technology Group and Corporate $	Consolid
External revenues by market				
U.S	89,088	8,305	157	97
Canada	2,936	15,902	--	18
Other	4,295	215	--	4
Total revenue to external customers	96,319	24,422	157	120
Interest expense	1,034	320	59	1

Provision for (recovery of) income taxes	1,146	1,115	(1,860)	
Segment net earnings (loss)	3,166	1,741	(1,141)	3
Identifiable assets	85,040	21,981	8,266	115
Amortization	2,995	861	274	4
Expenditures on property, plant and equipment	3,306	1,058	100	4

F-29

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

17. Segmented information, continued

	Food Group $	Environmental Industrial Group $	Steam Explosion Technology Group and Corporate $	Consoli
External revenues by market				
U.S	66,408	5,365	359	7
Canada	200	14,124	--	1
Other	3,365	1	--	
Total sales to external customers	69,973	19,490	359	8
Interest expense	1,423	291	31	
Provision for (recovery of) income taxes	186	170	(209)	
Segment net earnings (loss)	310	491	(782)	
Identifiable assets	51,073	16,948	12,040	8
Amortization	2,889	705	112	
Expenditures on property, plant and equipment	2,590	1,290	27	
Equity accounted investment	--	--	366	

	Food Group $	Environmental Industrial Group $	Steam Explosion Technology Group and Corporate $	Consoli
External revenues by market				
U.S	42,388	3,602	236	4
Canada	249	16,040	106	1
Other	1,199	--	--	
Total revenues to external customers	43,836	19,642	342	6
Interest expense	698	261	--	
Provision for (recovery of) income taxes	542	41	(1,128)	
Segment net earnings	230	1,578	310	
Amortization	1,075	537	138	
Expenditures on property, plant and equipment	2,907	419	35	

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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17. Segmented information, continued

Geographic segments

	2002			2001		
	U.S. $	Canada $	Total $	U.S. $	Canada $	Total $
Property, plant and equipment	29,568	7,465	37,03	24,009	6,874	30,883
Goodwill and intangibles	11,655	3,262	14,917	9,429	1,609	11,038
Total assets	87,399	27,888	115,287	55,300	24,761	80,061

Customer concentration

The Company has one customer in the Food Group whose purchases were 16% of the Company's total revenue in 2002 (2001 - 6%).

18. United States generally accepted accounting principles differences

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which conform in all material respects applicable to the Company with those in the United States (U.S. GAAP) during the periods presented, except with respect to the following:

Under U.S. GAAP, certain pre-operating costs of $276 incurred in the year ended December 31, 2002, (2001 - $32), deferred in these financial statements would be expensed. Amortization of $271 in the year ended December 31, 2002, (2001 - $161) related to pre-operating costs would not have been expensed.

On March 11, 2002, the Company committed to grant certain employees 114,000 options to acquire 114,000 common shares at $2.15. These options were provided to employees contingent upon approval by the shareholders of the 2002 stock option plan. This approval was received on June 18, 2002. Under U.S. GAAP, the difference in stock price between the exercise price and the closing price the day immediately preceding the day of shareholders' approval is considered to be compensation expense. Accordingly, $62 would be recorded under U.S. GAAP in 2002 as stock option compensation expense.

During 2001, the Company repriced certain options. As a result, for the year ended December 31, 2002 - $nil (2001 - $321; 2000 - $33) would be recognized as stock option compensation expense under U.S. GAAP.

In conjunction with the issuance of the convertible debenture described in note 8 and 10 for Canadian GAAP purposes, the fair value of the convertible right was determined to be $54. For U.S. GAAP purposes, the value of the right was determined to be $383. For U.S. GAAP this amount has been measured and disclosed but will not be recorded until the option right is exercisable on November 30, 2003.

Under U.S. GAAP, the gain on dilution in the amount of $nil in 2002 (2001 - $nil; 2000 - $88) resulting from the dilution of the Company's ownership of the common share equity of Easton would have been excluded from income and included as a separate component of shareholder's equity as Easton is a development stage exploration company.

Effective January 1, 2002, the Company adopted the U.S. dollar as its reporting currency. Under Canadian GAAP historical results were restated using a translation of convenience, whereas under U.S. GAAP, the consolidated financial statements would be restated on a retroactive basis. The effect of this adjustment would not be material.

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18. United States generally accepted accounting principles differences, continued

Accordingly, the following would have been reported under U.S. GAAP:

	2002 $	2001 $	
Net earnings for the year - as reported	3,766	19	
Translation adjustment	--	(6)	
Dilution gain	--	--	
Pre-operating costs amortized	271	161	
Pre-operating costs capitalized	(276)	(32)	
Stock option compensation expense	(62)	(321)	
Tax effect of above items	2	(52)	
Net earnings (loss) for the year - US. GAAP	3,701	(231)	
Net earnings (loss) per common share - U.S. GAAP:			
- Basic	0.09	(0.01)	
- Diluted	0.09	(0.01)	
Weighted average number of common shares Outstanding	41,547,302	32,220,352	22,97
Shareholders' equity - as reported	49,527	43,500	2
Cumulative pre-operating costs, net of amortization, net of tax	215	212	
Cumulative stock compensation expense	(416)	(354)	
Shareholders' equity - U.S. GAAP	49,326	43,358	2

Comprehensive income

U.S. GAAP requires that a comprehensive income statement be prepared. Comprehensive income is defined as "The change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner events". It includes all changes in equity during a period, except those resulting from investments by owners and distribution to owners. The comprehensive statement reconciles the reported net income to the comprehensive income.

The following is a comprehensive income statement (prepared in accordance with U.S. GAAP), which, under U.S. GAAP, would have the same prominence as other financial statements.

	2002 $	2001 $	2000 $
Net earnings (loss) for the year - U.S. GAAP	3,701	(231)	1,869
Currency translation adjustment	112	971	162

Comprehensive income for the year	3,813	740	2,031
	=====	=====	=====

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18. United States generally accepted accounting principles differences, continued

Other U.S. GAAP disclosures

Changes in Reserves	2002 $	2001 $	2000 $
Allowance for Doubtful Accounts			
Balance, beginning of year	1,117	590	418
Additions charged to profit and loss, including effects of foreign exchange rate differences	450	912	538
Accounts receivable charged off, net of recoveries	(76)	(385)	(366)
Balance, end of year	1,491	1,117	590
Deferred Tax Valuation Allowance			
Balance, beginning of year	479	479	1,504
Additions to valuation allowance	4,107	--	479
Adjustments to valuation allowance, including effects of foreign exchange rate differences	(479)	--	(1,504)
Balance, end of year	4,107	479	479

The following items are considered part of operating income:	2002 $	2001 $	2000 $
Write down of investment in Easton Minerals Limited	(366)	--	--
Gain of sales of assets	285	51	12
	(81)	51	12

	2002 $	2001 $
Accrued payroll	1,235	1,059

Proforma data (unaudited)

Condensed proforma income statement, as if the acquisitions of Opta, Wild West, Organic Kitchen, Simply Organic, First Light Foods and Virginia Materials had occurred at the beginning of 2001, is as follows:

	2002	2001
	$	$
Revenue	153,686	126,316
Net earnings	4,875	210
Earnings per share		
- Basic	0.12	0.01
- Diluted	0.11	0.01

Stake Technology Ltd.
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars)

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19. Shareholders' Equity

	Capital Stock	Contributed Surplus	Retained Earnings	Currency Translaction Adjustment
	$	$	$	$
Balance at December 31, 1999	7,008	2,910	1,567	(122
Warrants exercised	332			
Options exercised	274			
Shares and warrants issued to acquire Northern	6,644			
Net earnings for the year			2,118	
Currency translation adjustment				162
Balance at December 31, 2000	14,258	2,910	3,685	40
Shares and warrants issued to acquire First Light Foods	804			
Shares and warrants issued under private placements	19,776			
Options exercised	1,037			
Net earnings for the year			19	
Currency translation adjustment				971
Balance at December 31, 2001	35,875	2,910	3,704	1,011
Warrants exercised	1,474	--	--	--
Warrants issued	263	--	--	--
Warrants repurchased	(43)	4	--	--
Options exercised	397	--	--	--
Convertible right associated with convertible debenture	54	--	--	--
Net earnings for the year	--	--	3,766	--
Currency translation adjustment	--	--	--	112
Balance at December 31, 2002	38,020	2,914	7,470	1,123

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20. Comparative balances

Certain line items in the prior year consolidated balance sheet and prior years consolidated statements of earnings and consolidated statements of cash flows have been combined to achieve comparability to current year's presentation. The reclassifications of these prior year balances did not have a significant impact on the presentation of the consolidated financial statements.

Recent accounting developments

Effective January 1, 2003, the Company will adopt, SFAS no. 143, "Accounting for Asset Retirement Obligations." Under SFAS No. 143, retirement obligations will be recognized when incurred and recorded as liabilities at fair value. The liability will be accreted over time through periodic charges to earnings. In addition, the asset retirement cost will be capitalized as part of the asset's carrying value and depreciated over the asset's useful life. The adoption of the new standard will not have a significant impact on the Company's results of operations or financial condition.

Recent accounting developments, continued

Effective January 1, 2003, the Company will adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination, an asset retirement obligation covered by SFAS No. 143 or with a disposal activity covered by SFAS No. 144. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred provided that such fair value can be reasonably estimated. An exception applies for certain one-time termination benefits that are incurred over time. The adoption of the new standard is not expected to have a significant impact on the Company's results of operations or financial condition.

Effective January 1, 2003, the Company will adopt SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company currently discloses proforma net earnings and earnings per share data and will comply with the further disclosures as required by SFAS No. 148 starting in January 1, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not

have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not have any ownership in any variable interest entities. The Company believes that the adoption of FIN 46 will not have a material impact on the Company's consolidated financial position or on its results of operations.

Supplemental Financial Information (Unaudited)

	Quarter ended December 31		Quarter ended September 30	
	2002	2001	2002	2001
Revenues	33,437	23,811	32,800	22,904
Cost of goods sold	28,000	20,723	27,510	20,093
Gross profit	5,437	3,088	5,290	2,811
Selling, general and administrative expenses	4,835	3,732	3,240	2,536
Earnings (loss) before the following	602	(644)	2,050	275
Interest expense	(383)	(339)	(302)	(398
Interest and other income (expense)	(20)	(6)	30	102
Foreign exchange gain (loss)	36	22	(322)	347
	(367)	(323)	(594)	51
Earnings (loss) before income taxes	235	(967)	1,456	326
Provision for (recovery of) income taxes	(277)	(283)	(71)	170
Net earnings (loss) for the year	512	(684)	1,527	156
Net earnings (loss) per share for the year				
Basic	0.01	(0.02)	0.04	0.00
Diluted	0.01	(0.02)	0.04	0.00

Quarter ended June 30	Quarter ended March 31

	2002	2001	2002	2001
Revenues	31,378	23,988	23,283	19,119
Cost of goods sold	25,942	20,180	19,979	16,454
Gross profit	5,436	3,808	3,304	2,665
Selling, general and administrative expenses	3,223	2,494	2,983	2,380
Earnings before the following	2,213	1,314	321	285
Interest expense	(306)	(519)	(422)	(489
Interest and other income	97	143	111	87
Foreign exchange gain (loss)	466	(41)	(4)	27
	257	(417)	(315)	(375
Earnings before income taxes	2,470	897	6	(90
Provision for income taxes	766	372	(17)	(112
Net earnings for the year	1,704	525	23	22
Net earnings per share for the year				
Basic	0.04	0.02	0.00	0.00
Diluted	0.04	0.02	0.00	0.00

PART I - FINANCIAL INFORMATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STAKE TECHNOLOGY LTD.

/s/ Steven R. Bromley

Date March 7, 2003

Stake Technology Ltd.
By Steven R. Bromley
Executive Vice President
& Chief Financial Officer

EXHIBIT INDEX

99.1 Certification of the Principal Executive Officer, Jeremy N. Kendall,

pursuant 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the Principal Financial Officer, Steven R. Bromley, pursuant 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.