Stake Technology Ltd.

annual report 1999

managing growth in ethical businesses

LETTER TO OUR SHAREHOLDERS

1999 *in review*

DEAR SHAREHOLDER:

IN 1999, PROFIT MAGAZINE CONFIRMED THAT STAKE TECHNOLOGY WAS THE 16TH FASTEST GROWING COMPANY IN CANADA OVER THE PREVIOUS FIVE-YEAR PERIOD.

That was a considerable accomplishment and this year looks even better. We are pleased to report revenue for the year ended December 31, 1999 of $47,304,000, a 114% increase over the previous year and a five-year growth rate of 27,086%. This growth rate is expected to rank the Company high in Profit's annual review of the growth rates of Canadian companies once again.

Earnings for 1999 increased to $1,524,000 or $0.09 per common share compared to $822,000 or $0.06 per common share for the previous year.

The Company's 1999 results include five months of operations from SunRich, Inc. which was acquired on August 3, 1999 and in that five-month period reported sales of $25.0 million. SunRich's sales will add significantly to StakeTech's total sales in the year 2000 with the inclusion of a full year's results.

Sales at BEI were $21.8 million, equal to sales in 1998, after achieving a substantial growth of 35% over 1997 sales. The year 2000 will see strong growth in this division as a result of the acquisition of George F. Pettinos (Canada) Limited (Pecal).

In 1999, Steam Explosion Technology reported revenues of $484,000 largely from licensing fees. These licensing agreements are expected to lead to equipment sales in the year 2000.

The balance sheet of the Company continued to strengthen during 1999 with cash resources increasing to $2.5 million and working capital doubling to $6.8 million. The net worth of the Company increased by 80% to $18.1 million or $0.88 per share.

We are pleased to report revenue for the year ended December 31, 1999 of $47,304,000, a 114% increase over the previous year and a 5-year growth rate of 27,086%. This growth rate is expected to rank the Company high in Profit Magazine's annual review of the growth rates of Canadian companies.

The major event of 1999 was the acquisition of 100% of the shares of SunRich, Inc. for U.S. $4,250,000, which was paid through a share exchange.

SunRich is the leading integrated U.S. company involved from the supply of organic seeds through to the supply of concentrated soymilk.

Annual growth in soymilk consumption exceeded 30% in recent years and the U.S. retail market exceeded $300 million in 1999. Soymilk is going mainstream in the year 2000 as all major food chains are providing the product to a health conscious consumer.

In addition, SunRich mills organic oats and corn for natural cereal production through its Cresco, Iowa plant and supplies U.S. and Japanese customers with specialty soy products for the tofu, miso and soya sauce markets.

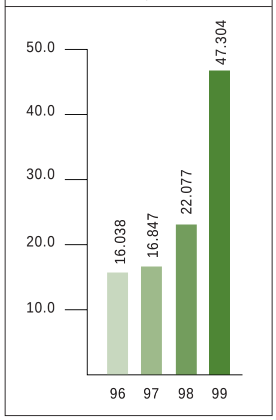
SunRich has performed exceptionally well since the acquisition, achieving its best two quarters in recent history.

A significant event also occurred on February 28, 2000 when the Company acquired 100% of the shares of George F. Pettinos (Canada) Limited (Pecal), a supplier of industrial minerals and a producer of coated sand for the foundry industry. This business, which has profitable sales of approximately $13.3 million in 1999, is highly complimentary to the operations of BEI. Significant savings will be achieved through integration of the two operations.

The net worth of the Company increased by 80% to $18.1 million or $0.88 per share.

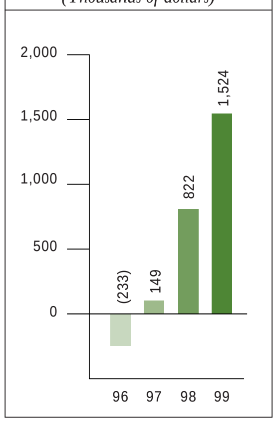
REVENUES

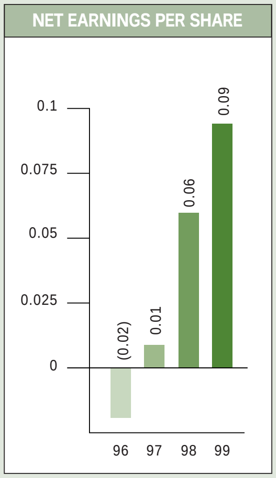
(Millions of dollars)

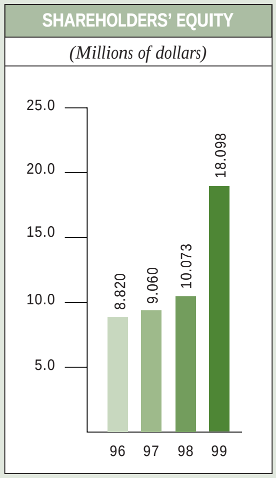


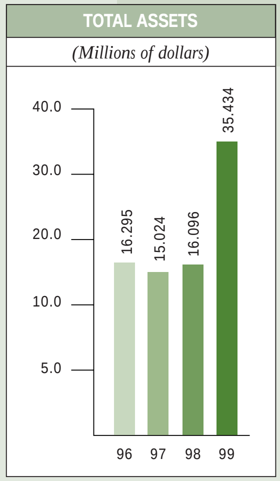
NET EARNINGS FOR THE YEAR

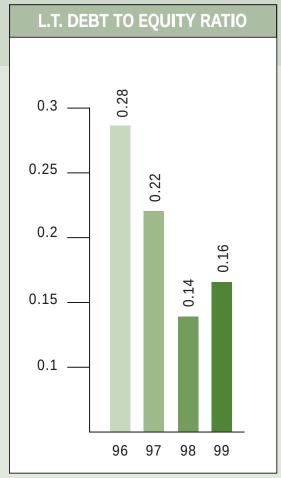
(Thousands of dollars)











Working capital doubled year-over-year; total assets more than doubled.

Pecal was purchased for cash of $4,700,000 supplied by new short- and long-term debt agreements and it is anticipated that the investment will be recovered within three years.

We would like to take this opportunity to thank all of our employees for their hard work and enthusiasm during the last year and to welcome the new employees from SunRich and Pecal, who have joined the Company this year.

Similarly, we would like to welcome the SunRich shareholders, who have now become StakeTech shareholders. At the same time, we are delighted to welcome Allan Routh, President of SunRich, Inc., to the Board of StakeTech. We very much appreciate the advice of the entire Board, the interest and enthusiasm of our shareholders and the ongoing support of our customers and suppliers.

Yours truly,

Jeremy N. Kendall
Chairman and Chief Executive Officer

John D. Taylor
President and Chief Operating Officer

STAKE TECHNOLOGY LTD.

1999

Vision of StakeTech

Management intends to grow the Company rapidly over the next five years through a combination of internal growth, within the three existing operating units, and the acquisition of companies which are complementary to these operating units.

This century-old farmhouse serves as StakeTech's headquarters.

The business will be guided by the ethical principles of environmental responsibility and the health and well-being of its communities.

SunRich is a U.S. based producer and processor of soybeans, waxy corn and grain products.

These include identity-preserved (IP) specialty grains, soymilk concentrates, powdered natural food ingredients, soy-based vegetarian meat substitutes, grain sweeteners and certified organic frozen vegetables.

SunRich's strategy is to provide products and services from the field to the table with particular emphasis on the soy market. Through its identity-preserved program, SunRich provides farmers with guaranteed organic and non-genetically modified seeds, monitors the growth, harvesting, storage and transportation of the soya beans, and purchases, tests and screens the beans for subsequent toll processing to concentrated soymilk by Northern Food and Dairy.

The concentrated soymilk is then sent by tanker truck for blending and packaging to customer specifications at a number of facilities, including Nordic Aseptic. Nordic is a new joint venture, created between SunRich and Northern Foods, which packages various soy products at its ultra-modern facility in Alexandria, Minnesota using Tetrapak technology.

SunRich and Northern have also formed a joint venture to purchase and convert an existing dairy plant in Wyoming to produce concentrated soymilk for the Western market. This plant is expected to be operational by August 2000. A search is currently underway to locate another facility in the Eastern part of the U.S. which can also be converted to soymilk production to better supply the New England market.

Currently, SunRich supplies 60% of the U.S. market for soymilk. The intention of SunRich is to invest in facilities on a regional basis in order to maintain its market share in the rapidly growing soy market and to better supply its customers. SunRich is also researching and developing new soy drink products, as well as considering the production of oat sweeteners and soy oil used in the food industry.

SunRich has also developed a line of organic vegan and kosher-approved non-GMO soybased veggie-burgers, which it markets under the trade name Hearty & Natural, primarily in health food stores. In the U.S., SunRich also distributes Edamame and Sweet Beans through this same market channel. This division has been investing in establishing a distribution network, and sales have recently reached $250,000 per month.

In summary, the vision for SunRich is to be the dominant integrated supplier of consumer soy-based products in the U.S. emphasizing organic and non-genetically modified ingredients.

BEI intend to expand sales of industrial mineral products by broadening its distribution base in Canada and the U.S. primarily in the foundry, steel, abrasives and construction industries. BEI provides silica-free abrasives, which avoid the potential problem of silicosis of the lungs for blasters who have previously used sand as an abrasive.

BEI also recycles industrial wastes and many of the industrial minerals which have been sold to and used by its customers.

The vision for BEI is to expand its recycling and waste management business through the acquisition of other companies handling industrial wastes, including liquid wastes, such that BEI can offer a complete range of waste handling services for the customer.

Members of Corporate and Steam Explosion Technology team.

With the acquisition of Pecal, BEI expects to achieve sales of approximately $40M for the year 2000. Profit margins will be augmented by the savings resulting from the integration of the two operations.

Steam Explosion Technology has developed the world's first truly environmentally friendly pulping system, which uses annual regenerative crops as raw material.

The system has low capital cost, is economic at small scale, and has wide applications throughout the world.

It replaces chemical-based processes which are highly polluting in parts of the world where the costs of effluent treatment have resulted in elimination or no such treatment.

Following the success of the first such plant at Weyerhaeuser in Oregon, the Company is now marketing its technology in China, where a huge market exists to replace highly polluting facilities, many of which are being closed by the government. There is a need for additional capacity to satisfy the growing demand for paper.

The Company intends to broaden its program to other parts of the world, following the successful installation of the first plant in China.

SUNRICH, INC.

1999

25 grams of soy protein a day, as part of a diet low in saturated fat and cholesterol, may reduce the risk of heart disease. A serving of Edamame Soybeans supplies 6.5 grams of soy protein.

SunRich's mission is to serve growers, processors, and food manufacturers, supplying specialty grain products with integrity and reliability.

SunRich's focus is from field to table – the company is involved in all aspects of grain processing in order to ensure top-quality products.

SunRich, a leading agritech business added to the StakeTech group in August of 1999. SunRich is a major producer, supplier and developer of soybean, waxy corn and grain-based products, including whole grains, food ingredients and retail packaged products offered as certified organic and non-genetically modified organisms (non-GMO). This product line has great diversity. There is strong market demand for its identity-preserved (IP) specialty grains, soymilk liquids and powders, milled grain products, vegetable oils, grain sweeteners, vegetarian meat alternatives, frozen veggie burgers and frozen edamame (green vegetable soybeans).

Health claims drive global upswing in the market for soy products

In 1999, the U.S. Food & Drug Administration allowed the inclusion of a "heart claim" on the packaging of soy products confirming the health benefits of soy protein in reducing heart disease.

SunRich's primary focus on specialty grains means that the company's management is very sensitive to changes in the demand for agricultural products. In the last decade, SunRich has seen the worldwide market for soybeans and soy products explode, especially in the certified organic and non-GMO sector. Consumers have become increasingly conscious of not only the benefits of a diet rich in soy and grain-based foods, but the positive environmental impact of sustainable agricultural practices.

The market for soymilk has grown by more than 30% annually in recent years, reaching over U.S.$300 million in retail sales in 1999 in North America.

In a variety of studies, soybeans have been shown to have uniquely beneficial qualities for health and nutrition. A 1997 study published in the Tufts University Health and Nutrition Letter indicated that isoflavones, a unique group of phytoestrogens prevalent in soybeans, act as anti-carcinogens, and also alleviate symptoms of menopause and osteoporosis. In the same year, a Finnish study demonstrated that soy proteins work to inhibit tumour growth. And a study published in 2000 at the University of Toronto showed not only that soy consumption reduces the risk of cancer, but that it reduces the risk of heart disease as well, by lowering blood levels of oxidized cholesterol – which can line artery walls as plaque. Such studies have prompted the FDA to issue a health claim for food products that contain sufficient quantities of soy. These health facts, combined with better-tasting soy foods in greater variety, are powering the sales of soy products, particularly soymilk, which has all the nutritional benefits of soy foods and is a milk that can be easily digested by those who are lactose intolerant. Soymilk is presently one of the fastest-growing beverage categories.

Members of the SunRich team.

SunRich facility in Hope, Minnesota.

As the largest soymilk producer in the United States, SunRich's market reach is also expanding. European and Asian consumers have been demanding organic and non-GMO products for years, a trend that is being followed in North America. With the recent addition of governmental standards and labeling laws being implemented in the EU, Japan and many other countries, this market is expected to continue to grow as more consumers can confidently choose their preferred food products.

As demands grows in domestic and international markets, SunRich is ideally positioned for rapid growth as an innovative, reliable partner and supplier. SunRich management is committed to an aggressive business strategy that will anticipate the trends in grain-based foods and will swiftly modify SunRich products and services to meet existing and new market needs.

SunRich intends to grow sales at 15 percent per year while increasing overall profit margins by migrating sales to higher-margin, value-added products.

With markets this strong, management has decided to work on expanding sales of value-added products, such as:

- Organic and non-GMO food ingredients,
- Soymilk for private label retailers (where the market is growing dramatically),
- IP specialty grains, and
- Organic, non-GMO, kosher meat alternatives for private label manufacturers.

Green soybeans – a rich source of healthy isoflavones.

BARNES ENVIRONMENTAL INTERNATIONAL (BEI)

1999

Demand accelerates for silica-free abrasives

Barnes Environmental International had another excellent year in 1999, recording sales of $21.8 million and earnings from operations of $2.3 million, or 11% of sales. These results are similar to sales and earnings of 1998.

On February 28, 2000 StakeTech acquired 100% of the shares of George F. Pettinos (Canada) Limited (Pecal). Based in Hamilton, Ontario, Pecal produces and sells industrial minerals, trap sand, proprietary mineral blends and coated sand to the foundry industry.

Pecal has a plant in Hamilton and had a separate corporate office which has now been closed and merged with BEI at Waterdown. Annual savings of approximately $1.0 million will be realized as a result.

Pecal's product line is highly compatible with BEI's products. With combined and rationalized sales forces and accounts, the company will benefit from a reduction of duplication. In addition, the accounting has been centralized and computer systems have been merged.

Pecal is operating at record sales levels and BEI is studying how to increase production of coated sand at the plant.

BEI/Pecal has three main product segments:

1. *The sale of abrasives, emphasizing silica-free products.*

These products are produced at the Waterdown plant and, as of the fall of 1999, are now produced at the New Orleans abrasive plant as well.

"Barshot", a patented specular hematite product, and "Ebony Grit", a copper slag, are the two main abrasive products sold.

Early in 2000, the Company expanded an exclusive raw material Purchase Agreement to allow the sale of Ebony Grit into the U.S.. BEI is now establishing a network of distributors in the U.S.. Early results are most encouraging.

2. *The manufacture and distribution of industrial mineral-based products. These include: speciality sand, Bentonite clays, industrial garnet, proprietary blends, refractories and coated sand for the foundry and steel industries.*

During 1999, BEI secured exclusive North American distribution rights for a high-quality Chinese garnet, which has been very well received by the waterjet/metal-cutting industry.

3. *The recycling of mineral wastes from industry and from site reclamation projects.*

Under the BEI Certificate of Approval, these materials are received for a tipping fee at the Waterdown site, where they are crushed, cleaned and blended to a specific chemistry for resale to the cement and steel industries.

During 1999, BEI developed a number of new products. These included recovery of Zircon sand from used foundry sands, bio-remediation of oil contaminated soils and the receipt and consolidation of small quantities of industrial wastes for subsequent recycling and disposal.

Members of the BEI team.

Our vision

BEI is the major industrial-waste recycling company in Ontario, with one of only two Certificates of Approval, issued by the Ontario Ministry of the Environment, to recycle certain industrial mineral waste.

BEI facility in Waterdown, Ontario.

During 1999, BEI invested in abrasive processing equipment at its plant in New Orleans, which now allows for the direct importation by ship of raw materials. BEI intends to broaden its product offering for the shipbuilding and repair industry which predominates in that region.

Finally, it is imperative that a continual flow of new products be brought into BEI in order to grow and replace products that phase out with changes in technology. This new product development function has been formalized at BEI. Quality control is equally important. BEI is constantly investing in new equipment and processes and will seek to broaden its ISO approval to include the Pecal plant in the shortest possible timeframe.

Much of the waste generated by industry, which could be recycled, still ends up in municipal landfills because of either low tipping fees or lack of customer knowledge of recycling options.

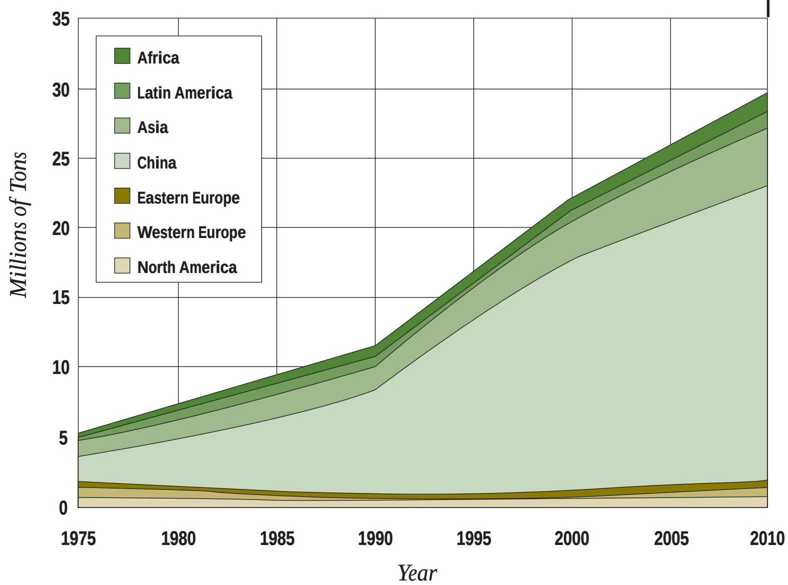
BEI is studying the opportunity to broaden its services by acquiring other companies that handle industrial waste. BEI can then provide a total waste service, and have a greater control over the option of recycling versus landfilling.

BEI is also interested in acquiring a Western Canadian-based facility to give BEI national distribution.

The BEI employee fitness centre, in a converted 1910 railway station on the Waterdown site.

STEAM EXPLOSION PULPING TECHNOLOGY

1999



China is the major market for the Company's non-woody pulping technology. In 1995, China had over 10,000 pulp mills, many of which process straw and are small and highly polluting. The Government has a plan underway to shut down 4,000 of these mills and is actively sourcing the best available technology to replace pulp capacity and expand facilities. The Ministry of Light Industry predicts that total fibre demand in China will grow from 34 million tons to 75 million tons by 2010 and that this will require the installation of 60 million tons of new and replacement capacity for a total investment of approximately U.S. $100 billion.

In 1999 StakeTech signed a major agreement to supply straw-pulping systems to China.

Focus on China

Global non-woody pulp production is forecast to grow by 800,000 tons per year; China accounts for 78% of global production.

In August, we signed an exclusive agreement with Pacitec Inc., a U.S.-based trade and development company specializing in China.

Under the terms of the agreement, Pacitec acquired exclusive rights to market StakeTech's Steam Explosion Pulping Systems for non-woody applications in China for a license fee of U.S. $4.0 million payable over 12 years. Maintenance of rights is conditional on achieving performance milestones that include the sale of a minimum of 40 systems for a total value of approximately U.S. $160 million.

StakeTech has retained all rights to the design and manufacturing of the StakeTech Systems.

Pacitec

Pacitec is in partnership with the China National Beijing Contracting & Engineering Institute for Light Industry (BCEL). BCEL is an experienced engineering firm and has completed over 20 major projects in the pulp and paper industry since 1981.

The market development plan for China was kick-started with a three-day non-woody pulping conference in Beijing in August. This Pacitec-sponsored event highlighted StakeTech's cleaner pulping technology and was attended by over 100 leaders of industry, government and academia.

In the third quarter of 1999, straw samples from China were processed in our Norval technology centre. The tests verified the effectiveness of StakeTech Steam Explosion in pulping this material.

Our vision – to build Steam Explosion Technology sales to $50 million by 2005 by becoming the preferred global supplier of non-woody pulping systems.

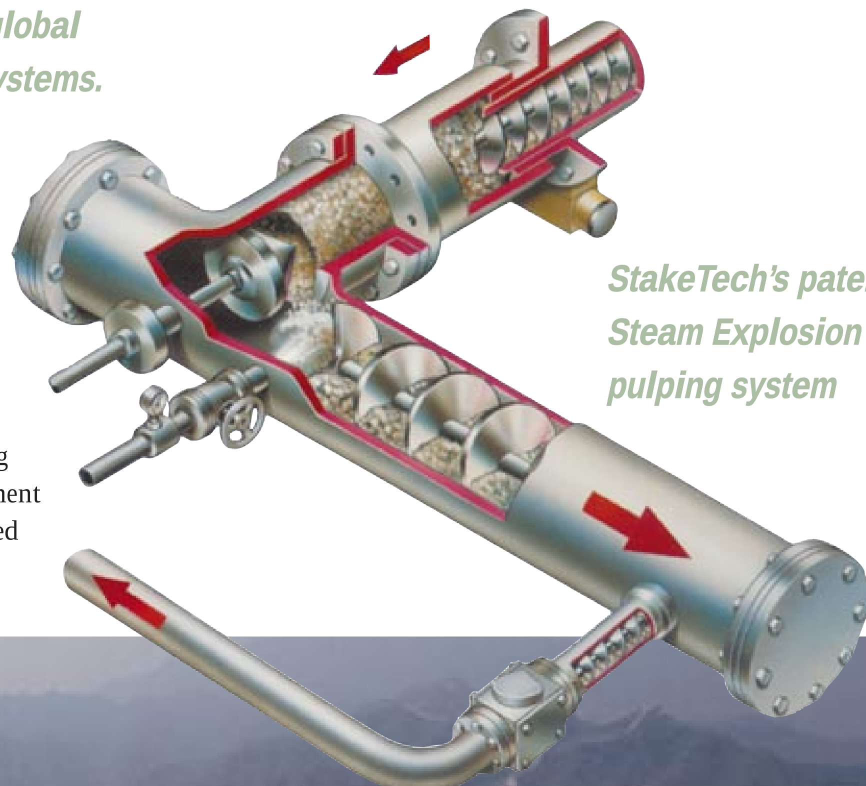
We will build on the economic and environmental advantages of the Steam Explosion process.

We will continue to focus on China in 2000.

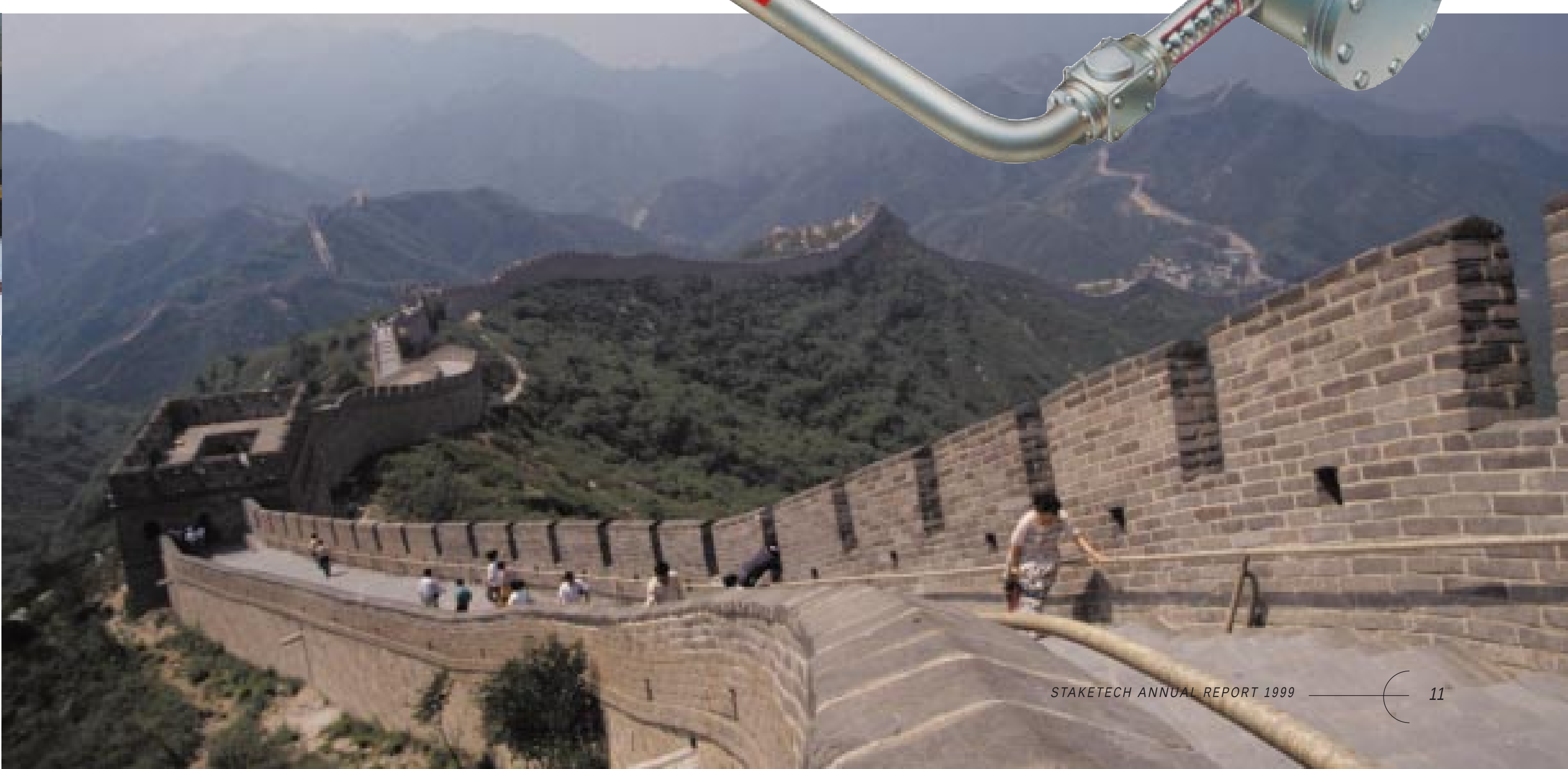
The elements are in place to rapidly penetrate the market in China. Pacitec has teamed up with investors from Hong Kong to form New China Paper Investment Corporation (NCPIC), which was created specifically to purchase existing mills in China and convert them to the StakeTech Steam Explosion pulping process. The first mill to be acquired has been identified, and acquisition and conversion are expected to begin in 2000.

NCPIC plans to become a one million ton-per-year paper company by 2004, requiring 15 StakeTech Steam Explosion Pulping Systems.

We plan to build on success in China and establish other marketing licensees in other parts of Asia. We aim to grow sales in this region to 50 percent of total Steam Explosion Technology sales by 2005.



StakeTech's patented Steam Explosion pulping system



Management's Responsibility for Reporting

The accompanying financial statements of Stake Technology Ltd. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Reconciliation of these policies to U.S. accounting policies are described in note 17 to the consolidated financial statements. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.

The Company's policy is to maintain systems of internal accounting and administrative controls which are high quality, consistent with reasonable cost. These systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Company's assets are appropriately accounted for and safeguarded.

The Board of Directors, through the three-person Audit Committee, which includes two non-management members, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, audit plans, auditing matters and financial reporting issues, and to review the consolidated financial statements and the Auditors' Report. The Committee reports its findings to the Board of Directors for consideration of the Board when it approves the consolidated financial statements for issuance to the shareholders. The auditors have unrestricted access to the Audit Committee. The Audit Committee recommends the appointment of the Company's auditors who are appointed at the Company's Annual Meeting.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the auditors, in accordance with generally accepted auditing standards.

Leslie N. Markow
Vice President, Finance and Chief Financial Officer

Independent Auditors' Report

TO THE SHAREHOLDERS OF
STAKE TECHNOLOGY LTD.

We have audited the consolidated balance sheets of Stake Technology Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. 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 Canadian generally accepted auditing standards. 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, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 3, 2000

Consolidated Balance Sheets

As at December 31, 1999 and 1998 (Expressed in Canadian dollars)

	1999	1998
	$	$
ASSETS *(note 7)*		
Current assets		
Cash and cash equivalents	2,464,000	181,000
Cash held as security deposit *(note 7)*	400,000	400,000
Accounts receivable – trade	7,300,000	3,805,000
Inventories *(note 3)*	8,589,000	2,878,000
Miscellaneous receivables and other assets	246,000	161,000
Future income taxes *(note 10)*	1,020,000	–
	20,019,000	7,425,000
Property, plant and equipment *(note 4)*	10,766,000	5,825,000
Investments *(note 5)*	281,000	565,000
Goodwill – at cost, less accumulated amortization of $516,000 (1998 – $358,000)	3,922,000	1,897,000
Patents, trademarks, licenses and other assets – at cost, less accumulated amortization of $925,000 (1998 – $900,000)	446,000	384,000
	35,434,000	16,096,000
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	10,179,000	2,937,000
Note payable *(note 6)*	208,000	–
Customer deposits	1,618,000	–
Current portion of long-term debt *(note 7)*	950,000	700,000
Current portion of preference shares *(note 8)*	240,000	237,000
	13,195,000	3,874,000
Long-term debt and bank facilities *(note 7)*	2,955,000	1,400,000
Future income taxes *(note 10)*	579,000	–
Preference shares of subsidiary company *(note 8)*	607,000	749,000
	17,336,000	6,023,000
SHAREHOLDERS' EQUITY		
Capital stock *(note 9)*		
Authorized		
Unlimited common shares without par value		
Issued		
20,653,788 (1998 – 14,779,718) common shares	11,163,000	4,467,000
Contributed surplus	4,635,000	4,635,000
Retained earnings *(note 9)*	2,495,000	971,000
Currency translation adjustment	(195,000)	–
	18,098,000	10,073,000
	35,434,000	16,096,000

SIGNED ON BEHALF OF THE BOARD

J Y Kendall

Director

Director

Contingencies and Commitments *(notes 7 and 12)*

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Operations

For the years ended December 31, 1999 and 1998 (Expressed in Canadian dollars)

	1999	1998
	$	$
Revenues	47,304,000	22,077,000
Cost of goods sold	40,145,000	17,308,000
Gross profit	7,159,000	4,769,000
Expenses		
Research and development	367,000	357,000
Administration, market development and demonstration	4,965,000	3,419,000
Amortization of patents, trademarks, licenses and goodwill	158,000	139,000
Gain on sale of property, plant and equipment	(5,000)	(60,000)
	5,485,000	3,855,000
Earnings from operations	1,674,000	914,000
Interest on long-term debt	(308,000)	(134,000)
Other interest	(22,000)	–
Interest and other income	181,000	57,000
Foreign exchange (loss) gain	(76,000)	67,000
Loss on sale of marketable securities	–	(16,000)
Gain on dilution of investment interests in equity accounted investee *(note 5)*	–	26,000
Share of losses of equity accounted investee *(note 5)*	(321,000)	(29,000)
Dividend on preference shares of subsidiary company	(25,000)	(30,000)
Imputed interest on preference shares of subsidiary company	(31,000)	(33,000)
Earnings before income taxes	1,072,000	822,000
Recovery of income taxes *(note 10)*		
Future income taxes	452,000	–
Net earnings for the year	1,524,000	822,000
Earnings per share *(note 13)*	0.09	0.06

Consolidated Statements of Retained Earnings

For the years ended December 31, 1999 and 1998 (Expressed in Canadian dollars)

	1999	1998
	$	$
Retained earnings – Beginning of year	971,000	149,000
Net earnings for the year	1,524,000	822,000
Retained earnings – End of year	2,495,000	971,000

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998 (Expressed in Canadian dollars)

	1999	1998
	$	$
CASH PROVIDED BY (used in)		
Operating activities		
Net earnings for the year	1,524,000	822,000
Items not affecting cash		
Amortization	1,070,000	716,000
Share of losses of investee	321,000	29,000
Loss on sale of marketable securities	–	16,000
Gain on sale of property, plant and equipment	(5,000)	(60,000)
Gain on dilution of interest in investee	–	(26,000)
Imputed interest on preference shares	31,000	33,000
Future income taxes	(455,000)	–
	2,486,000	1,530,000
Change in non-cash working capital balances related to operations		
Accounts receivable – trade	3,394,000	(1,190,000)
Inventories	(2,922,000)	(947,000)
Miscellaneous receivables and other assets	54,000	188,000
Accounts payable and accrued liabilities	336,000	696,000
Customer deposits	1,656,000	–
	5,004,000	277,000
Investing activities		
Acquisition of company – net of cash acquired	(24,000)	–
Acquisition of patents, trademarks, licences and other assets	(87,000)	(63,000)
Cash held as security deposit	–	125,000
Acquisition of property, plant and equipment	(1,138,000)	(471,000)
Proceeds on sale of property, plant and equipment	13,000	89,000
Increase in investments and advances	(37,000)	(37,000)
	(1,273,000)	(357,000)
Financing activities		
Purchase of preference shares in subsidiary company	(100,000)	(100,000)
Redemptions of preference shares in subsidiary company	(70,000)	(70,000)
Repayment of long-term debt and notes payable	(3,680,000)	(500,000)
Issuance of long-term debt and notes payable	2,133,000	–
Issuance of common shares	295,000	191,000
	(1,422,000)	(479,000)
Foreign exchange loss on cash held in a foreign currency	(26,000)	–
Increase (decrease) in cash during the year	2,283,000	(559,000)
Cash and cash equivalents – Beginning of year	181,000	740,000
Cash and cash equivalents – End of year	2,464,000	181,000
Supplemental cash flow information		
Interest paid	298,000	131,000
Income taxes paid	3,000	–

(See accompanying notes to consolidated financial statements)

For the years ended December 31, 1999 and 1998 (Expressed in Canadian dollars)

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. Through its wholly owned U.S. subsidiary SunRich, Inc. ("SunRich"), which was acquired on August 2, 1999, the Company sells agricultural products. Its division, Barnes Environmental International ("BEI"), sells abrasives and industrial materials and recycles inorganic materials. The Company also operates a division developing and commercializing a proprietary steam explosion technology for processing of biomass into higher value products. The Company's assets, operations and employees at December 31, 1999 are located in Canada and the U.S.

These 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 17. The significant policies are outlined below:

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.

Inventories
Inventories related to the recycling and industrial minerals business of BEI and merchandise inventories of SunRich 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 sales. SunRich generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Hedge contracts are adjusted to market price and gains and losses from such transactions are included in cost of sales. The Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled.

Investments and marketable securities
Investments in companies over which the Company exercises significant influence are accounted for by the equity method whereby the Company includes its proportionate share of earnings and losses of such companies in earnings. Other long-term investments are recorded at cost and are written down to their estimated recoverable amount if there is evidence of a decline in value which is other than temporary.

Amortization of capital assets
Amortization is provided on plant and equipment on the diminishing balance basis at rates of 20% to 33% per annum for office furniture and equipment, machinery and laboratory equipment and vehicles and 4-8% for buildings. Amortization is calculated from the time the asset is put into use.

Costs of acquiring or filing patents, trademarks and licenses are capitalized and amortized on a straight-line basis over their expected lives of 10 to 20 years. Costs of renewing patents and trademarks are expensed as incurred.

Revenue recognition

i) *SunRich*
Grain sales are recorded at the time of shipment. Other SunRich revenue is recognized upon the sale and shipment of a product or the providing of a service to a customer.

ii) *BEI*
Revenue from the sale of industrial minerals is recognized upon shipment.

Tipping fee revenue, which consists of a per-ton fee paid to the Company for waste recycling materials being received by the Company, is recognized at the time the material is received. Provision is made for the net costs of processing and disposal of the material.

iii) *Steam Explosion Technology*
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.

iii) *Steam Explosion Technology (continued)*
Revenue from consulting and contract research is recognized when the service is completed.

License fees related to sales of the Company's technologies are recorded as revenue when earned and collection is reasonably assured.

Foreign currency translation
SunRich is considered to be a self-sustaining operation. SunRich's assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses are accumulated and reported as currency transaction adjustment in shareholders' equity.

Revenues and expenses arising from foreign currency transactions are translated into Canadian dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are translated using the rate in effect at the balance sheet date. Related exchange gains and losses are included in the determination of earnings.

Goodwill
Goodwill represents the excess of the cost of subsidiaries and businesses over the assigned value of net assets acquired. Goodwill is amortized on a straight-line basis over its estimated life of 20 years. The Company reviews the recoverability of goodwill whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis.

Customer deposits
Customer deposits principally include prepayments by SunRich's customers for fertilizer and chemicals to be purchased during the spring planting season.

Income taxes
During 1998, the Company adopted 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.

Derivative instruments
SunRich enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transaction 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 counterparty 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 future 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
The computation of earnings per share is based on the weighted average number of common shares outstanding during the period.

Use of estimates
The preparation of these 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 financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2 Acquisition of business

Effective August 2, 1999, the Company acquired 100% of the common shares of SunRich in exchange for 5,471,866 common shares of the Company and 104,821 warrants of the Company. The warrants were exercisable for 30 days at U.S.$0.50, and if these warrants were exercised, the shareholders would be entitled to another warrant exercisable at U.S.$1.00 to December 31, 1999, rising to U.S.$2.00 on January 1, 2000 and expiring on December 29, 2000.

2 Acquisition of business *(continued)*

Certain shareholders of SunRich chose to exercise dissenter's rights and received $49,000 in cash for their SunRich shares.

The acquisition has been accounted for using the purchase method. The net assets acquired and consideration given is summarized below:

	$
Net assets acquired	
Cash	368,000
Net working capital	3,044,000
Property, plant and equipment	4,911,000
Goodwill	2,183,000
Notes payable	(1,325,000)
Long-term debt	(2,370,000)
Net future income tax liability	(18,000)
	6,793,000
Consideration	
Common shares	6,346,000
Warrants	55,000
Cash	392,000
	6,793,000

The company has consolidated the operations of SunRich from the date of acquisition.

3 Inventories

	1999	1998
	$	$
Raw materials	2,196,000	1,696,000
Finished goods and merchandise	4,003,000	1,182,000
Grain	2,390,000	–
	8,589,000	2,878,000

Grain inventories consist of the following:

	$
Company owned grain	2,479,000
Unrealized gain (loss) on	
Contracts with producers	(172,000)
Futures contracts	83,000
	2,390,000

4 Property, plant and equipment

	1999			1998		
	Cost	*Accumulated Amortization*	*Net*	*Cost*	*Accumulated Amortization*	*Net*
	$	$	$	$	$	$
Land and buildings	8,218,000	1,790,000	6,428,000	4,087,000	396,000	3,691,000
Office furniture and equipment	945,000	580,000	365,000	566,000	275,000	291,000
Vehicles	633,000	272,000	361,000	60,000	59,000	1,000
Machinery and laboratory equipment	7,946,000	4,334,000	3,612,000	3,563,000	1,721,000	1,842,000
	17,742,000	6,976,000	10,766,000	8,276,000	2,451,000	5,825,000

Included in machinery and laboratory equipment is equipment under capital lease with a cost of $699,000 (1998 – nil) and net book value of $552,000 (1998 – nil).

5 *Investments*

	1999	1998
	$	$
Easton Minerals Ltd.		
35% (1998 – 35%) common share ownership	186,000	507,000
Advances	95,000	58,000
	281,000	565,000

Easton Minerals Ltd. (Easton) is a small mining exploration company listed on the Canadian Venture Exchange. The quoted market value of the shares held by the Company at December 31, 1999 was $550,000 (1998 – $1,258,000), however, this value is based upon limited trading volumes of the common shares of Easton. It is unlikely that these values could be realized upon sale of all or a portion of the Company's holdings in Easton, particularly given the significant number of shares held by the Company.

The Company's share of losses of Easton for 1999 amounted to $321,000 (1998 – $29,000). In 1998, Easton issued 500,000 common shares to third parties for cash consideration of $98,000, and a dilution gain on this transaction of $26,000 was recognized on the reduction of the Company's percentage ownership of Easton.

6 *Note payable*

SunRich maintains a demand note related to its hedging activities, which provides for maximum borrowings of up to U.S.$200,000 (U.S.$144,000 outstanding at December 31, 1999) with interest at prime. Borrowings under this note are due on May 31, 2000.

7 *Long-term debt and bank facilities*

Long-term debt consists of the following:

	1999	1998
	$	$
Term bank loan, interest based on banker's acceptance rates, currently 6.6%, repayable in annual instalments of $600,000	1,400,000	2,100,000
Note payable to bank, interest at bank reference rate (9% at December 31, 1999), due in monthly payments through July 2013, collateralized by real estate	410,000	–
Note payable to bank, interest at bank reference rate (9% at December 31, 1999), due in monthly payments through February 2009, collateralized by property, equipment and general intangibles	1,133,000	–
Note payable to bank, interest at 8.75%, interest only through May 2000 and thereafter, due in monthly payments through November 2006, collateralized by equipment and intangibles	433,000	–
Other, interest rates from 0.9% to 8.0%, due in varying installments through July 2002, collateralized by vehicles	179,000	–
Capital lease obligations, due in monthly instalments through June 2003 with interest ranging from 7.57% to 8.06%	350,000	–
	3,905,000	2,100,000
Less: Current portion	950,000	700,000
	2,955,000	1,400,000

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

	$
2000	980,000
2001	979,000
2002	442,000
2003	212,000
2004	195,000
Thereafter	1,149,000
	3,957,000
Less: interest on capital lease obligations, ranging from 7.57% to 8.06%	52,000
	3,905,000

In the event of default under the term bank loan of $1,400,000, a former director of the Company has a right to acquire all of the common shares of a subsidiary company of the Company for $1. The sole asset of the subsidiary is 19.2 acres of land with a book value of $1,312,000. If this occurred, the liability in respect of the first and second preference shares of the subsidiary company reflected in these financial statements (note 8) would be extinguished without payment.

The Company has provided a general collateral agreement representing a first charge on all Canadian assets of the Company as collateral for a $3,000,000 operating bank facility and the term bank loan. The Company has also provided first mortgages in the aggregate amount of $2,575,000 on certain land and buildings located in Waterdown, Ontario, and a pledge of certain book debts, inventories and other assets as collateral. The Company is also required to maintain cash deposits of $400,000 (1998 – $400,000) as collateral for the loan facility. As at December 31, 1999, the Company is contingently liable under letters of credit in the amount of $1,116,000, which have been drawn on this operating facility.

SunRich maintains a line of credit with a bank, which provides for maximum borrowings of up to U.S.$3,000,000 based on eligible accounts receivable and inventories, with interest at the bank's reference rate (8.33% at December 31, 1999) and collateralized by accounts receivable and inventories. There were no borrowings outstanding under this line of credit at December 31, 1999.

SunRich also maintains a line of credit with a lending institution, which provides for maximum borrowings of up to U.S.$500,000, collateralized by certain inventories, with interest at a variable rate. The line of credit matured on November 1, 1999 and was renewed in February 2000 and matures November 15, 2000. There were no borrowings under this line of credit at December 31, 1999.

The fair value of the long-term debt would not be materially different from the carrying amount. The effective interest rate at December 31, 1999 is 8.1% (1998 – 6.6%).

8 *Preference shares of subsidiary company*

	1999	1998
	$	$
500,000 (1998 – 600,000) first preference shares	500,000	600,000
455,834 (1998 – 525,834) second preference shares	347,000	386,000
	847,000	986,000
Less: Current portion of preference shares	240,000	237,000
	607,000	749,000

The Company is required to purchase 100,000 first preference shares issued by 1108176 Ontario Inc., its subsidiary, per annum at $1 per share plus unpaid dividends thereon calculated at 5% per annum, commencing December 31, 1996, until the term bank loan described in note 7 is repaid. Thereafter, the Company is required to purchase 200,000 first preference shares per annum under the same terms and conditions.

In January 1999, 100,000 first preference shares were purchased for $100,000, and a dividend of $30,000 was paid. Payment for a further purchase of 100,000 first preference shares and a dividend of $25,000 was delivered in trust to the Company's lawyer in January 2000 pending receipt of the shares purchased.

The second preference shares of the subsidiary company with a stated value of $1 per share are non-dividend bearing and are redeemable monthly at the rate of 5,833 shares ($5,833) per month until fully paid out. The Company is required to fund the redemption. As a result of the fixed repayment requirements, the second preference shares have been discounted at an imputed rate of 8%. During the year, 70,000 (1998 – 70,000) second preference shares were redeemed. Imputed interest on the second preference shares during the year amounted to $31,000 (1998 – $33,000).

The Company is required to purchase all of the outstanding first preference shares at $1 per share in the event of a change in the current Chairman of the Company or upon the sale of the Company's environmental recycling business, BEI.

The fair market values of the first and second preference shares would not be materially different from their carrying amounts and could vary with fluctuations in interest rates.

9 Capital stock

(a) During 1997, the shareholders of the Company agreed to amend the Company's by-laws as follows:

i) the authorized common shares were changed from 25,000,000 to an unlimited number;

ii) the 5,000,000 Class A non-dividend bearing, non-voting, redeemable, preference shares authorized that had never been issued were eliminated; and

iii) the stated capital account of the Company in respect of its common shares was reduced by $25,026,000 and applied against the deficit.

(b) The following is a summary of changes in share capital during the year.

	Warrants		*Common shares*	
	Number	*$*	*Number*	*$*
Balance outstanding at December 31, 1997	1,182,500	–	14,425,718	4,276,000
Options exercised	–	–	354,000	191,000
Balance at December 31, 1998	1,182,500	–	14,779,718	4,467,000
Shares and warrants issued to acquire SunRich, Inc. *(note 2)*	104,821	55,000	5,471,866	6,346,000
4-for-1 warrant exchange *(c)*	(849,375)	–	–	–
Warrants exercised	(402,204)	(55,000)	402,204	350,000
Warrants issued	366,804	–	–	–
Warrants expired	(71,142)	–	–	–
Balance at December 31, 1999	331,404	–	20,653,788	11,163,000

(c) At December 31, 1998, the Company had outstanding 1,182,500 warrants to acquire common shares. Of these warrants, 650,000 were exercisable at U.S.$2.25 per share, and 532,500 are exercisable at U.S.$2.00 per share. As a result of extensions to the original expiry dates approved in 1997 and 1998, the warrants were to expire on June 30, 1999. In December 1998, the Company offered to the warrant holders a 4 for 1 exchange of the 1,182,500 warrants with an exercise price of U.S.$0.50 per share expiring on January 31, 1999.

Provided the new warrants were exercised prior to January 31, 1999, an equivalent number of additional warrants with an exercise price of U.S.$1.00 to December 31, 1999, rising to U.S.$2.00 on January 1, 2000 and expiring on December 29, 2000 would be issued.

During January 1999, 283,125 of the new warrants were exercised to acquire 283,125 common shares for proceeds of $212,000. Accordingly, 283,125 additional warrants were issued. Of these additional warrants, 35,400 warrants were exercised for proceeds of $38,000.

During August 1999, 83,679 of the warrants issued to acquire SunRich were exercised to acquire 83,679 common shares for proceeds of $45,000. Accordingly, 83,679 additional warrants were issued.

As at December 31, 1999, the Company had 331,404 warrants outstanding with an exercise price of U.S.$2.00 and expiring on December 29, 2000.

(d) Director/employee option plans

The Company grants options to employees and directors from time to time under employee/director stock option plans. On July 29, 1999 and August 2, 1999, the Board of Directors granted 620,000 options from the 1998 and 1999 Stock Option Plans at U.S.$1.06. The 620,000 options granted vest as follows: 253,600 options vest immediately, 82,900 vest annually each on the anniversary date of August 2 over the next four years, and 34,800 vest on August 2, 2004. Details of the options exercisable and changes during the periods presented are as follows:

Expiry date	Exercise price	Balance as at December 31, 1998	Retracted	Granted with immediate vesting	Vested from prior year grants	Balance as at December 31, 1999
March 10, 2001	U.S.$1.22 to U.S.$1.75	471,250	(12,000)	–	–	459,250
December 11, 2003	U.S.$0.75 to U.S.$1.38	302,875	–	65,700	303,625	672,200
August 2, 2004	U.S.$1.06	–	–	131,900	–	131,900
December 31, 2004	U.S.$1.82	182,500	–	–	–	182,500
August 2, 2005	U.S.$1.06	–	–	56,000	–	56,000
		956,625	(12,000)	253,600	303,625	1,501,850

Expiry date	Exercise price	Balance as at December 31, 1997	Exercised	Retracted	Extended	Granted with immediate vesting	Vested from prior year grants	Balance as at December 31, 1998
February 12, 1998	U.S.$0.25 to U.S.$1.44	93,500	(89,500)	(4,000)	–	–	–	–
April 27, 1998	U.S.$0.25	250,000	(250,000)	–	–	–	–	–
February 12, 1999	U.S.$1.81	192,500	–	(10,000)	(182,500)	–	–	–
March 10, 2001	U.S.$1.03 to U.S.$1.75	431,750	(14,500)	(55,250)	–	–	109,250	471,250
December 11, 2003	U.S.$0.75 to U.S.$1.38	–	–	(21,375)	–	4,500	319,750	302,875
December 31, 2004	U.S.$1.81	–	–	–	182,500	–	–	182,500
		967,750	(354,000)	(90,625)	–	4,500	429,000	956,625

The weighted average exercise price of the above outstanding options at December 31, 1999 is U.S.$1.29 per share (1998 – U.S.$1.36 per share). On January 7, 2000, all options were repriced to U.S.$1.06.

At December 31, 1999, options to acquire an additional 366,400 common shares at U.S.$1.06 have been granted but have not yet vested. Options that have not vested are excluded from the above table.

Subsequent to year-end, 219,100 options were exercised to acquire 219,100 common shares for gross proceeds of $338,000.

10 Income taxes

The effective income tax rate on consolidated earnings is influenced by items such as available losses carried forward and non-deductible expenses:

	1999	1998
	$	$
Net earnings before income taxes	1,072,000	822,000
Income taxes at Canadian statutory rates of 44%	472,000	362,000
Increase (decrease) by the effects of		
Application of prior year losses and scientific research expenditures carried forward	(473,000)	(438,000)
Reduction in valuation allowance	(635,000)	–
Differences in foreign tax rates	20,000	–
Non-taxable income/non-deductible expenses	164,000	76,000
Income taxes recoverable	(452,000)	–

Future tax assets (liabilities) of the Company are as follows:

	1999	1998
	$	$
Excess of book over tax amortization	(608,000)	–
Accounting reserves not deducted for tax	278,000	–
Operating and capital losses	241,000	–
Tax benefit of scientific research expenditures	2,913,000	3,266,000
Other	12,000	–
	2,836,000	3,266,000
Valuation allowance	(2,395,000)	(3,266,000)
	441,000	–

The Company has approximately $6,600,000 in Canadian scientific research expenditures which can be carried forward indefinitely to reduce future years' taxable income, and approximately $150,000 in scientific research investment tax credits which can be used to reduce future years' income taxes payable. These scientific research investment tax credits expire in varying amounts from 2000 to 2006.

SunRich has a net capital loss carry-forward of approximately $397,000 at December 31, 1999 available to reduce future federal and state capital gains that begins to expire in 2002.

A valuation allowance of $2,395,000 has been recorded to reduce the net benefit recorded in the financial statements related to these future tax assets. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these future tax assets.

11 Related party transactions and balances

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

(a) During 1999, the Company charged affiliated companies $66,000 for services rendered (1998 – $66,000). Included in accounts receivable at December 31, 1999 is $56,000 (1998 – $30,000) due from affiliated companies.

(b) Included in accounts receivable at December 31, 1999 is $88,000 (1998 – $3,000) due from officers/directors of the Company.

12 Commitments and contingencies

(a) The Company has filed a claim against a former director relating to certain actions taken when he was the President of one of the Company's operating divisions, BEI. The former director has counter-claimed against the Company and its subsidiaries, the Chairman of the Company and Easton, the Company's 35% equity investment. It cannot be determined if there will be any recovery by the Company at this time or if there will be any loss to the Company, and no provision has been made in these financial statements in respect of this matter.

SunRich is involved in a lawsuit arising in the ordinary course of business. The ultimate outcome of this lawsuit is unknown at the present time. No provision for any liability that might result has been made in the accompanying financial statements. In the opinion of management, the existing litigation is not considered to be material in relation to the Company's financial position.

(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 financial statements for these future costs since such costs, if any, are not determinable at this time.

(c) An irrevocable letter of credit for $750,000 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.

(d) In the normal course of business, SunRich 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.

(e) The Company has a commitment to buy from growers at set prices and times and also has commitments to sell to terminals at set prices and times. To offset the risk of market movement in prices, the Company will buy or sell future positions with commodity brokers. The quantities of commodities of these open futures contracts at December 31, 1999 are as follows:

	Number of Bushels	
	Corn	*Soybeans*
Company-owned grain	592,132	113,343
Purchase contracts	720,158	(91,603)
Sales contracts	(68,745)	(21,482)
Futures contracts	(1,290,000)	75,000
Total net position (short) long	(46,455)	75,258

(f) SunRich has a contingent obligation to pay up to U.S.$1.5 million representing 50% of the cumulative pretax profits from SunRich's analog meat production business through October 31, 2005. The analog meat production business incurred a loss during the period from August 2, 1999 (the date of acquisition of SunRich) through December 31, 1999. SunRich has incurred a cumulative loss of approximately U.S.$1,000,000 for the analog meat production business. Any payments associated with this agreement will result in an increase in the SunRich goodwill.

(g) During the year, the Company entered into a 12-year exclusive license agreement related to the sales of the Company's Steam Explosion equipment in China.

(h) Commitments under operating leases, principally for distribution centres and warehouses, are as follows:

	$
2000	208,000
2001	157,000
2002	103,000
2003	73,000
2004 and thereafter	73,000
	614,000

Rent expense incurred in the year amounted to $195,000 (1998 – $89,000).

13 Earnings per share

The calculation of the earnings per share is based on the weighted average number of shares outstanding of 17,384,644 (1998 – 14,702,000). The dilutive effect on earnings per share of the potential exercise of outstanding warrants and options is not considered material for the years presented.

14 Financial instruments

The Company's financial instruments recognized in the consolidated balance sheet and included in working capital consist of cash and cash equivalents, miscellaneous receivables, accounts receivable, accounts payable and accrued liabilities, note payable 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 and accounts receivable. The Company places its cash with institutions of high credit worthiness. 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 its 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 financial statements.

15 Segmented information

Since August 2, 1999, the Company operates in three industry segments: (a) the design, engineering and sale of customized Steam Explosion technology systems; (b) the recycling and sale or disposal of certain non-hazardous and hazardous industrial waste and resale of inorganic minerals and (c) the marketing and distribution of grains, supplies and other agriculture related merchandise. The Company's assets, operations and employees are located in Canada and the United States.

INDUSTRY SEGMENTS

	1999			
	Steam Explosion Technology Systems and Corporate	*Waste Recycling and Resale of Inorganic Minerals*	*Agricultural products*	*Consolidated*
	$	$	$	$
External sales by market				
Canada	85,000	18,554,000	–	18,639,000
U.S.	399,000	3,275,000	24,481,000	28,155,000
Japan	–	–	510,000	510,000
Total sales to external customers	484,000	21,829,000	24,991,000	47,304,000
Interest expense	–	113,000	217,000	330,000
Segment net income (loss)	(843,000)	2,058,000	309,000	1,524,000
Identifiable assets	4,659,000	11,773,000	19,002,000	35,434,000
Amortization	257,000	477,000	336,000	1,070,000
Expenditures on property plant and equipment	47,000	500,000	591,000	1,138,000
Equity accounted investments	186,000	–	–	186,000

	1998			
External sales by market				
Canada	78,000	17,690,000	–	17,768,000
U.S.	4,000	4,305,000	–	4,309,000
Total sales to external customers	82,000	21,995,000	–	22,077,000
Interest expense	–	134,000	–	134,000
Segment net income (loss)	(1,791,000)	2,613,000	–	822,000
Identifiable assets	4,353,000	11,743,000	–	16,096,000
Amortization	274,000	442,000	–	716,000
Expenditures on property plant and equipment	8,000	463,000	–	471,000
Equity accounted investments	507,000	–	–	507,000

GEOGRAPHIC SEGMENTS

	1999			1998		
	Canada	U.S.	Total	Canada	U.S.	Total
	$	$	$	$	$	$
Capital assets	5,373,000	5,393,000	10,766,000	5,560,000	265,000	5,825,000
Goodwill	1,785,000	2,137,000	3,922,000	1,897,000	–	1,897,000
Total assets	16,219,000	19,215,000	35,434,000	15,831,000	265,000	16,096,000

16 Subsequent event

On February 29, 2000, the Company acquired 100% of the common shares of George F. Pettinos (Canada) Limited, which operates under the tradename of PECAL, for $4,700,000 cash. PECAL was a competitor in some of the products that BEI distributes.

During February 2000, the Company obtained a five-year term loan in the amount of $2,600,000 and increased the Canadian line of credit from $3,000,000 to $5,000,000.

17 United States 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, the gain on dilution in the amount of $nil in 1999 (1998 – $26,000) 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 shareholders' equity as Easton is a development-stage exploration company. Also, under U.S. GAAP, certain development and start-up costs of $75,000 (1998 – $35,000) deferred in these financial statements would be expensed.

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

	1999	1998
	$	$
Net earnings for the year – as reported	1,524,000	822,000
Dilution gain	–	(26,000)
Development and start-up costs expensed	(75,000)	(35,000)
Net earnings for the year – U.S. GAAP	1,449,000	761,000
Net earnings per share – U.S. GAAP	0.08	0.05
Weighted average number of common shares outstanding	17,384,644	14,702,000
Shareholders' equity – as reported	18,098,000	10,073,000
Cumulative development and start–up costs expensed	(239,000)	(164,000)
Shareholders' equity – U.S. GAAP	17,859,000	9,909,000

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 distributions to owners. The comprehensive income 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.

	1999	1998
	$	$
Net earnings for the year – U.S. GAAP	1,449,000	761,000
Currency translation adjustment (taxes – nil)	(195,000)	–
Dilution gain (taxes – nil)	–	26,000
Comprehensive income	1,254,000	787,000

Other U.S. GAAP disclosures

	1999	1998
	$	$
Allowance for doubtful accounts	665,000	133,000
Accrued recycling costs	384,000	393,000

Pro forma data (unaudited)

Condensed pro forma income statement, as if the acquisition of SunRich had occurred at the beginning of the previous year, are as follows:

	1999	1998
	$	$
Revenue	74,424,000	69,510,000
Net income	1,091,000	1,575,000
Earnings per share	$0.06	$0.08

Effective January 1, 1996, Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), encourages, but does not require, companies to include in compensation cost the fair value of stock options granted. The Company has decided not to adopt the fair value method. A company that does not adopt this new method must disclose pro forma net income and earnings per share giving effect to the method of compensation cost described in SFAS No. 123.

The Company's stock option plan is described in note 9. Employee stock options granted by the Company in 1998 and 1999 were granted at prices which were at the value of stock on the grant date, vest at various dates ranging from the date of the grants to August 2, 2004 and expire two to six years subsequent to the grant date.

The fair value of the options granted during 1998 and 1999 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% (1998 – 0%), an expected volatility of 84% (1998 – 75%), a risk-free interest rate of 4% (1998 – 4%), and an expected life of 1 to 6 years.

The total value of 620,000 (1998 – 4,500) stock options that were granted by the Company to employees during 1999 was $632,000 (1998 – $3,000). Of this total amount, under SFAS No. 123, the cost of stock compensation expense for the year ended December 31, 1999 would be $239,000 (1998 – $1,000). The unrecognized value of $393,000 (1998 – $2,000) will be charged to pro forma net earnings in future years according to the vesting terms of the options. Compensation expense of options granted in 1998 and 1997 and vesting in 1999 is $307,000 (1998 – $296,000). The resulting pro forma net earnings (loss) and earnings (loss) per share for the year ended December 31, 1999 under U.S. GAAP are $903,000 (1998 – ($464,000)) and $0.05 (1998 – ($0.03)), respectively.

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. The Company's adoption of SFAS 123 for pro forma disclosure purposes does not apply to awards prior to 1995, and additional awards in future years are anticipated.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, a new standard related to the accounting for derivative transactions and hedging activities. In July 1999, the FASB issued SFAS No. 137, which defers the effective date of SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. While management does not believe this standard will materially impact financial results of the Company, it is currently evaluating the reporting requirements under this new standard.

The Company is pleased to report net earnings of $1,524,000 or $0.09 per share in 1999 compared to $822,000 or $0.06 per share in 1998, and a 114% increase in revenue for 1999 of $47,304,000 (1998 – $22,077,000).

Working capital has improved to $6,824,000 in 1999 compared to $3,551,000 in 1998. The increase in working capital is primarily due to the acquisition of the SunRich assets in August 1999, as well as growth in the working capital assets over the year.

1997 Change to Capital Structure

A change to the Company's capital structure in 1997 was made under rules of the Canadian Business Corporations Act, the Company's incorporating statute that must be disclosed in its financial statements for 10 years to December 31, 2006.

In 1997, the Company's shareholders approved and the Company:

1. eliminated the 5,000,000 Class "A " non-dividend bearing, non-voting, redeemable, preference shares that were authorized but never issued;

2. increased the authorized common shares from 25,000,000 to an unlimited number; and

3. reduced the stated capital account of the Company in respect of its common shares by $25,026,000, being the deficit at December 31, 1996.

These changes result in the common share class being the only authorized capital of the Company. This change should eliminate the confusion that existed concerning the purpose of the previously authorized but unissued Class "A" preference shares.

In addition, the reduction of the stated capital account by the deficit provides better presentation in the shareholder's equity section of the balance sheet, as it reflects the Company as the operating Company it is today, rather than the development Company it was before the acquisition of BEI in 1995.

Acquisition of SunRich, Inc.

On August 2, 1999, the Company acquired 100% of the common shares of SunRich, Inc. an agritech company in Minnesota, in exchange for 5,471,866 common shares of the Company and 104,821 common share warrants of the Company. The common share warrants were exercisable for 30 days at U.S. $0.50, and if these warrants were exercised, the shareholders would be entitled to another warrant exercisable at U.S. $1.00 to December 31, 1999, rising to U.S. $2.00 on January 1, 2000 and expiring on December 29, 2000.

Certain shareholders of SunRich chose to exercise dissenter's rights and received $49,000 in cash for their SunRich shares.

The acquisition has been accounted for using the purchase method. The net assets acquired and consideration given is summarized below.

Net assets acquired	
Cash	368,000
Net working capital	3,044,000
Property, plant and equipment	4,911,000
Goodwill	2,183,000
Notes payable	(1,325,000)
Long-term debt	(2,370,000)
Net future income tax liability	(18,000)
	6,793,000
Consideration	
Common shares	6,346,000
Common share warrants	55,000
Cash	392,000
	6,793,000

The company has consolidated the operations of SunRich from the date of acquisition.

Year 2000 Issue

The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900, or some other date, resulting in errors when information-using dates beyond 1999 is processed.

The Company experienced no significant Year 2000 problems and does not anticipate any time sensitive issues will occur.

1999 Operations Compared with 1998 Operations

Revenues in 1999 increased by 114% to $47,304,000 from $22,077,000 in 1998 and the Company's earnings for 1999 were $1,524,000 or $0.09 per common share compared to $822,000 or $0.06 per share for the year ended December 31, 1998.

Revenues in 1999 were derived from SunRich of $24,991,000; from BEI 1999 sales were $21,829,000 (1998 – $21,995,000); and Steam Explosion and corporate sales in 1999 were $484,000 (1998 – $82,000). Substantially all revenues in 1998 were derived from the BEI division.

In 1999, BEI sales consisting of sales of abrasives, foundry sands and other products were $19,215,000 (1998 – $19,006,000) and recycling revenues were of $2,614,000 (1998 – $2,989,000). SunRich's $24,991,000 of sales since acquisition were from identity-preserved specialty products of $13,320,000 (53% of sales), soy and soybean product sales of $5,450,000 (22% of sales); other grain sales of $4,328,000 (17% of sales); feed sales of $1,140,000 and other sales of $753,000. Steam Explosion and general corporate revenues of $484,000 in 1999 were generated primarily from Steam Explosion licence fee revenue of $399,000 (1998 – nil). Private industry technology projects generated revenue in 1999 of $11,000 (1998 – $16,000), and other corporate revenues were $74,000 (1998 – $66,000). No equipment sales were made in 1999 or 1998.

Cost of sales increased by 132 % to $40,145,000 for the year ended December 31, 1999 compared to $17,308,000 for the year ended December 31, 1998. The increase in cost of sales is primarily related to the acquisition of SunRich. Cost of sales in 1999 attributable to the BEI segment were $17,667,000 (1998 – $17,195,000) and on SunRich, cost of sales was $22,340,000. Steam Explosion's cost of sales were $138,000 (1998 – $113,000), which primarily relates to standard amortization charges.

BEI's cost of sales in 1999 from abrasives, foundry and other products was $15,745,000 (1998 – $14,515,000) and recycling was $1,922,000 (1998 – $2,680,000). The margins in products contained in the abrasive, foundry and other category have improved slightly to 26.5% from 23.6% in 1998. Recycling margins have increased in 1999 over 1998 due to an increase in the incoming recycling fees and stable freight costs.

SunRich's cost of sales since acquisition from identity-preserved specialty products of $11,944,000; soy and soybean product sales of $4,778,000; other grain sales of $4,225,000; feed sales of $1,062,000; and other sales of $331,000.

The Company's gross margin was 15.1% in 1999 compared to 21.6% in 1998 due to the lower margins in the agritech business of SunRich. BEI's margin decreased to 19.1% in 1999 from 21.8% in 1998, due to tight price competition in some of BEI's principal product lines. SunRich's margin was 10.6% for the five months since acquisition. Steam Explosion and corporate margins were $346,000 on $484,000 of revenue or 71.5% due to the nature of the revenues in this division.

Research and development costs, principally related to the Steam Explosion division, were $367,000 in 1999, compared to $357,000 for the year ended December 31, 1998 due to minor increases in research into non-wood applications for steam explosion technology during 1999.

Administration and market development expenditures increased in 1999 to $4,965,000 compared to $3,419,000 for the year ended December 31, 1998. In 1999, SunRich's administration costs were $2,005,000, BEI's operations accounted for $1,722,000 of the administration costs (1998 – $1,902,000) and Steam Explosion marketing and demonstration and corporate administration expenses were $1,238,000 (1998 – $1,517,000). The principal reason for the increase in these expenses in 1999 over 1998 results from the inclusion of SunRich's administration costs; however, based on operations that were in place at the end of 1998, administration costs decreased by $459,000 due to less acquisition cost write-offs and certain administration efficiencies.

Amortization of patents, trademarks, licences and goodwill increased to $158,000 in 1999, compared to $139,000 in 1998 due to the amortization of the new goodwill arising on the acquisition of SunRich, Inc. offset by certain other assets in this category being fully amortized in the year.

The gain on sale of property, plant and equipment of $5,000 (1998 – $60,000) in 1999 is due to the sale of non-essential equipment for net proceeds of $13,000. In 1998, the gain was due to the sale of non-essential land for net proceeds of $89,000 at a location separate from the Company's principal operations.

Interest and other income decreased to $181,000 in 1999 from $57,000 in 1998 due to an increase in interest earned on the higher cash balances being available during 1999 over 1998.

Interest on long-term debt and other interest increased to $330,000 in 1999 from $134,000 in 1998 due to SunRich's debt obligations.

The share of losses of equity accounted investees of ($321,000) (1998 – ($29,000)) and dilution gain of nil (1998 - $26,000) is related to the Company's 35% equity investment in Easton Minerals Ltd. (Easton) a mining exploration company listed on the Canadian Venture Exchange (EM-CDNX). Dilution gains result from the increase in equity value of Easton due to issues of capital above StakeTech's carrying cost of this investment. The market value of Easton is based on limited trading values, and while it is unlikely that these values will be received upon the sale of this investment at this time, sale proceeds could add to the Company's net equity and management plans to use any cash proceeds to reduce debt and increase working capital. U.S. readers should note that dilution gains are not recognized as income for U.S. Generally Accepted Accounting Principals (GAAP) purposes due to the development stage nature of Easton, and accordingly, the effects of this gain are reversed in Note 17 of the Company's financial statements.

The Company's investment in Easton is carried at a book value of $186,000 and accumulated advances of $95,000 have also been made. The market value of Easton at March 13, 2000 was $3,932,000. On June 15, 1998, the Company's Board decided to sell its holdings in Easton as mining development and exploration are not related to the Company's primary businesses, and has filed appropriate notification of this intent with Easton's regulators.

The foreign exchange loss of $76,000 (1998 – gain of $67,000) is attributable to the weakening in 1999 and the strengthening in 1998 of the U.S.$ on the Company's net foreign transactions and balances.

The loss on sales of marketable securities was nil in 1999 (1998 – $16,000) was related to the disposal on non-core investments. The dividend on preference shares of a subsidiary company of $25,000 (1998 – $30,000) and the imputed interest of preference shares of a subsidiary company of $31,000 (1998 – $33,000) are related to the preference shares issued for the acquisition of BEI.

Liquidity and Capital Resources at December 31, 1999

Cash and short-term deposits increased $2,464,000 at December 31, 1999 from $181,000 at December 31, 1998. The increase is principally due to customer deposits of $1,618,000 being paid to SunRich, in 1999 for year 2000 purchases by SunRich's customers, and the remaining increase is due to internally generated cash.

Trade accounts receivable increased to $7,300,000 at December 31, 1999 from $3,805,000 at December 31, 1998 due largely to the acquisition of SunRich. Trade

receivables at December 31, 1999 related to the BEI operations were $3,375,000 (1998 – $3,727,000); SunRich operations were $3,747,000 and general corporate activities and steam explosion were $178,000 (1998 – $78,000).

Inventories increased to $8,589,000 at the end of 1999 from $2,878,000 at December 31, 1998, principally due to the addition of the SunRich balances, which are $5,145,000 at December 31, 1999. BEI's inventory was $3,444,000 (1998 – $2,878,000). The increase in BEI's inventory in 1999 over 1998 is due to the receipt of inventory delivered by ship in late 1999 in order to meet anticipated demand in the spring of 2000. The inventory balance at December 31, 1998 was entirely related to BEI operations as Steam Explosion is not required to carry inventory.

Future income tax assets of $1,020,000 at December 31, 1999 (nil – December 31, 1998) consists of $635,000 of Canadian tax losses and scientific research expenditures recorded by the Canadian entity in the current year and the remaining balance of $385,000 relates to the SunRich tax losses and accounting reserves. The Company believes that it is more likely than not that the tax benefit of the recorded assets will be realized.

The Company has formal capital commitments of approximately $100,000 as of December 31, 1999, relating to normal equipment replacement at BEI, SunRich, Steam Explosion and corporate divisions.

In 1999, $500,000 (1998 – $463,000) was spent at BEI for machinery and equipment improvements in Waterdown, establishment of the facilities is Louisiana, general upgrading of computers and the acquisition of accounting software that is year 2000 compliant. SunRich spent $591,000 on capital expenditures since August 2, 1999 principally on the construction of a new grain storage bin. In 1999, $47,000 (1998 – $4,000) was spent at corporate office primarily on computer equipment.

BEI's capital budget for 2000 is $500,000 and is to improve and replace production equipment primarily in Waterdown and Louisiana. SunRich's capital budget is U.S. $660,000 principally for expansion of a warehouse, two additional grain trucks and improved handling and packaging equipment. There are no plans to make significant capital expenditures during 2000 at Stake's Steam Explosion pilot plant. Corporate office has a capital budget of $50,000 to make certain computer upgrades.

Investments decreased to $281,000 in 1999 from $565,000 in 1998 due primarily to the equity loss on Easton of $321,000 (1998 – $29,000), offset by advances of $37,000 made to Easton (1998 – $21,000) and the dilution gain of nil (1998 – $26,000).

Goodwill increased to $3,922,000 at December 31, 1999 from $1,897,000 at December 31, 1998 due to the $2,183,000 in goodwill recorded on the acquisition of SunRich, Inc. offset by amortization of this goodwill and goodwill recorded on the BEI acquisition in 1995.

Patents, trademarks, licences and other assets have increased to $446,000 from $384,000 due to further investments in the Company's proprietary positions during 1999.

Accounts payable and accrued liabilities increased to $10,179,000 in 1999 from $2,937,000 in 1998. The increase is due to the addition of SunRich's balances, which are $7,075,000 at December 31, 1999. The accrued recycling reserve of $384,000 (1998 - $393,000) included in accounts payable in 1999 relates to BEI's business and represents the future costs to process and dispose of the reclaimed materials that BEI has accepted for recycling, and were on site at December 31, 1998.

The note payable of $208,000 at December 31, 1999 is a demand note related to SunRich's hedging activities. The loan may be drawn up to U.S. $200,000 (U.S. $144,000 outstanding at December 31, 1999) with interest at prime. Borrowings under this note are due May 31, 2000.

Customer deposits of $1,618,000 at December 31, 1999 (1998 - nil) are related to cash deposits made by SunRich customers in 1999 for year 2000 purchases. No recognition of revenue or accrual of costs is booked on these transactions until the goods are shipped.

The Company's term bank loan, which was outstanding before SunRich was acquired, has a five-year amortization period and will be paid over the next two years to December, 2001, subject to the Company's compliance to certain financial covenants. The Company does not anticipate a breach of these covenants.

The term bank loan is financed by short-term instruments to take advantage of low short-term Canadian interest rates and the ability to repay the term bank loan ahead of schedule. The Company can elect to fix the rate and term of this term bank loan at the maturity date of underlying debt instruments, which is generally every 90 days. The term bank loan bears interest at Canadian prime + 1 % or banker's acceptances + 1.25%; the Canadian prime interest rate is currently 6.5%. Interest is paid in advance with the banker's acceptances. Full or partial repayment of the term bank loan is permitted based on the maturity of the underlying debt instruments. During 1999, $600,000 was repaid.

At December 31, 1999, the loan outstanding was $1,400,000. Payments of $600,000 in 2000 and $800,000 in 2001 are required.

In addition to the term bank loan, the Company has bank lines of credit of $3,000,000 and U.S. $3,500,000 available based on margining of trade accounts receivable and inventory. At December 31, 1999, $1,116,000 (1998 - $823,000) was drawn on the Canadian facility for a letter of credit to the Ontario Ministry Of the Environment and Energy for the Certificate of Approval; to two key suppliers; and for security on the Louisiana lease. There is no amount drawn on the U.S. lines of credit at December 31, 1999.

SunRich has notes payable of $1,133,000 at December 31, 1999 on its Hope, Minnesota property and $410,000 on its Cresco, Iowa property. Both the notes payable are secured by the underlying real estate. The Hope note payable is payable in monthly instalments to February 29, 2009 and the Cresco property note payable is payable monthly to July 2013. Both mortgages bear interest at the bank's reference rate, currently 9% at December 31, 1999.

SunRich has a further note payable of $433,000 at December 31, 1999, with interest at 8.75% only through May 2000, and then monthly payments through to November 2006 related to the construction of the new grain storage bin in 1999. SunRich also has auto and truck loans totalling $179,000 at December 31, 1999 at interest rates ranging from 0.9% to 8.0% due in varying instalments through July, 2002, and secured by the vehicles.

Capital lease obligations of $350,000 at December 31, 1999 are related to SunRich's business and are for certain production equipment. These leases are due in monthly instalments through June, 2003 with interest ranging from 7.57% to 8.06%. Interest included in the $350,000 at December 31, 1999 was $52,000.

The future tax liability of $579,000 at December 31, 1999 (1998 – nil) relates principally to SunRich and represents differences between accounting and taxable income that will result in taxes being payable in a future period, primarily related to property, plant and equipment.

Substantially all of the Company's assets are pledged as collateral under various lending agreements, with the exception of the real property at Stake's corporate offices in Norval, and the lease and physical assets in Louisiana.

The Company considers its relationship with its principal Canadian bankers and SunRich bankers to be very satisfactory.

The Company believes that its cash to be generated from operations, its current cash and short term deposits and its available lines of credit at March 13, 2000 are sufficient for the Company's operations during 2000.

Cash flow provided by operations for the year ended December 31, 1999 was $5,004,000 (1998 – $277,000) due to higher earnings in 1999 over 1998 and a significant positive turnover of working capital assets in the year principally related to the SunRich assets acquired.

Cash used in investment activities increased to $1,273,000 in 1999 (1998 – $357,000) due principally to larger capital additions in 1999 over 1998 due to the addition of SunRich.

Cash used for financing activities was $1,422,000 in 1999 (1998 – $479,000). The increase in cash used for financing is principally due to higher net debt repayments in 1999 compared to 1998 due to the addition of SunRich's debt obligations during the year.

Corporate Governance

The governance of the Company is the responsibility of the Board of Directors of Stake Technology Ltd., the majority of whom are independent of management.

The Board approves the annual Business Plan of the Company and its divisions and reviews actual results compared to budget at quarterly Board meetings and through monthly management reports. The plan includes an assessment of the principle risks and opportunities facing the Company.

The Board also approves all major capital expenditures, debt obligations, share issues and corporate acquisitions.

The Board has established an independent Audit Committee, which reviews the audit plan, meets with the auditors and assesses the Company's internal control and management information systems.

The Board has also established an independent Compensation Committee, which reviews the compensation of senior officers, suggests appropriate compensation for directors and recommends to the Board employee/director stock option plans.