

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001
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 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.

Yes No

Revenue for the year ended December 31, 2001: CDN \$143,069,000

At March 8, 2002 the registrant had outstanding 41,129,328 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\$76,136,543. The Company's common shares traded on Nasdaq Small Cap Market tier of The Nasdaq Stock Market under the symbol STKL and on November 6, 2001 the Company listed on the Toronto Stock Exchange under the symbol SOY.

There are 58 pages in the December 31, 2001 10-K including this page and the index after the cover page.

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The StakeTech Steam Explosion Group is a division of Stake Technology Ltd. and is located within the corporate office of the Company in Norval, Ontario. There are separate buildings at this location which contain a demonstration unit of this division's steam explosion technology process as well as laboratory and office facilities. This division holds numerous patents on its technology and is currently marketing this clean pulping system with a special focus on opportunities in China. The Steam Explosion group can be contacted at 2838 Hwy 7, Norval, Ontario, Canada, L0P 1K0, telephone: (905) 455-1990, fax: (905) 455-2529, e-mail: info@staketech.com and web site: www.steamexplosion.com.

Listing on the Toronto Stock Exchange

The Company listed its common shares on the Toronto Stock Exchange (TSE) under the symbol "SOY" on November 6, 2001. This listing is in addition to the Company's listing on the Nasdaq Small Cap Market under the symbol "STKL". The listing in Canada on the TSE was completed with the intent of broadening investor and analyst interest in the Company in Canada and to access funds in Canadian capital markets more efficiently.

Private Placements

During 2001, the Company completed four private placements, which resulted in 11,061,498 common shares being issued for net proceeds of \$31,500,000 CDN (US\$20,035,000). These transactions also resulted in 705,750 warrants exercisable at US \$1.75 until March 31, 2004; 3,450,000 warrants exercisable at US \$2.40, (1,200,000 until March 31, 2004 and 2,250,000 until September 30, 2004) plus underwriter options. The underwriter options relate to the third and fourth private placements and are for 144,000 options exercisable at US \$2.00 until June 8, 2003, that if

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exercised allow the underwriter to also receive 72,000 warrants at US \$2.40 until March 31, 2004, plus an additional 150,000 underwriter options at US \$2.00, that if exercised prior to September 28, 2003, allow the underwriter to also receive 112,500 warrants exercisable at US \$2.40 until September 30, 2004.

Segmented Information

The Company operates in three industries:

- (1) The SunRich Food Group produces, packages and markets organic and non-GMO food products and ingredients with a focus on soy milk and related soy and natural food products; and
- (2) The Environmental Industrial Group manufactures, processes, sells and recycles inorganic materials which are commonly used in the foundry, steel, bridge and ship cleaning industries; and
- (3) The Steam Explosion Technology Group owns numerous patents on steam explosion technology systems and designs and subcontracts the manufacture of equipment that process non-woody fibres with a high pressure steam process.

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

Acquisitions during 2000 and 2001

The SunRich Food Group

Jenkins & Gournoe, Inc.

In February, 2001, the Company's wholly owned subsidiary, SunRich Food Group, Inc. 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 \$2,887,000 (US\$1,925,000) 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, \$557,000 (US\$365,000) (including acquisition costs) in cash, a note payable for \$1,049,000 (US\$700,000), repayable quarterly over 2 years by payments of

US\$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 US\$1,100,000 per annum from 2001 to 2005 will be paid to the vendors of First Light Foods. The acquisition of First Light Foods complements the SunRich Food Group's strategy of becoming a vertically integrated business providing expertise from seed to merchandisable products of soy milk.

As the acquisition of First Light Foods closed February 1, 2001, its operations are included for the 11 months of 2001 starting February 1, 2001 and its assets are included in the December 31, 2001 balance sheet.

Northern Food & Dairy, Inc.

On September 15, 2000, the Company acquired 100% of the common shares of Northern Food & Dairy, Inc. (Northern) for total consideration of \$11,190,000. The consideration paid consisted of the issuance of 7,000,000 common shares of Stake, 500,000 common share warrants exercisable at US\$1.50 over five years and cash consideration of \$608,000. The issuance of the shares for acquisition represented approximately 24.5% of the outstanding common shares of the Company after the transaction, and resulted in Mr. Dennis Anderson, the principal vendor of Northern owning 19% of Stake, at December 31, 2000. Mr. Anderson remains the President of Northern and is the Executive Vice President of Operations of the SunRich Food Group.

Northern is a US based manufacturer and supplier of soy milk concentrate and other natural food products and ingredients that are produced in three production facilities in northern Minnesota and a fourth facility in Afton, Wyoming. The Afton facility commenced operation late in 2001 and was built to serve the western US market. Northern is one of the largest manufacturers of soy milk concentrate in the US. Northern also produces other specialty food ingredients including dietary fibres, natural food preservatives, grain fractions, dried honey coatings, dried molasses, cheese flavours, starter media, margarine enhancement and dried meat flavours.

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As the acquisition of Northern was completed on September 15, 2000, the net assets of Northern are included in the December 31, 2001 and 2000 balance sheets. Northern's results of operations are included for all of 2001 and for the 106 day period from September 16 to December 31, 2000.

Nordic Aseptic, Inc.

In April of 2000, Sunrich (Stake's only food company as at December 31, 1999) and Northern created a joint venture to purchase an aseptic packaging plant located in Alexandria, Minnesota, to be known as Nordic Aseptic, Inc. (Nordic). This plant packages aseptic beverages, primarily soy milk, and at the time was producing for Sunrich and Northern's largest soy milk customer.

Nordic assumed control of the plant in April 2000 and on August 15, 2000, Nordic acquired certain assets of Hoffman Aseptic Inc. through the assumption of certain debts and the payment of cash consideration of \$380,000.

Under the terms of the agreement, the joint venture partners were responsible for the operations of the plant from April 19, 2000 and therefore the operating results of Nordic were accounted for based on Sunrich's 50% proportionate interest from April 19, 2000 to September 15, 2000. Upon the acquisition of Northern on September 15, 2000, 100% of Nordic's operating results were included for the period from September 16 to December 31, 2000. Operations of Nordic are included for all of 2001. The net assets of Nordic are included in the December 31, 2001 and 2000 balance sheets.

Environmental Industrial Group

Virginia Materials

Effective October 31, 2001, the Company's wholly owned subsidiary, Virginia Materials acquired certain assets of Virginia Materials and Supplies, Inc. as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials) for cash consideration (including

acquisition costs) of \$2,777,000 (US\$1,751,000) plus deferred purchase consideration of \$1,824,000 (US\$1,150,000) and contingent consideration. The deferred purchase consideration will be paid upon the Company's purchase of the vendor's inventory. Management estimates that it will take approximately 18 months to purchase all of the inventory.

In addition, the Company will pay 50% of the profits for a two-year period from the date of the acquisition. The vendor's share of profit is considered contingent consideration.

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 in the second quarter of 2002 in Baltimore, Maryland. Virginia Materials also recycles spent abrasives which are used in the production of Portland 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.

As the acquisition of Virginia Materials was completed on October 31, 2001, the net assets of Virginia Materials are included in the December 31, 2001 balance sheet. Virginia Materials results of operations are included for the 61 day period from October 31, 2001 to December 31, 2001.

Temisca Inc.

On October 31, 2000, the Company acquired the outstanding shares of Temisca Inc. (Temisca), a private sand deposit and processing company in Ville Marie, Quebec. The purchase price was \$1,676,000 consisting of cash consideration of \$926,000 and the issuance of a note payable of \$750,000. The note payable bears interest at 5% and is repayable over five years.

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The acquisition of Temisca gives the Environmental Industrial Group its first directly controlled raw material source, allowing the Group to increase its sales to existing and new customers. The properties of the Temisca sands are suited to filtration, frac sand, golf course sand and abrasive applications.

As the acquisition of Temisca was completed on October 31, 2000, the net assets of Temisca are included in the December 31, 2001 and 2000 balance sheets. Temisca's results of operations are included for a full year in 2001 and for the 61 day period from October 31, 2000 to December 31, 2000.

PECAL

On February 29, 2000, the Company acquired 100% of the outstanding shares of George F. Pettinos (Canada) Limited, operating as PECAL, from US Silica Company for cash consideration of \$4,682,000. The acquisition of PECAL complemented the business of the Company's division, Barnes Environmental International (BEI) (now all part of the Environmental Industrial Group). PECAL was a direct competitor of BEI in the sand, coated sand, bentonite, chromite, and zircon businesses and they possessed strengths in several other businesses that were closely related to BEI's existing markets. PECAL added to the Environmental Industrial Group's product lines in several key areas and has built sales in the Ontario and US markets. The PECAL administration office located at a separate rented site was closed in May 2000 and certain employees were relocated to the Environmental Industrial Group's Waterdown office.

As the acquisition of PECAL was completed on February 29, 2000, the net assets of PECAL are included in the December 31, 2001 and 2000 balance sheets. PECAL's results of operations are included for all of 2001 and for the 10 month period of February 29, 2000 to December 31, 2000.

SunRich Food Group

The SunRich Food Group has been built over the past three years with the acquisition of four companies, starting with 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. The acquisition of these companies coupled with significant internal growth and development has established a unique vertically integrated food company with significant presence in the growing soy and natural foods markets.

The SunRich Food Group is composed of three key vertically integrated business groups:

1) Product and Ingredients Group - This group sources and markets Identity Preserved (IP) specialty grains and natural certified organic food ingredients to domestic and foreign food processors. Products include specialty soybeans, IP corn, soy milk powders, grain (corn, rice and oat) sweeteners and maltodextrins, organic vegetable oils, organic corn, soy and oat flours and organic feed ingredients.

2) Technical Processing Group - This group focuses on the technical processing of specialty and functional food ingredients. Principal products and processes include soy milk extraction; fractionalization, extraction and hydrolyzation of various grain products; extraction and refining of soluble fiber; fermentation and hydrolyzation of natural food preservatives; various drying processes for a variety of technically difficult products; and formulating and blending of various dairy products.

3) Packaging Group - This group focuses in the aseptic packaging of shelf stable beverages and liquid products. Products packaged include shelf stable soy milk, rice beverages and soy/fruit smoothies.

Vertical integration of soy milk concentrate and organic sweetener production allows the SunRich Food Group to control the entire production chain from sourcing specific IP soybeans and grains through processing, formulating and packaging of branded soy milk and beverages.

The Group's sales revenue slows during December to March each year when bulk grain shipments are inhibited by winter weather. Food ingredient sales, processing revenue and retail food product sales are not as seasonal except for lapses in production when customers draw down inventories at the end of certain periods.

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Bulk commodity products sales are freight cost sensitive. 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 European freight limits possibilities in that market. Food ingredients enjoy much wider distribution because of their product uniqueness and higher margin that diminishes the effect of freight costs.

Major Developments during 2001

During 2001, the SunRich Food Group acquired 100% of the outstanding shares of Jenkins & Gournoe, Inc. (First Light Foods). This company owned certain beverage trademarks including Soy-Um and Rice-Um. These marks are co-branded and product is subsequently sold to a major California based retailer. This acquisition compliments the Food Group's strategy of vertical integration from field to table.

In September, 2001 the SunRich Food Group commissioned its second soy milk concentrate plant in Afton, Wyoming to service customer demands on the west coast of the United States. Subsequent to commissioning, the Company announced plans to further expand this facility. When fully operational, this facility effectively doubles the Food Group's soy concentrate production capacity.

Major Products

Identity Preserved grains: The demand for non-genetically modified 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.

Soy milk and soy ingredients: Soy milk and soy ingredients are marketed throughout the United States where the Group has a strong presence. The SunRich 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 foods market is one of the fastest growing segments in the food industry. The SunRich Food Group markets grain sweeteners and maltodextrins under the names Maisweet, Arrosweet and Oatsweet. Organic and natural vegetable oils were introduced in 2000 and are sold to customers throughout the United States, Hong Kong and Japan.

Aseptic Packaging: Processing and packaging of shelf stable liquid products is performed at Nordic Aseptic. Major products packed include soy milk and related soy line beverages.

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

Benefiber: A soluble guar based fiber food ingredient, produced under license for Japanese and US based customers.

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 United States food manufacturers.

Toll Spray drying: Technical processing and spray drying is contracted with various customers to produce various food ingredients.

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Competition

The SunRich Food Group's specialty grain operation competes in the larger US commercial grain procurement market. The SunRich Food Group's organic specialty grains compete in the smaller niche US commercial organic grains market.

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

The SunRich Food Group's competitive advantages are:

- o Established IP grain producer network with over 20 years of experience.
- o Grain conditioning and storage facilities.
- o Organically certified handler and processor.
- o Technical staff that identifies product specifications to meet the needs of the end user and create innovative products or processes.
- o Modern processing facilities.
- o The ability to process, formulate and package for the retail market.
- o Fully integrated from the seed to the end product.

Distribution, Marketing and Sales

Sunrich is located in Hope, Minnesota one mile west of the Interstate 35 and 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. A second facility is located in Cresco, Iowa. This facility is 120 miles southwest of Hope, Minnesota and produces organic corn milled products.

Northern Food and Dairy is headquartered in Alexandria, Minnesota, 120 miles northwest of Minneapolis/St. Paul. The Alexandria processing plant is located near Interstate 94, the prime transportation link to and from the area. The Afton, Wyoming plant is situated on the Idaho/Wyoming border and is utilized to serve the west coast soy concentrate market. The Bertha drying plant is located approximately 40 miles northeast of Alexandria, Minnesota where its key supply plant is located. The Fosston, Minnesota natural preservative facility is located three hours north of Alexandria, Minnesota.

Nordic Aseptic is located near Interstate 94 in Alexandria, Minnesota. The facilities are 120 miles northwest of Minneapolis/St. Paul.

The SunRich Food Group ensures that it provides its customers with the highest quality organic, non-GMO and identity-preserved specialty grains, by serving as a grower's supplier of seed, purchaser of the grower's specialty crops and distributor of identity-preserved specialty products. The SunRich Food Group's "full circle" approach allows the SunRich Food Group 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.

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Suppliers

SunRich Food Group's raw materials and packaging needs are sourced from various suppliers who provide products that are delivered on contract to comply with required 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 process customer supply relationships highlighted below.

Identity Preserved and organic grains are primarily sourced from over 1,200 North American growers and suppliers via annual contracts or spot market purchases. There is ample supply of grains to satisfy SunRich Food Group's needs with expanding production in other parts of the world to provide additional supply if crop or market conditions limit North American supply. The SunRich 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.

Maltodextrin is purchased on contract from several suppliers. There is substantial production capacity among these United States suppliers for maltodextrin.

Honey, molasses, high fructose corn syrup and flour are purchased to specification in the spot market. The supply for these ingredients is sufficient for the present. 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 SunRich Food Group suppliers.

Regulation

The SunRich 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 SunRich Food Group's business regulations or that may

present delays and costs that could adversely affect this Group.

In addition, several of the SunRich Food Group's business activities are subject to US environmental regulations. The SunRich 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 SunRich 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. While the SunRich Food Group endeavours to comply in all material respects with applicable environmental, safety and health regulations, there can be no assurance that existing environmental regulations will not be revised or that new regulations will not be adopted or become applicable that may have a material adverse effect on the SunRich Food Group's business or financial condition.

Research and Development

In 2001, the SunRich Food Group 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 soyfoods in consumers' diets creates numerous opportunities to develop soy ingredients that can be incorporated into food developer's menu items. The SunRich Food Group continues to research products and processing systems that are required to serve the growing natural foods market.

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Employees

The SunRich Food Group has 232 full-time employees; 74 salaried and 158 hourly workers. The salaried employees are engaged in executive and administrative activities, production management, sales and marketing, accounting, administration and customer service. The 158 hourly workers are engaged in production, elevator operations, maintenance, and delivery services. The SunRich Food Group has no union activity and management considers its relations with its SunRich Food Group employees to be good.

Properties

The SunRich Food Group operates from ten company owned production, warehousing and office facilities located in Minnesota, Iowa and Wyoming and two leased warehouse properties. In addition the company owns a waterfront property that is used to provide temporary accommodations for out of town personnel. The facilities are further detailed within the property section.

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 speciality 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.

The Environmental Industrial Group's processing of cement additives and certain abrasives slow down during January to March corresponding to reduced cement production and difficult winter operating conditions, while 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 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, garnets, resin-coated sand and frac sand are shipped throughout the US. The annual volume of materials processed and distributed is approximately 250,000 tonnes.

Major Developments during 2001

Effective October 31, 2001, the Environmental Industrial Group acquired certain assets of Virginia Materials & Supplies, Inc. as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials). Virginia Materials is a supplier of abrasives to the shipbuilding and bridge repair industry with a production facility located in Norfolk, Virginia with a second plant scheduled to open in the second quarter of 2002 in Baltimore, Maryland. 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. These acquisitions have broadened the Group by expanding the product range in the area of abrasives and garnet offered to existing customers and will provide the basis for entry into new market areas, especially in the northeast United States.

Major Products

Barshot/Crystalgrit: The Environmental Industrial Group has a licence agreement with 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 Group also has the first right of refusal for a licence in 5 other US states.

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Specular Hematite is 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, aluminium oxide, various slags and steel grit.

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

In 2001, the Environmental Industrial Group continued to develop certain specialty grades of Specular Hematite to be used in industrial markets for higher value applications.

Slag Abrasives: The Environmental Industrial Group continues to market copper slag abrasives under the name "Ebony Grit" into the Ontario and Quebec markets. In 2001, the Group continued shipments to New York, New Jersey and Michigan, significantly expanding sales of this product. With the acquisition of Virginia Materials the Environmental Industrial Group has 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 Group network in the future.

Garnets: In 2001 the Environmental Industrial Group expanded its product offering and current markets served with the purchase of 51% of the outstanding common shares of International Materials and Supplies, Inc., a producer of garnets for the water jet cutting, water filtration and abrasive industries. The Group also continued its exclusive agreement with a sand 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 continues to supply its major foundry customers in Quebec and Ontario with silica products, however, growth in this market in 2001 was limited due to continued competition from lake sand suppliers. 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 the 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: With the acquisition of PECAL in 2000, the Group continues to be a dominant supplier of resin coated sand in Ontario and Quebec with the products manufactured at the PECAL Hamilton facility and through the distribution of a US sourced product. Resin coated sand is used exclusively by the foundry industry.

Zircon Sands: The Environmental Industrial Group continues to recycle higher 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. A quality system was put into place during 1996 and in 1997 the BEI operations within the Environmental Industrial Group were awarded ISO-9002 registration. A number of ISO-9002 update audits have been successfully completed since that time. In the first quarter of 2001, the PECAL facility achieved ISO registration and by the end of 2003, the Group is striving to have all of its operations ISO-9002 registered.

Competition

The Environmental Industrial Group conducts business throughout North America with a focus by key region. Key regions comprise the Quebec-Detroit corridor with expansion into Northern Ontario and Northern Quebec. With new locations in Virginia and New York, the group has increased its presence and competitive edge in these areas for the abrasive and garnet markets. It also distributes through its facility in New Orleans to the Louisiana Gulf region. The Group is competitive in abrasive and value added products in surrounding areas such as Michigan, New Jersey and Ohio.

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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. 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 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. However, management expects that through product formulation changes, the Group will be able to process additional quantities of materials and incorporate these materials into certain of its existing products. In addition to its higher profit potential, there is a strong strategic fit for the Environmental Industrial Group to process non-hazardous, hazardous and recyclable materials.

The Certificate of Approval serves as a barrier to entry for other operators. The Environmental Industrial Group has one of only two Certificates of Approval in Ontario for the recycling of these materials. The Environmental Industrial Group therefore competes in its recycling business with the holder of the other Certificate of Approval; Philip Services Corp. and Ontario landfill site operators, including those operated by municipal and regional governments. Furthermore, due to the difficulty in gaining local community and political support, it is very expensive and time consuming to obtain a Certificate of Approval.

At present, most solid industrial waste that is hazardous is disposed of at hazardous waste landfill sites. There are three hazardous landfill sites operating in this market; Chemical Waste Management (New York state),

Safety-Kleen (Sarnia, Ontario) and Stablax (Blaineville, Quebec).

In general, the Environmental Industrial Group's competitive advantages in its core recycling area include:

- o Superior knowledge of many industrial minerals and the local markets for these materials.
- o Long-standing relationships with both generators and potential users of industrial mineral waste.
- o Efficient and cost effective material handling and processing skills, based on decades of experience.
- o Expertise necessary to provide cement and other companies with materials of a consistent and reliable quality and the ability to adjust chemical composition as required.
- o The ability to combine the sale of certain materials with a waste removal service as one transaction.
- o The ability to inventory some materials. This is attractive to cement companies as a source of uninterrupted and "just-in-time" supply.
- o The Environmental Industrial Group's Waterdown site is known in the market as a recycler, in contrast to the large traditional waste management companies, which derive most of their profit from landfill and trucking operations.
- o The Specular Hematite licence and certain exclusive 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.

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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. However, the availability of these materials could be reduced if the demand for recycling subsides.

While the Environmental Industrial Group's sources of hazardous and non-hazardous waste materials are expected to eventually come from a wider variety of industries, many of the opportunities to date have come from its existing customer base in the foundry, steel and industrial blasting industries.

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. Specular Hematite reserves at the current mine supplier are estimated to be sufficient to supply the Group's needs for many years. Ebony Grit, a product produced from copper slag is supplied on an exclusive basis by a Canadian mining and refining company. Blackblast, a product produced from coal slag is supplied on an exclusive basis by a US power plant. The Environmental Industrial Group has adequate inventory reserves of this product to meet 2002 demand.

The Group has the 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 now produces its own garnet 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 should 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 our facility in Norfolk, Virginia.

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, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, or the discovery of changed conditions on the Company's real property or in its operations, will not result in the occurrence of significant costs.

Research and Development

Environmental: In 2001, 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 2001, 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.

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Employees

The Environmental Industrial Group has 82 employees, 36 salaried and 46 hourly workers.

The Environmental Industrial Group's 14 production and maintenance employees at the Waterdown location are represented by Teamsters Local Union #879. The current Collective Bargaining Contract with the Teamsters expires June 30, 2002. The 10 hourly employees at the plant in Hamilton are represented by United Steelworkers of America #16506 and the Agreement is in effect to February, 2005. The Company experienced no work stoppages in 2001 and management considers relations with the unions to be good.

Properties

The Environmental Industrial Group operates from seven locations. The primary operating facility with administrative, laboratory and principal production is located on a 31.6 acre site at 407 Parkside Drive, Waterdown, Ontario, Canada L0R 2H0, located 40 miles west of Toronto. 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.

The main Waterdown site has a Canadian Pacific Railways rail spur and good access to major highways. This property is owned by the Company and is used for the processing, storage and distribution of numerous abrasives and related industrial materials.

The Hamilton production facility consists of 3.55 acres and is used in the

processing of sands and related materials to the steel and foundry industries.

The Montreal distribution/warehouse facility was purchased by the Company in 2001. Prior to this the facility was leased. The facility sits on 3 acres of land and contains a 20,000 square foot warehouse and office building.

The Temisca (Ville Marie, Quebec) sand deposit and production facility consists of approximately 100 acres of sand quarry that are owned and 100 acres of industrial property that are leased. There is production and storage equipment on this site.

The Louisiana facility is leased from the Port Authority of New Orleans. The facility is used for processing abrasives for supply primarily to the shipbuilding and repair industry.

Virginia Materials is located on Peterson Street in Norfolk, Virginia on approximately 12 acres of land. This facility is leased and the Company owns certain assets located on the leased property.

International Materials is located in Keeseville, New York on 5 acres of leased property. The facility is used to process industrial garnets recovered from a mining operation for sale to the water filtration, water jet cutting and abrasive industries.

Steam Explosion Technology Group

The Company has developed 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 including the production of the sweetener xylitol, alcohol and pulp for paper.

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In 1993, the Company completed the turnkey supply of a US\$3 million biomass demonstration plant to the Italian Commission for New Technology for Energy and the Environment ("ENEA") in Italy. This plant is the first facility in the world to utilize continuous steam explosion combined with continuous extractions to fractionate biomass into its components to serve in several fibre and chemical end-use applications.

In 1996, the Company delivered a StakeTech System to Weyerhaeuser Company (Weyerhaeuser), which passed its performance tests and was fully accepted by Weyerhaeuser. This was the first sale of a StakeTech System to the pulp and paper industry.

Since 1995, the Company has focused marketing efforts relative to the Steam Explosion Technology on the production of pulp for paper from non-woody fibres and the production of cellulose derivatives.

In August, 1999, Pacitec Inc. (Pacitec) acquired exclusive rights to market StakeTech's proprietary pulping systems for non-wood applications in China for a license fee of US\$4.0 million payable over twelve years. Under this agreement Pacitec has the right to terminate this contract at the end of any scheduled renewal period, the current period is due to end July 28, 2002. Maintenance of these rights is conditional on Pacitec making scheduled license fee payments and selling a minimum of 40 StakeTech Systems valued at approximately US\$160 million over the twelve-year period. The Company retains all rights to the design and manufacture of StakeTech's proprietary steam explosion pulping systems.

Pacitec is a US trade and development company with offices in Arlington, Texas and Beijing, China. Pacitec specializes in developing business opportunities in China and acts as a sales agent for such companies as Halliburton Energy

Services and Kellogg Brown & Root. Pacitec is in partnership with the China National Beijing Contracting & Engineering Institute for Light Industry (BCEL), a leading engineering design institute in China.

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

Major Developments in Steam Explosion Technology in 2001

In 2001, the Steam Explosion Technology Group continued to focus on marketing pulping systems to China through Pacitec Inc. In 2001, Pacitec maintained its exclusive rights and all license fee payments due from Pacitec were received.

In conjunction with Pacitec, the Company is now pursuing equipment sales to three separate projects in China.

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.

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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 new 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 will endeavour 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

In 2001, Steam Explosion research and development activities related to client specific investigations and focused on the production of pulp from straw from China.

Employees

The Steam Explosion Technology Group has 2 employees; 1 engaged in technical support and R&D and 1 engaged in marketing and sales. 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. The Company depends and will continue to depend in the foreseeable future on the services of its employees in this division. The loss of one senior person, Mr. John Taylor would have a serious adverse effect on the Company's ability to successfully develop the steam explosion business.

SunRich Valley, a Division of Stake Technology Ltd.

During 2001 The Company completed an in depth study and decided to enter the Canadian organic dairy business. As a result the Company has commenced business in Canada under the name SunRich Valley, a division of Stake Technology Ltd. (SunRich Valley), with an initial focus on marketing organic dairy products. The business currently employs four personnel in management, sales, administration and producer development and expects to realize its

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first sales late in the first quarter of 2002. The business currently operates from the Company's corporate office in Norval, Ontario.

Corporate Office

The corporate office of Stake is located in owned premises in Norval, Ontario. Seven 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, Canada.

Easton Minerals Ltd.

In addition to its core businesses, the Company has a 32% interest in Easton Minerals Ltd. (Easton), a mining exploration company listed on the Canadian Venture Exchange (EM-CDNX). Easton is in the process of diversifying its business interests beyond mining exploration. During 2001, Easton entered into an acquisition agreement with a third party and the stock was halted from

trading pending regulatory review of the transaction. The shares of Easton resumed trading on January 28, 2002 upon receipt of conditional approval of the acquisition. The Company's investment is represented by two of Stake's directors who are members of the Easton Board of Directors. It is the Company's intention to sell its interest in Easton in the future, as mining development and exploration is not related to the Company's primary businesses.

Employees

As of March 18, 2002 the Company had 327 employees broken out by division below:

Divisions	Number of Employees
Sunrich Food Group	232
Environmental Industrial Group	82
Steam Explosion, SunRich Valley and Corporate Office	13
Total	327

Risk Factors

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.

Dependence on Key Personnel, including Directors and Officers

The Company is wholly dependent upon the personal efforts and abilities of its Officers and Directors. The loss or unavailability to the Company of the services of its officers, particularly Jeremy N. Kendall, Chairman and Chief Executive Officer of the Company, John Taylor, President and Chief Operating Officer of the Company or Allan Routh, President and Dennis Anderson, Executive Vice President and Director of Operations of SunRich Food Group, Inc., the Company's wholly-owned subsidiary, would have a materially adverse effect on the Company's business prospects, ability to raise funds and its potential earning capacity. If the Company were to lose the services of any of the aforementioned officers and directors before a qualified replacement could be obtained, its business could be materially and adversely affected.

Northern Food and Dairy, Inc. has key man insurance for Dennis Anderson in the amount of U.S. \$1,000,000. The beneficiary of this insurance is Northern. The Company does not carry any other insurance on other executives to compensate for any such loss. The ability of the Company to attract and retain qualified management and technical

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personnel as employees or consultants is critical to the operations of the Company. To date, the Company has been able to attract and retain sufficient professional employees and consultants, however, there can be no assurance that the Company will be able to do so in the future. If the Company were unable to employ the qualified employees and consultants needed, then its business would be materially and adversely affected.

Future Capital Needs

The costs associated with some of the growth of the Company's present business operations and to fund the acquisition strategies of the Company will likely require additional capital, which may result in additional dilution to the Company's shareholders. The ability of the Company to raise such funds may delay or prevent the Company from meeting some of its strategic goals.

Competition

The Company and its subsidiaries carry on their 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. Extreme competition for financial resources exists in our businesses and this competition for funds may also create risks for the Company if the Company is unable to attain the funds needed to carry out its strategic plans.

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. These regulations exist in virtually all the Company's operational business locations throughout North America and can present delays and costs that can adversely affect business development.

Consolidation Within the Food Group's Industry May Require Access to Greater Financial Resources

The SunRich Food Group, Inc., the Company's wholly-owned subsidiary competes with substantially larger companies in the natural food, grain and specialty grain markets who have greater financial resources than the Company. The SunRich Food Group's ability to retain market share is uncertain because these food businesses continue to consolidate, leaving potentially less market share for smaller competitors.

Stake's Steam Explosion Technology Group

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

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. The receipt of cash dividends by United States shareholders from a Canadian corporation, such as Stake, is subject to a 15% Canadian withholding tax.

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Item 2. Properties

A detailed description of these properties is included in the business segment earlier in this document.

SunRich Food Group

The SunRich Food Group operates from thirteen locations in Minnesota, Iowa and Wyoming, eleven owned and two leased.

Division	Address
Sunrich, Inc.	3824-93rd St. SW, Hope, MN 56046
	616-6th Avenue W. Cresco, Iowa 52136
Northern Food & Dairy, Inc.	2214 Geneva Rd. NE Alexandria, MN 56308
	601-3rd Avenue W. Alexandria, MN 56308

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, 2001.

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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 as of November 6, 2001, the Company's shares trade in Canadian \$ 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)

2001	HIGH	LOW
First Quarter	US\$1.75	US\$1.375
Second Quarter	US\$2.45	US\$1.49
Third Quarter	US\$2.05	US\$1.41
Fourth Quarter	US\$2.17	US\$1.63
2000	HIGH	LOW
First Quarter	US\$2.4688	US\$0.7812
Second Quarter	US\$1.9062	US\$1.0312
Third Quarter	US\$1.8125	US\$1.0938
Fourth Quarter	US\$1.8125	US\$1.25

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 TSE (Canadian Dollars)

2001	High	Low
Fourth Quarter - 06/11/01 forward	\$3.85	\$2.65

At December 31, 2001, the Company has 714 record holders. 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 3,000 beneficial holders of the Company's common shares.

The Company 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 the Company, may be subject to Canadian withholding tax.

Issuance of securities and use of proceeds

Acquisition of Jenkins & Gournoe (First Light Foods)

In February 2001, the Company issued to the shareholders of Jenkins & Gournoe,

Inc., (Jenkins & Gournoe) which operated under the name First Light Foods, 833,333 of its common shares as a component of the purchase price for 100% of the common stock of Jenkins & Gournoe. In addition, the Company also issued 35,000 warrants to acquire common shares of the Company, which are exercisable at US \$1.70 per share for five years ending February, 2006. Up to an additional 140,000 warrants to acquire common shares of the Company may be issued prior to 2005 if First Light

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Foods achieves certain pre-determined gross profit targets. The exercise price for these warrants, if issued, will be the market price of the Company's common shares at the time the warrants are issued. The warrants will have a term of five years from the date of issue.

Private Placement 1 - 2001

On April 18, 2001, the Company entered into a transaction for the private placement of 1,411,498 units. Each unit was comprised of one common share plus a warrant to purchase one-half of a common share. As a result, the company issued 1,411,498 common shares and 705,750 whole warrants which are exercisable at US \$1.75 to purchase 705,750 common shares until March 31, 2004. The net proceeds of this transaction was \$ 2,651,000 (US \$1,728,000) after associated commission, legal and other related costs.

Private Placement 2 - 2001

The Company entered into an agreement on May 18, 2001 for the private placement, outside of the United States of 2,400,000 units at US \$2.00 per unit. Each unit consisted of one common share plus a warrant to purchase one-half of a common share. As a result, the Company issued 2,400,000 common shares and 1,200,000 whole warrants which are exercisable at US \$2.40 to purchase 1,200,000 common shares until March 31, 2004. The net proceeds of this transaction was \$6,279,000 (US \$4,375,000) after associated commission, legal and other related costs.

The Company's agent on this transaction was paid a cash commission and was granted a compensation warrant, exercisable until June 8, 2003, to purchase 144,000 option units at US \$2.00 per unit. Each option unit is comprised of one common share plus a warrant to purchase one-half a common share. If exercised in full, the Company will issue 144,000 common shares and 72,000 whole warrants which are exercisable at US \$2.40 to purchase 72,000 common shares until March 31, 2004.

Private Placement 3 - 2001

The Company entered into a subscription agreement on September 28, 2001 for the private placement of 3,000,000 units at US \$2.00 per unit. Each unit consisted of one common share plus a warrant to purchase three quarters of a common share. As a result, the Company issued 3,000,000 common shares and 2,250,000 whole warrants which are exercisable at US \$2.40 to purchase 2,250,000 common shares until September 30, 2004. The net proceeds of this transaction was \$8,841,000 (US \$5,650,000) after associated commission, legal and other related costs.

The Company's agent on this transaction was paid a cash commission and was granted a compensation warrant, exercisable until September 28, 2003 to purchase 150,000 option units at US \$2.00 per unit. Each option unit is comprised of one common share plus a warrant to purchase three-quarters of a common share. If exercised in full, the Company will issue 150,000 common shares and 112,500 whole warrants which are exercisable at US \$2.40 to purchase 112,500 common shares until September 30, 2004.

Claridge Group Pre-emptive Rights

As part of the subscription agreement, Claridge and the Claridge Group (as defined below) were granted a contractual pre-emptive right, for as long as they collectively remain the beneficial owners of five percent (5%) or more of the Company's outstanding common shares, to purchase a portion of any proposed offering of the Company's common shares or securities convertible into common shares (or units if offered in units) to any third party for the purpose of obtaining financing for the Company. The portion of any such financing to be offered to each member of the Claridge Group shall be equal to the percentage that the common shares then owned by such member represents to the total number

of common shares issued and outstanding at the time of such proposed financing. The Claridge Group is defined as (i) Charles R. Bronfman and his lineal descendants; (ii) the spouses of any one or more of the foregoing; (iii) any trust of which any one or more of such persons is a beneficiary; (iv) a partnership in which one or more of the foregoing entities owns a majority interest; and (v) any company directly under the control of one or more of the foregoing.

Under the subscription agreement the Company shall give notice to Claridge and each member of the Claridge Group, who holds common shares, of any such proposed offering of common shares or securities convertible into

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common shares, whether such offerings be by way of private placement or to the public by way of prospectus, registration statement or otherwise.

Private Placement 4 - 2001

On December 21, 2001, the Company closed a private placement of 4,250,000 common shares at US \$2.10. The net proceeds of this transaction was \$13,279,000 (US \$8,282,000) after associated commission, legal and other related costs. By agreement, one tenth of the gross proceeds is being held in escrow until the later of (i) a registration statement registering these Shares under the Securities Act of 1933 has been filed and declared effective by the SEC, or (ii) four months from the closing date of this private placement, April 21, 2002. A registration statement was filed by the Company in compliance with such agreement on February 20, 2002.

Exemption From Registration

The Company's common shares issued in the acquisition and private placements described above, were issued pursuant to exemptions from the registration requirements of the Securities Act of 1933 (the "Act") provided by Section 4 (2) of the Act or Regulation D promulgated under the Act, and in the case of issuance to non-US persons were issued in transactions to which the Act did not apply.

Options exercised during the year

During the year ended December 31, 2001, employees and directors exercised 999,425 common share options and an equal number of common shares were issued for net proceeds of \$1,651,000. Subsequent to December 31, 2001, employees exercised 48,100 common share options and an equal number of common shares were issued for net proceeds of \$130,000.

Use of 2001 private placement and option proceeds

From the proceeds of the 2001 placements, the Company repaid a US \$1,000,000 corporate loan that was drawn in 2000 to provide working capital to Northern. The Company also transferred US \$5,911,000 during 2001 and US \$700,000 subsequent to December 31, 2001 to the SunRich Food Group, Inc. to fund the Wyoming soy plant expansion; to replace funds used in the start up of Nordic, pay corporate income taxes; to reduce lines of credit and improve the Group's working capital. Of the US\$5,911,000 transferred during 2001, US \$2,206,000 was specifically used to repay a line of credit due to US Bank, as this line of credit was not renewed under the existing terms.

In addition, during 2001 the Company also repaid Canadian lines of credit totalling \$1,755,000, paid the purchase price of \$2,777,000 to acquire certain assets Virginia Materials and Supplies, Inc. and 51% of the outstanding common shares of International Material and Supplies, Inc. and paid approximately \$800,000 to purchase BEI/PECAL's Montreal distribution centre. In 2002, \$500,000 has been used to draw down Canadian lines of credit and \$640,000 has been provided to Virginia Materials, Inc. to finance working capital and capital additions. The remaining proceeds will be used for working capital as needed and for future business acquisitions.

As of December 31, 2001, the Company had 41,081,228 common shares outstanding. As a result of certain departed employees 48,100 options were exercised into common shares in the first quarter of 2002. As of March 8, 2002, 41,129,328 common shares are outstanding. In addition 7,115,475 common shares have been

reserved for issuance and are detailed as follows:

- 1) Warrants to purchase 500,000 common shares exercisable at US \$1.50 expiring September 15, 2005 from the acquisition of Northern;
- 2) Warrants to purchase 35,000 common shares exercisable at US \$1.70 expiring February 28, 2006 from the acquisition of Jenkins & Gournoe, Inc.;
- 3) Warrants to purchase 705,750 common shares exercisable at US \$1.75 expiring March 31, 2004 from the private placement completed on April 18, 2001;
- 4) Warrants to purchase 1,200,000 common shares exercisable at US \$2.40 expiring March 31, 2004 from the private placement completed on June 8, 2001;

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- 5) Option to acquire 144,000 common shares which may be acquired by the agent under the terms of the May 18, 2001 private placement agreement which was completed June 8, 2001 at US \$2.00 until June 8, 2003;
- 6) Warrants to purchase 72,000 common shares, which may be acquired by the agent under the terms of the May 18, 2001 private placement agreement, which closed on June 8, 2003, if the 144,000 options (noted above in 5) are exercised. The warrants to purchase 72,000 common shares are exercisable at US \$2.40 expiring March 31, 2004;
- 7) Warrants to purchase 2,250,000 common shares exercisable at US \$2.40 expiring September 30, 2004 from the private placement completed on September 28, 2001;
- 8) Option to acquire 150,000 common shares which may be acquired by the agent under the terms of the September 28, 2001 private placement agreement at US \$2.00 until September 28, 2003;
- 9) Warrants to purchase 112,500 common shares, which may be acquired by the agent under the terms of the September 28, 2001 private placement agreement if the 150,000 options (noted above in 8) are exercised. The warrants to purchase 112,500 common shares are exercisable at US \$2.40 expiring September 30, 2004; and
- 10) Options to acquire 1,946,225 common shares previously granted to employees, directors and consultants under various Company stock option plans.

In addition, if certain pre-determined profit targets are achieved by the First Light Foods business, which was acquired in February 2001, up to an additional 140,000 warrants may be issued in 2002 through to 2005, at a rate of up to 35,000 per year. Subsequent to December 31, 2001, the 35,000 warrants issuable in 2002 have been cancelled as First Light Foods did not meet their profit targets for 2001, therefore 105,000 warrants may be issued in 2003 to 2005 at a rate of up to 35,000 per year.

Item 6. Selected Financial Data

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

Summary

	2001	2000	1999	1998	1997
Total revenues	\$143,069,000	\$101,653,000	\$47,304,000	\$22,077,000	\$16,847,000
Net earnings - CDN GAAP	31,000	3,374,000	1,524,000	822,000	149,000
Net earnings - US GAAP	(328,000)	2,571,000	1,449,000	761,000	(139,000)
Total assets	127,521,000	92,866,000	35,434,000	16,096,000	15,024,000
Long-term debt (includes current portion)	26,517,000	31,555,000	4,113,000	2,100,000	2,600,000
Other long-term obligations includes future taxes (includes current portion)	7,147,000	4,008,000	1,426,000	986,000	1,123,000
Basic earnings per share - CDN GAAP	\$0.00	\$0.15	\$0.09	\$0.06	\$0.01

Basic earnings (loss) per share - US GAAP	\$(0.01)	\$0.11	\$0.08	\$0.05	\$(0.01)
Cash dividends	--	--	--	--	--

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

Revenues for 2001 grew by 41% to \$143,069,000 versus \$101,653,000 in 2000. Net earnings for the year were \$31,000 or \$0.00 per share compared to \$3,374,000 or \$0.15 per share in 2000. The company's financial position improved dramatically over the course of 2001 with working capital improving by over \$24,000,000 and the ratio of long-term debt to equity improving to 0.38:1 from 0.95:1 in 2000.

Operating results in 2001 were negatively impacted by a number of factors, including ongoing losses before income taxes of \$2,945,000 at Nordic Aseptic, Inc., the company's aseptic packaging operation. In addition, the Environmental Industrial Group was negatively effected in 2001 by the impact of both the general economic slowdown in the foundry and steel industries and the fall out as a result September 11th tragedy on the bridge repair and shipbuilding industries.

With the exception of Nordic, all operating companies were profitable in 2001. A great deal of energy and focus has been directed to addressing the operating issues at Nordic and management is confident that the operations will be profitable in 2002.

The assets of the Company have grown 37% to \$127,521,000 from \$92,866,000 in 2000, driven primarily by the proceeds of equity financing throughout the year. These financings increased the number of common shares outstanding from 28,186,972 to 41,081,228.

The changes to the size of the Company's operations and assets are primarily a result of the Company's business acquisition strategy combined with the specific financing activities. These items are summarized below.

Business Acquisitions

The acquisitions of the companies detailed below have been accounted for using the purchase method and the purchase price has been allocated to the assets acquired and the liabilities assumed based on management's best estimates of fair values, and described in detail in table format in note 2 to the audited consolidated financial statements. The consolidated financial statements include the results of operations of the acquired businesses from the date of acquisition.

Virginia Materials - On October 31, 2001, the Company's wholly-owned subsidiary, Virginia Materials, Inc., acquired certain assets of Virginia Materials and Supplies, Inc. as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials) for cash consideration and acquisition costs of approximately \$2,777,000 (US \$1,751,000), plus deferred purchase consideration of \$1,824,000 (US \$1,150,000) and contingent consideration. The deferred purchase consideration will be paid upon the Company's purchase of the vendor's inventory. Management estimates that it will take approximately 18 months to purchase all the inventory. In addition, the Company will pay 50% of the profits for a two-year period from the date of the acquisition. The vendor's share of profit is considered contingent consideration.

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 in the second quarter of 2002 in Baltimore, Maryland. Virginia Materials also recycles spent abrasives which are used in the production of Portland 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.

This business is operated within the Environmental Industrial Group.

First Light Foods - On February 1, 2001, the Company acquired 100% of the common shares of Jenkins and Gournoe, Inc., which operated under the name of First Light Foods. Consideration consisted of the issuance of 833,333 common shares, \$557,000 (US \$365,000) in cash, a \$1,049,000 (US \$700,000) note payable that is repayable quarterly over 2 years by payments of US \$87,500, plus interest at 8.5% and 35,000 warrants exercisable at US \$1.70 for five years to February, 2006. In addition, contingent consideration may be payable on this acquisition if; (a) certain predetermined profit targets are achieved by the acquired business up to an additional 140,000 warrants may be issued in 2002 through

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to 2005, and (b) a percentage of gross profits in excess of US \$1,100,000 per annum from 2001 to 2005 will be paid to the vendors of First Light Foods. First Light Foods owns several trademarked brands that are co-branded as private label brands for a major California food chain. The acquisition of First Light Foods is included in the operations of the SunRich Food Group and compliments this Group's strategy of becoming a vertically integrated business from seed to merchandisable products of soymilk.

Temisca - On October 31, 2000, the Company acquired 100% of the outstanding common shares of Temisca Inc., a private sand deposit and manufacturing company in Ville Marie, Quebec. The purchase price was \$1,676,000 and was paid via cash consideration of \$926,000 and the issuance of a \$750,000 note payable bearing interest at 5% with repayment terms over 5 years.

Northern - On September 15, 2000, the Company acquired 100% of the outstanding common shares of Northern Food & Dairy, Inc, from its three shareholders, for total consideration of \$11,190,000. The consideration paid consisted of the issuance of 7,000,000 common shares (\$10,552,000), 500,000 common share warrants exercisable at US\$1.50 for five years (\$30,000), and cash consideration of \$608,000. Northern is a US based manufacturer and supplier of soymilk and other natural food products and ingredients. This business is operated within the SunRich Food Group.

Nordic - On April 19, 2000, Sunrich and Northern created a corporate joint venture to operate an aseptic packaging plant owned by Hoffman Aseptic Inc. The plant packages aseptic soy milk. Nordic assumed management control of the plant on April 19, 2000 and on August 15, 2000, Nordic acquired certain assets of Hoffman Aseptic Inc. by the assumption of certain debts and the payment of cash consideration of \$380,000. Upon the acquisition of Northern on September 15, 2000, the Company acquired the remaining 50% interest in Nordic Aseptic, Inc.. This business is operated within the SunRich Food Group.

PECAL - On February 29, 2000, the Company acquired 100% of the outstanding common shares of George F. Pettinos (Canada) Limited, also operated as PECAL, from US Silica for cash consideration of \$4,682,000. In certain markets, PECAL was a competitor of the Environmental Industrial Group. This business is operated within the Environmental Industrial Group.

Financing Activities

Private Placement 1 - 2001 - On April 18, 2001, the Company entered into a transaction for the private placement of 1,411,498 units. Each unit was comprised of one common share plus a warrant to purchase one-half of a common share. As a result, the company issued 1,411,498 common shares and 705,750 whole warrants which are exercisable at US \$1.75 to purchase 705,750 common shares until March 31, 2004. The net proceeds of this transaction was \$2,651, 000 (US \$1,728,000) after associated commission, legal and other related costs.

Private Placement 2 - 2001 - The Company entered into an agreement on May 18, 2001 for the private placement, outside of the United States of 2,400,000 units at US \$2.00 per unit. Each unit consisted of one common share plus a warrant to purchase one-half of a common share. As a result, the Company issued 2,400,000 common shares and 1,200,000 whole warrants which are exercisable at US \$2.40 to purchase 1,200,000 common shares until March 31, 2004. The net proceeds of this transaction was \$6,279,000 (US \$4,375,000) after associated commission, legal and other related costs.

Private Placement 3 - 2001 - The Company entered into a subscription agreement

on September 28, 2001 for the private placement of 3,000,000 units at US \$2.00 per unit. Each unit consisted of one common share plus a warrant to purchase three quarters of a common share. As a result, the Company issued 3,000,000 common shares and 2,250,000 whole warrants which are exercisable at US \$2.40 to purchase 2,250,000 common shares until September 30, 2004. The net proceeds of this transaction was \$8,841,000 (US \$5,650,000) after associated commission, legal and other related costs.

Private Placement 4 - 2001 - On December 21, 2001, the Company closed a private placement of 4,250,000 common shares at US \$2.10. The net proceeds of this transaction were approximately \$13,279,000 (US \$8,282,000) after associated commission, legal and other related costs. By agreement, one tenth of the gross proceeds is being held in escrow until the later of (i) a registration statement registering these Shares under the Securities Act of 1933 has been filed and declared effective by the SEC, or (ii) four months from the closing date of this private placement,

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April 21, 2002. A registration statement was filed by the Company in compliance with such agreement on February 20, 2002.

2001 Operations Compared with 2000 Operations

Consolidated

Revenues in 2001 increased by 41% (\$41,416,000) to \$143,069,000 from \$101,653,000 in 2000 and the Company's earnings for 2000 decreased to \$31,000 or \$0.00 per common share compared to \$3,374,000 or \$0.15 per common share for the year ended December 31, 2000. The increase in the Company's revenues in 2001 is due to a number of factors including the acquisitions of First Light Foods (\$9,607,000) and Virginia Materials (\$1,407,000) 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 loss issues at Nordic, weak market/economic conditions that impacted the Environmental Industrial Group, increased costs of operating a growing public organization and the benefit of previously unrecognized income tax loss carry forwards having been fully realized in 2000.

EBITDA (earnings before interest, taxes, depreciation and amortization) increased by 29% to \$8,115,000 from \$6,439,000 in 2000. The increase was due to increased amortization and interest expenses offset by lower earnings as noted above.

US readers should note that due to differences between Canadian and US GAAP, the loss for 2001 under US GAAP is (\$328,000) or (\$0.01) per common share versus earnings of \$2,571,000 or \$0.11 per common share in 2000. Note 16 to the audited financial statements itemize these differences.

Cost of sales increased by 42% to \$123,363,000 for the year ended December 31, 2001 compared to \$87,046,000 for the year ended December 31, 2000. Consistent with the revenue analysis above, the increase in cost of sales is related to the sales increase 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 \$21,000,000 or 14.8%.

Research and development costs increased in 2001 to \$757,000 from \$200,000 in 2000. The increase is due in most part to activities in the Food Group related to expanded product development initiatives and a study of the European soy opportunities.

Selling, general and administration expenditures increased 53% in 2001 to \$16,990,000 compared to \$11,094,000 for the year ended December 31, 2000. The increase in administrative costs is 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 on long-term debt, other interest expense and financing charges increased to \$3,073,000 in 2001 from \$1,527,000 in 2000. The bulk of this

increase is due to the SunRich Food Group's debt obligations. Interest expense related to the SunRich Food Group totalled \$2,560,000, (\$1,111,000 in 2000) including \$294,000 of financing charges related to the write-off of costs due to the new banking agreement. Canadian debt held by the Environmental Industrial Group and Corporate Office represents \$513,000 of interest expense in 2001 (\$416,000 in 2000).

Interest and other income increased to \$846,000 in 2001 from \$402,000 in 2000 due to an increase in interest earned on higher cash/investment balances throughout the year and the annualised impact of interest income on the long term receivable.

The gain on purchase of preference shares of \$24,000 (2000 - \$175,000) results from the purchase of the preference shares outstanding in a subsidiary company at a value less than their carrying value.

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The share of losses of equity accounted investee of \$42,000 (2000 - \$48,000) and dilution gain of \$140,000 in 2000 is related to the Company's 32% 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 Stake's carrying cost for this investment. US readers should note that dilution gains are not recognized as income for US GAAP purposes due to the development stage nature of Easton, and accordingly, the effects of this gain are reversed in Note 16 of the Company's financial statements.

The Company's investment in Easton is carried at a book value of \$583,000.

(2000 - \$442,000). During 2001 Easton entered into an acquisition agreement with a third party and the stock was subsequently halted from trading pending CDNX review of the transaction. The stock resumed trading on January 28, 2002 and since that time the value of the Company's shareholdings have ranged from \$265,000 to \$707,000 based on limited traded volumes. It is unlikely that these values could be realized upon the sale of all or a position of the Company's holding in Easton, particularly given the significant number of shares held by the Company.

Income taxes increased as a percentage of earnings in 2001 due to expenses in most part to loss carry forward benefits realized in 2000 and increases in non-deductible expenses in 2001. In 2000 the Company recorded the benefit of previously unrecognized Canadian tax loss carry forwards of \$1,798,000 (1999 - \$635,000) and provided a tax provision of \$864,000 (1999 - \$183,000) on the net earnings of the SunRich Food Group. Due to the complex US tax structure, the Company was unable to recognize the tax benefit of Nordic's start-up losses. The Company has since restructured the SunRich Food Group, which provides for more effective tax strategies. The Nordic tax loss carry forward will be recognized when Nordic becomes profitable.

Segmented Operations Information

The SunRich Food Group

The SunRich Food Group contributed \$111,452,000 or 77.9% of total Company consolidated revenues in 2001 versus \$69,822,000 or 68.7% in 2000. The increase of \$41,630,000 in Food Group sales (59.6%) was due to a number of factors including the acquisition of First Light Foods in 2001, which contributed sales of \$9,607,000, increased sales at Nordic in 2001 versus 2000 of \$10,016,000, in addition to the full impact of the Northern acquisition completed in 2000.

Gross margin in the SunRich Food Group increased by \$4,968,000, an increase of 54.6% to \$14,069,000 in 2001 versus \$9,101,000 in 2000, 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 13.9% of revenues versus 13.0% in the prior year.

Research and development costs increased to \$547,000 in 2001 as a result of expanded product development initiatives and a study of opportunities related to

the European soy foods market. Continued product development is important as the soy and natural food markets continue to grow.

Selling, general and administrative expenses increased to \$10,985,000 in 2001 versus \$7,072,000 in 2000. The increase is due primarily to the acquisition of First Light Foods in 2001, the full impact of the Northern and Nordic acquisitions in 2000 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 \$2,266,000 in 2001 versus \$1,111,000 in 2000. The increase was due to the full 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 SunRich Food Group were \$790,000 in 2001 versus \$1,230,000 in 2000. Results were positively impacted by the additions of First Light Foods and Northern, but negatively impacted by the near \$3,000,000 pre-tax loss at Nordic. The Company expects Nordic to be profitable in 2002.

Net earnings improved to \$494,000 in 2001 versus \$366,000 in 2000.

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Environmental Industrial Group

The Environmental Industrial Group contributed \$31,045,000 or 21.7% of the total Company consolidated revenues, versus \$31,286,000 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 weak market and economic conditions in the steel and foundry businesses, the loss of a key distribution agreement, the economic impact of the September 11th tragedy on the demand for abrasives and increased competition in the silica sands market.

Gross margin in the Environmental Industrial Group increased to \$5,187,000 in 2001 versus \$5,014,000 in 2000, representing 26.3% of the Company's consolidated gross margin in 2001. The increase in margin resulted primarily from the acquisition and 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 \$3,885,000 in 2001 versus \$2,409,000 in 2000. The increase is 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 on long-term debt and other interest increased to \$463,000 in 2001 versus \$416,000 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 \$1,052,000 in 2001 versus \$2,579,000 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 \$782,000 in 2001 versus \$2,513,000 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 \$572,000 in 2001 versus \$545,000 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 \$450,000 in 2001 versus \$492,000 in 2000. The gross margin as a percentage of revenue of 78.7% (90.2% in 2000) reflects the nature of the revenues with minimal associated cost of sales.

The Steam Explosion Technology Group and Corporate selling, general and administration expenses were \$2,227,000 in 2001 versus \$1,366,000 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 \$1,578,000 in 2001 versus \$1,303,000 in 2000 reflects the positive effect of foreign exchange gains and interest and other income partially offset by the increase in selling, general and administration costs as noted above.

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Liquidity and Capital Resources at December 31, 2001

Current Assets

Cash and cash equivalents increased to \$5,358,000 at December 31, 2001 (2000 - \$1,013,000). The balance is due in most part to cash held at the corporate level of \$4,290,000 due to funds from private placements completed in 2001, plus cash at SunRich Food Group of \$2,723,000 from customer deposits normally received each December. These amounts are partially offset by the Environmental Industrial Group line of credit of \$1,783,000 that is netted against corporate cash.

As of December 31, 2001 the company had restricted cash of \$1,827,000 (2000 - Nil) and marketable securities of \$10,045,000 (2000 - Nil). The restricted cash relates primarily to funds received on the last private placement that will be released upon final approval of S-3 filing and clearance of the Ontario Securities Commission hold period. The marketable securities are funds from the last private placement, held at year end in a mutual fund corporation which holds cash equivalents.

Trade accounts receivable increased to \$13,343,000 at December 31, 2001 from \$13,111,000 at December 31, 2000. Trade receivables at December 31, 2001 related to the SunRich Food Group were \$8,104,000 (2000 - \$8,250,000). Days sales outstanding improved within the Food Group versus 2000. Trade receivables in the Environmental Industrial Group were \$5,239,000 (2000 - \$4,836,000). Lower accounts receivable balances due to lower fourth quarter year over year sales were offset by higher receivables as a result of the Virginia Materials acquisition in the amount of \$909,000.

The note receivable of \$3,668,000 (2000 - \$5,186,000) and the other long-term payable of \$1,926,000 (2000 - \$1,651,000) are all related to an agreement with a major European based company to supply product. This agreement required Northern to expand a food processing plant to the customer's specifications and this was completed in 2001. In accordance with the terms of the agreement the customer pays 36 monthly instalments of US\$119,000 (total receipts in 2001 - \$2,219,000, 2000 - \$543,000). The agreement also requires that the Company provide the customer with a product rebate beginning October 2003 until US\$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 \$6,724,000 to \$22,014,000 at December 31, 2001. The SunRich Food Group accounts for \$16,446,000 of the total balance (2000 - \$10,064,000) and Environmental Industrial Group \$5,568,000 (2000 - \$5,226,000). The Steam Explosion Technology Group is not required to carry significant inventories. The higher balances in the SunRich Food Group are primarily due to a change in business practise at Nordic from simply billing a major customer for processing and packaging to buying and invoicing the full product cost including raw materials. In addition, the SunRich Food Group increased its inventory of finished goods related to a specific customer. The Virginia Materials acquisition increased inventories within the Environmental Industrial group by \$621,000.

Future income tax assets of \$1,057,000 at December 31, 2001 (2000 - \$954,000) consists of \$715,000 (2000 - \$715,000) of Canadian tax losses and scientific research expenditures recorded by the Canadian entity in 2000 and the remaining balance of \$342,000 (2000 - \$239,000) relates to the SunRich Food Group's accounting reserves not deductible for tax until realized. The Company believes

that it is more likely than not that the tax benefit of the recorded assets will be realized.

Property, Plant and Equipment

In 2001, the Company spent \$6,223,000 (2000 - \$5,353,000) on capital expenditures; the SunRich Food Group spent \$4,125,000 (2000 - \$4,631,000) on capital expenditures, principally on the acquisition and build-out of the production facility in Afton, Wyoming (\$1,814,000) and the upgrade of the Hope conditioning plant (\$1,476,000). In 2001, \$2,054,000 (2000 - \$667,000) was spent in the Environmental Industrial Group, \$730,000 for the purchase of a warehouse and the remaining on general additions and replacements including, scales, forklifts and computer equipment. In 2001, \$44,000 (2000 - \$55,000) was spent by the Steam Explosion Technology Group and at corporate office primarily on computer and lab equipment

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Investments

Investments increased to \$583,000 in 2001 (2000 - \$442,000), due primarily to net advances of \$183,000 (2000 - \$60,000) offset by the equity loss on Easton of \$42,000 (2000 - \$48,000).

Goodwill

Goodwill increased to \$13,602,000 at December 31, 2001 from \$11,231,000 at December 31, 2000. This increase was due to \$2,488,000 in goodwill recorded on the acquisition of Virginia Materials and International Materials offset by normal amortization.

Pre-operating Costs

In 2001 the company deferred \$51,000 in costs related to the start-up of an organic dairy business based in Canada. Amortization of these costs will commence no later than June 30, 2002 and will be amortized on a straight-line basis to December 31, 2003. In 2000, the Company deferred \$768,000 of pre-operating costs related to Nordic, which was comprised of the portion of the operating losses from April to December 31, 2000 that were related to the start up phase of the plant. This amount is being written off equally over a 36-month period. As at December 31, 2001 the unamortized balance is \$512,000. Readers should note that the \$51,000 and \$768,000 of pre-operating costs would have been expensed under US GAAP in 2001 and 2000 respectively.

Patents, Trademarks, Licenses and Other Assets

Patents, trademarks, licences and other assets have increased to \$4,266,000 at December 31, 2001 (2000 - \$432,000) due to the acquisition of trademarks related to First Light Foods of \$3,999,000 partially offset by standard amortization expense.

Current liabilities

Accounts payable and accrued liabilities increased to \$20,437,000 in 2001

(2000 - \$19,359,000). The increase is due primarily to the Virginia Materials acquisition.

Customer deposits of \$2,213,000 at December 31, 2001 (2000 - \$1,262,000) are related to cash deposits made by the SunRich Food Group customers in 2001 for year 2002 customer purchases. No recognition of revenue or accrual of costs is booked on these transactions until the goods are shipped.

The current portion of Preference Shares in subsidiary companies increased from \$387,000 in 2000 to \$458,000 in 2001 and is due to accelerated payments on preferred shares related to the purchase of land in the BEI acquisition. This acceleration is due to the repayment of specific outstanding debt.

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

On March 15, 2002, the Company entered into a new financing arrangement with a major Canadian bank and its U.S. subsidiary. This arrangement includes the

following components:

1. US \$15,000,000 demand loan with scheduled quarterly payments to amortize the debt over seven years.

Interest on the demand loan is payable at the borrower's option at U.S. dollar base rate or U.S. LIBOR plus a premium based on certain financial ratios.

While this loan is payable on demand, the lender has indicated that it is not their intention to demand repayment of this loan in 2002. Accordingly, the only repayment required in 2002 in respect of this loan relates to the regular quarterly payments, which in 2002 amount to \$1,750,000 (US \$ 1,100,000).

2. CAN \$4,000,000 line of credit facility

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Interest on borrowings under this facility is payable monthly and 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. US \$5,000,000 line of credit facility

Interest on borrowings under this facility is payable monthly and 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.

Total debt of \$24,604,000 outstanding at December 31, 2001 was repaid on March 15, 2002 with the proceeds of the new financing arrangement.

The US \$15,000,000 demand loan and the Canadian and U.S. line of credit facilities described above are collateralised by a first priority security against all of the Company's assets in both Canada and the United States.

The current and long-term portion of the outstanding debt at December 31, 2001 reflects repayment terms contained in the new financing arrangement. Under new accounting guidelines effective January 1, 2002 all the outstanding new debt as per current terms would be classified as short term to satisfy Canadian GAAP. This classification would be required as the facilities are all due on demand. The Company intends to review these terms in the future. As long as the company continues to make regular scheduled payments and maintain certain financial ratios, it is not the banks intention to demand repayment of this facility.

Under U.S. GAAP, the entire US\$15 million demand loan would be classified as a current liability. As a result, currently liabilities would increase by \$21,503,000 and long-term debt would decrease by \$21,503,000.

Bank Indebtedness

Bank indebtedness as of December 31, 2001 was \$1,921,000 (2000 - \$3,405,000). The decrease versus 2000 was due to the repayment and cancellation of a line of credit used in the SunRich Food Group and the netting of the Environmental Industrial Group bank debt of \$1,783,000 against corporate cash as the line was held at the same institution.

Long Term Debt

As at December 31, 2001, the company's long term debt, including current portion, was \$26,517,000, a decrease of \$5,038,000 versus the prior year. Repayment of debt totalled \$9,856,000, which included scheduled repayments plus an accelerated US\$1,000,000 on one of the Food Group loans. New debt during the year totalled US\$2,119,000. Included in this was debt with a related party for US\$1,000,000 which was used to repay the amount noted above, plus debts related to the Virginia Materials and First Light Foods acquisitions. The remaining difference is attributable to exchange on US denominated debt.

The new financing arrangements previously stated replaces all but \$1,913,000 of the year-end debt including obligations under capital leases. This debt is

secured against specific equipment or is uncollateralized.

Other long-term liabilities

The Company had deferred purchase consideration of \$1,657,000 at December 31, 2001 relating to the Virginia Materials acquisition. The deferred purchase consideration will be paid on the purchase of the vendor's inventory as acquired. It is expected to take approximately 16 months from December 31, 2001 to satisfy this liability.

The long-term future tax liability of \$2,901,000 (2000 - \$1,508,000) relates principally to the SunRich Food Group and represents differences between the accounting and tax basis of assets and liabilities primarily related to property, plant and equipment and trademarks offset by the benefit of losses carried forward and the long term portion of the scientific research expenditures tax benefit.

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The long-term portion of Preference Shares of subsidiary companies was reduced to \$205,000 from \$462,000 as a result of payments in 2001, which totalled \$186,000 in cash payments and the accelerated payments classified as current.

Cash Flow

For the year ended December 31, 2001, cash flow provided by operations before working capital changes increased by \$985,000 to \$5,406,000 (2000 - \$4,421,000), due principally to a \$3,115,000 increase in amortization and a decline in the future tax recovery of \$1,170,000, offset by lower net earnings of \$3,343,000.

Cash flow provided by operations after working capital changes was \$510,000 for the year ended December 31, 2001 (2000 - \$55,000) as a result of an increase in inventory of \$5,389,000 partially offset by lower accounts receivable balances and higher customer deposits.

Cash used in investment activities increased to \$17,588,000 in 2001 (2000 - \$10,820,000) as a result of an investment of \$10 million in marketable securities. During 2001, less cash was utilized in the acquisition of businesses (\$3,460,000 in 2001 vs. \$5,359,000 in 2000), capital spending increased \$870,000 (2001 - \$6,223,000 vs. 2000 - \$5,353,000) and Northern received a full year repayment from its note receivable in 2001 compared to three months in 2000.

Cash provided by financing activities was \$21,317,000 in 2001 (2000 - \$9,270,000). The increase in cash from financing in 2001 is due to the four equity placements during the year and proceeds from stock options for total equity proceeds of \$33,151,000. This was offset by net repayment of debt and bank indebtedness of \$9,821,000 and restricted cash primarily related to the last private placement of \$1,827,000.

2000 Operations Compared with 1999 Operations

Consolidated

Revenues in 2000 increased by 115% to \$101,653,000 from \$47,304,000 in 1999 and the Company's earnings for 2000 increased by 121% to \$3,374,000 or \$0.15 per common share compared to \$1,524,000 or \$0.09 per share for the year ended December 31, 1999. The increase in the Company's revenues was due to the 2000 results having Sunrich's operations being included for twelve months rather than five months in 1999 and the acquisitions of PECAL, Northern, Nordic and Temisca during 2000.

While earnings increased 121%, earnings per share increased 67% as earnings per share in 2000 was based on an increased number of shares outstanding due to the acquisition transactions in 2000. The weighted average number of common shares in 2000 was 22,975,986 (1999 - 17,384,644).

US readers should note that due to differences between Canadian and US GAAP, earnings for the 2000 under US GAAP are \$2,571,000 or \$0.11 per common share (1999 - \$1,449,000 or \$0.08 per common share).

Cost of sales increased by 117% to \$87,046,000 for the year ended December 31, 2000 compared to \$40,127,000 for the year ended December 31, 1999. As noted in

the revenue analysis above, the increase in cost of sales was related to the sales increase resulting from the acquisitions made in mid 1999 and during 2000.

The Company's consolidated gross margin was 14.4% in 2000 compared to 15.2% in 1999 as a result of product mix in businesses acquired.

Research and development costs related to the Steam Explosion Technology Group were \$200,000 in 2000 compared to \$367,000 in 1999. The decrease in research based steam explosion activities in 2000 was as a result of a more focused effort towards the marketing and sale of the technology rather than research.

Selling, general and administration expenditures increased 116% in 2000 to \$11,094,000 compared to \$5,136,000 for the year ended December 31, 1999. The increase in administrative costs was due to the acquisitions made in mid 1999 and during 2000, and the increased costs of operating a larger public company.

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Interest on long-term debt and other interest expense increased to \$1,527,000 in 2000 from \$361,000 in 1999, due principally to the SunRich Food Group's debt obligations. Canadian debt held by the Environmental Industrial Group and Corporate represented \$416,000 of interest expense in 2000 and SunRich Food Group's interest expense in 2000 was \$1,111,000.

Interest and other income increased to \$402,000 in 2000 from \$181,000 in 1999 due an increase in interest earned in the Company in 2000 over 1999, principally due to the interest income on long term receivable.

The gain on purchase of Preference Shares of \$175,000 (1999 - \$nil) resulted from the purchase of the Preference Shares outstanding in a subsidiary company at a value less than their carrying value

The share of losses of equity accounted investees of \$48,000 (1999 - \$321,000) and dilution gain of \$140,000 (1999 - \$nil) related to the Company's 32% 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 the equity value of Easton due to issues of capital above Stake's carrying cost of this investment.

Earnings before taxes increased by 134% to \$2,506,000 in 2000 from \$1,072,000 in 1999, as a result of these changes.

The Company recorded the benefit of previously unrecognized Canadian tax loss carry forwards of \$1,798,000 (1999 - \$635,000) and provided a tax reserve of \$864,000 (1999 - \$183,000) on the net earnings of the SunRich Food Group. The net tax recovery contributed to an overall increase in net earnings of 122% to \$3,374,000 from \$1,524,000 in 1999.

Segmented Operations Information

The SunRich Food Group

The SunRich Food Group contributed 68.7% or \$69,822,000 of the \$101,653,000 in total revenue (1999 - five months - \$24,991,000). In 2000, SunRich sales were \$59,693,000, and Northern sales were \$10,129,000, for the three and one-half month period since acquisition on September 15, 2000. As Nordic was in pre-operating stage until December 31, 2000 all revenues and certain operating costs were deferred in accordance with Canadian GAAP.

The Sunrich Food Group's cost of sales in 2000 was \$60,721,000 (1999 - five months - \$22,340,000). The SunRich Food Group's margin in 2000 was 13% (1999 - 10.6%). The increased margin results from higher margins in the food processing business of Northern.

In 2000, the SunRich Food Group's administration costs were \$7,072,000 (1999 - five months - \$2,005,000). The increase in these costs is due to the twelve versus five months of administration costs being included for SunRich, and the administration costs of Northern and Nordic since acquisition.

Pre-tax earnings of the SunRich Food Group were \$1,230,000 (1999 - five months - \$492,000). The net earnings of the Sunrich Food Group were \$366,000 (1999 - five months - \$309,000). The net earnings of the SunRich Food Group were

significantly impacted by the after tax loss from the veggie burger business that was closed prior to December 31, 2000.

The Company has not recognized the benefits of the Nordic tax losses of approximately \$2,200,000. Therefore, the effective tax rate increased in 2000 to 70% compared to 37% in 1999. The benefit of a portion of these losses will be recognized when Nordic becomes profitable.

Environmental Industrial Group

The Environmental Industrial Group contributed 30.8% or \$31,286,000 of 2000 consolidated sales (1999 - \$21,829,000). In 2000, the Environmental Industrial Group sales increased by 43.3% due to the purchase of PECAL in February and Temisca in October, 2000 and growth in the existing business lines. Sales consisted of sales of abrasives, foundry sands and other products of \$29,081,000 (1999 - \$19,215,000), recycling revenues of \$1,832,000 (1999 - \$2,614,000) and Temisca sales for two winter months were \$373,000 (1999 - \$nil).

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Cost of sales in 2000 attributable to the Environmental Industrial Group were \$26,272,000 (1999 - \$17,667,000), The Environmental Industrial Group's margin decreased to 16% in 2000 from 19.1% in 1999, due to tight price competition in some of the Environmental Industrial Group's principal product lines.

The Environmental Industrial Group's operations accounted for \$2,579,000 of consolidated administration costs (1999 - \$1,722,000). The 49.8% increase in these costs is due to the addition of three salesmen and the retention of administration staff from the PECAL acquisition to create a new customer service function for the Environmental Industrial Group and the costs of running a larger Group with more locations.

Pre-tax earnings from operations of the Environmental Industrial Group were \$2,579,000 (1999 - \$2,058,000).

Tax expense of \$66,000 (1999 - \$nil) for the Environmental Industrial Group relates to the earnings of Temisca Inc. Due to the loss carry forwards of the Canadian legal entity, no provision for income taxes has been recorded for the earnings of BEI/PECAL. The benefits of these loss carry forwards of \$1,798,000 (1999 - \$635,000) has been recorded in the Steam Explosion Technology Group and Corporate segment.

Net earnings of the Environmental Industrial Group were \$2,513,000 for fiscal 2000 compared to \$2,058,000 for fiscal 1999.

Steam Explosion Technology Group and Corporate Activities

Of the \$101,653,000 in total revenues 0.5% or \$545,000 were derived from the Steam Explosion Technology Group and corporate sales (1999 - \$484,000).

The Steam Explosion Technology Group and general corporate revenues of \$545,000 in 2000 were generated from steam explosion licence fee revenue and private industry projects of \$231,000 (1999 - \$410,000) and other corporate revenues were \$314,000 (1999 - \$74,000). No steam explosion equipment sales were made in 2000 or 1999.

Steam Explosion Technology Group's cost of sales was \$53,000 (1999 - \$120,000), which primarily relates to standard amortization charges.

Steam Explosion Technology Group and corporate margins were \$492,000 or 90.3% on \$545,000 of revenue or (1999 - \$364,000 on \$484,000 of revenue or 75.2%) due to the nature of the revenues in this Group.

Steam Explosion Technology Group's marketing and demonstration and corporate administration expenses were \$1,517,000 (1999 - \$1,226,000). The increase in these costs were due to more aggressive investor relations activities, the increased costs of insurance, salaries and other costs of operating a larger public company and increased marketing and travel costs incurred towards securing a steam explosion equipment sale in China.

The loss from operations before tax of \$1,303,000 (1999 - \$1,478,000) is principally due to the additional corporate costs of operating a larger public

company being charged to this segment.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk

The primary objective of the Company's 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 equivalents and are recorded on the balance sheet at fair value with unrealised gains or losses reported through profit and loss.

Debt in both fixed rate and floating rate interest carry varying degrees of interest rate risk. Fixed rate debt may have its 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 debt is generally subject to less interest rate risk than fixed rate debt. As of December 31, 2001, the weighted average interest rate of the fixed rate debt was 7%. With the new financing arrangement as of March 15, 2002 interest expense is expected to decline. Presently the Company's new debt is at floating interest rates that are partially hedged to variable rate investments. Remaining fixed debt is under \$2,000,000 and consequently the fair value would not be materially affected by changing interest rates.

Foreign currency risk

All US subsidiaries use the US dollar as their functional currency. These 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 US subsidiaries are translated into Canadian 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 a decrease (increase) in the translated value of the Company's net assets in subsidiaries by \$2,436,000. These changes would flow through the Company's cumulative translation adjustment account.

During the year the company realized substantial exchange gains on US denominated net assets at corporate, due primarily to funds held in US dollar cash equivalents. The Company's Environmental Group has US based receivables and payables that on a net basis provide limited exchange exposure. The Company's Food Group also has limited net exposure to other currencies including Canadian. It is the company's intention to hold 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 Canadian dollars. At year-end US dollar funds were US\$2,500,000. A 10% movement in the level of foreign currency in favour of (against) the Canadian dollar would result in a decrease (increase) in the company's year end financial instruments by \$400,000. International sales are made by our US based Food Group in US dollars to avoid currency exposure.

Commodity risk

The SunRich 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 practical 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 futures transactions are marked

to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold. As at December 31, 2001, the quantity of grain not hedged is not significant and therefore a change in the market price would not have a material impact. There are no futures contracts in the Environmental Industrial Group or the Steam Explosion Technology Group or related to corporate activities.

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Item 8. Financial Statements and Supplementary Data

Financial statements are set forth on pages F-1 through F-42 of this Report and are incorporated herein by reference.

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

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Identification of directors and executive officers as at March 8, 2002 is set forth below:

Name Directors:	Year First Elected Director/Officer	Position With Company	Class of Shares	Number of Shares Beneficially Owned/Number of Vested Options	% of Class
Jeremy N. Kendall	1978	Chairman of the Board, C.E.O. & Director	Common	420,317/359,500 (1)	1.83%
Cyril A. Ing, P. Eng.	1984	Secretary and Director	Common	66,335/63,500 (2)	0.30%
Joseph. Riz, CMA	1986	Independent Director	Common	33,600/63,500 (3)	0.23%
John D. Taylor	1994	President, C.O.O. & Director	Common	97,027/199,500 (4)	0.70%
Tim Bergqvist	1989	Independent Director	Common	20,000/63,500 (5)	0.20%
Michael Boyd	1995	Independent Director	Common	0/16,000 (6)	0.038%
James Riftenbergh	1996	Independent Director	Common	313,448/113,500 (7)	1.0%
Allan Routh	1999	Director and President of the Food Group	Common	553,781/110,000 (8)	1.56%
Dennis Anderson	2000	Director and Executive Vice President of Operations of the Food Group	Common	3,806,335/4,000 (9)	8.93%
Larry (Andy) Anderson, CPA	2000	Director and Part-time Financial Officer of the Food Group	Common	367,089/3,000 (10)	0.87%
Katrina Houde	2000	Independent Director	Common	0 /16,000 (11)	0.038%
Camillo Lisio	August 2001	Independent Director	Common	0/ 16,000 (12)	0.038%
Stephen Bronfman (A)	October 2001	Independent Director	Common	0/10,000 (13)	0.023%
Robert Fetherstonhaugh (A)	December 2001	Independent Director	Common	0/10,000 (14)	0.023%

Other officers:					
Leslie N. Markow, CA	1997	Chief Administrative Officer	Common	29,050/61,000 (15)	0.21%
David Kruse, CMA	2000	Vice President , COO Environmental Industrial Group	Common	0/19,500 (16)	0.046%
Steven R. Bromley, CGA	September 2001	Chief Financial Officer	Common	10,000/10,000 (17)	0.047%

All Directors and Officers as a group			Common	5,716,982/1,138,500 (18)	16.07%

Percentage ownership is calculated based on 41,081,228 total common shares outstanding at December 31, 2001, plus all common shares subject to an option currently exercisable, which at December 31, 2001 totaled 1,575,425 of which 1,137,500 are related to directors and officers noted above and described below. The remaining 437,925 are options vested to other employees of the Company. This calculation does not include options that have not vested or that have not yet been approved by the directors or warrants or underwriter options/warrants currently outstanding. Therefore, the "Percentage of Class" column is based on 42,656,653 common shares.

- (A) Pursuant to the subscription agreement dated September 28, 2001 (described under "Issuance of Securities and Use of Proceeds" - "Private Placement 3 - 2000"), so long as any member of the Claridge Group (as defined in such subsection) 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.
- (1) Includes options to purchase 4,500 common shares at US\$1.06 per share pursuant to 1998 Stake Employee/Director Stock Option Plan
- Includes options to purchase 355,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.
- (2) Includes options to purchase 7,500 common shares at US\$1.06 per share pursuant to 1998 Stake Employee/Director Stock Option Plan
- Includes options to purchase 10,000 common shares at US\$1.313 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.
- Includes options to purchase 40,000 common shares at US \$1.86 per share pursuant to the 2001 Stake Stock Option Plan.
- Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.
- (3) Includes options to purchase 7,500 common shares at US\$1.06 per share pursuant to 1998 Stake Employee/Director Stock Option Plan.
- Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.
- Includes options to purchase 40,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.
- Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.
- (4) Includes options to purchase 4,500 common shares at US\$1.06 per share pursuant to 1998 Stake Employee/Director Stock Option Plan.
- Includes options to purchase 195,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.
- (5) Includes options to purchase 7,500 common shares at US\$1.06 pursuant to the 1998 Stake Employee/Director Stock Option Plan.

Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.

Includes options to purchase 40,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.

Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.

- (6) Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.

Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.

- (7) Includes options to purchase 7,500 common shares and 50,000 common shares at US\$1.06 per share pursuant to the 1998 and 1999 Stake Employee/Director Stock Option Plans respectively.

Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.

Includes options to purchase 40,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.

Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.

- (8) Includes options to purchase 110,000 common shares at US\$1.06 pursuant to 1999 Stake Option Plan.

- (9) Includes options to purchase 4,000 common shares at US\$1.31 per share pursuant to the 1999 Stake Employee/Director Stock Option Plan.

- (10) Includes options to purchase 3,000 common shares at US\$1.31 per share pursuant to the 1999 Stake Employee/Director Stock Option Plan.

- (11) Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.

Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.

- (12) Mr. Lisio was made a director of the Company on August 21, 2001 and 10,000 options were granted upon him joining at US\$1.61 per share pursuant to the 2001 Stake Employee/Director Stock Option.

Includes options to purchase 6,000 common shares at US \$2.10 per shares pursuant to 2002 Stake Stock Option Plan.

- (13) Mr. Bronfman was elected a director of the Company on September 28, 2001 and 10,000 options were granted at US \$2.10 per shares pursuant to the 2002 Stake Employee/Directors Stock Option Plan.

- (14) Mr. Fetherstonhaugh was elected a director of the Company on December 13, 2001 and 10,000 options were granted at US \$2.10 per shares pursuant to the 2002 Stake Employee/Directors Stock Option Plan.

- (15) Includes options to purchase 4,000 common shares at US\$1.31 per share pursuant to the 1996 Stake Employee/Director Stock Option Plan.

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Includes options to purchase 4,500 common shares at US\$1.06 pursuant to the 1998 Stake Stock Option Plan

Includes options to purchase 52,500 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.

- (16) Includes options to purchase 5,000 common shares at US \$1.86 per share pursuant to 2001 Stake Employee/Director Stock Option Plan.

Includes options to purchase 4,500 common shares at US\$1.06 pursuant to the 1998 Stake Stock Option Plan.

Includes options to purchase 10,000 common shares at US\$1.31 per share pursuant to the 1993 Stake Employee/Director Stock Option Plan.

(17) Includes options to purchase 10,000 common shares at US\$1.53 from the 1999 Stake Employee/Director Stock Option Plan.

(18) Summary of Employee/Director Stock Option Plans:

Expiry date	Exercise Price	# Held by Directors	# Held by Officers	#Held by Employees /Consultants	Total
December 11, 2003	US\$1.86	454,000	31,000	92,100	577,100
December 31, 2003	US\$0.75 to US\$1.86	279,500	23,000	39,625	342,125
August 2, 2004	US\$1.06	100,000	--	52,800	152,800
December 31, 2004	US\$1.06 to US\$1.86	77,500	12,500	34,000	124,000
April 5, 2005	US\$1.41	--	--	16,000	16,000
August 2, 2005	US\$1.06	110,000	--	10,400	120,400
October 1, 2005	US\$1.31-\$1.53	7,000	--	45,400	52,400
December 20, 2005	US \$1.31	10,000	14,000	59,000	83,000
May 5, 2006	US\$1.80	--	--	59,500	59,500
June 4, 2006	US \$1.53	--	10,000	--	10,000
August 21, 2006	US\$1.61	10,000	--	5,000	15,000
September 20, 2006	US \$1.80	--	--	5,500	5,500
December 12, 2006	US \$2.10	--	--	17,600	17,600
Total		1,048,000	90,500	436,925	1,575,425

(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), Easton Minerals Ltd. (1/95 to present). In the past 5 years, Mr. Kendall has served on the following board of directors: BI Inc. (9/81 to 11/00), Brigdon Resources Inc. (6/93 to 2/99) and Redaurum Ltd. (6/94 to 12/98). He is also a Director of a number of private and charitable organizations.

Cyril Ing is a Professional Engineer and 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. For the previous 10 years 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 March 1990, Mr. Ing retired from full time employment. In the past 5 years, Mr. Ing has served on the following board 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. He is presently Managing Director of Tricapital Management Ltd., a merchant banking and financial advisory firm. From 1983 to 1985 he was an Executive Vice

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President of Crowntek, Inc. In the past 5 years, Mr. Riz has served on the Board of Directors of Telepanel Systems Inc. (4/89 to present).

Tim Bergqvist was elected a Director of the Company in January of 1989. He has

recently retired as the Chairman of Eucalyptus Pulp Mills PLC. He is currently Chairman of Quinta da Rosa (Vinhos do Porto) Lda in Portugal. In the past 5 years, Mr. Bergqvist has not served on any other reporting issuers Board of Directors.

John Taylor was elected to the Board of Directors in December 1994. He was appointed President and Chief Operating Officer of the Company in 1991. From 1986 to 1991, Mr. Taylor was the Company's Vice President of Marketing and Planning. In the past 5 years, Mr. Taylor has not served on any other reporting issuers Board of Directors.

Michael Boyd was elected to the Board of Directors in December 1995. Mr. Boyd was the former Managing Director Merchant Banking of HSBC Capital (Canada) Inc., a merchant-banking subsidiary of the HSBC Bank of Canada. In the past 5 years, Mr. Boyd has served on the following Board of Directors: Wescam Inc. (06/98 to present), Afton Food Group Ltd. (5/00 to present), Rtica Inc. (5/97 to present), and Funtime Gaming Inc. (6/96 to 8/99).

Jim Rifenberg was elected to the Board of Directors in April 1996. Mr. Rifenberg 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. Rifenberg has served on the Board of Directors of ARC Capital Inc. (6/96 to 12/96).

Allan Routh was elected to the Board of Directors in September 1999. Mr. Routh is President of the SunRich Food Group, Inc., the Company's wholly owned subsidiary. Mr. Routh has been involved in the soy industry since 1984. Mr. Routh has been President and Chief Executive Officer of Sunrich, Inc. since 1994. 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 is the Executive Vice President Operations of the SunRich Food Group, Inc., the Company's wholly owned subsidiary. Mr. Anderson was the owner of Northern Food & Dairy, Inc. for five years prior to the Company's acquisition. 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 a member of the American Institute of CPA's and Minnesota Society of CPA's and acts as a part time financial officer to the SunRich Food Group, Inc.. Prior to his involvement with the SunRich Food Group, Inc., Mr. Anderson was a partner in a Minneapolis CPA firm for more than five years prior to the Company's acquisition of Northern. 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. Ms. Houde is currently an independent consultant. For the five years prior to her election to the Stake Board, Ms. Houde was with Cuddy International Corp., a large international poultry company with 2,200 employees worldwide. Ms. Houde held several senior executive positions at Cuddy International Corp., and served as President of Cuddy Food Products. Her positions at Cuddy encompassed a wide range of responsibilities including human resources, IT, finance, public relations, strategic planning, and governmental affairs, as well as overall accountability for all operating divisions. In the past 5 years, Ms. Houde has not served on any other reporting issuers Board of Directors.

Camillo Lisio spent the last 18 years with Saputo Inc., most recently as President and Chief Operating Officer, until his recent decision to pursue other business and personal interests. Mr. Lisio has been active in business and civic affairs. Other than serving on the Board of Directors of Saputo Inc., he was also a director of the Santa Cabrini Hospital, the International Dairy Foods Association and the National Dairy Council of Canada. Early in his career, he was with CFMB, a multilingual radio station in Montreal, where as interim President, he transitioned the station following the death of the founder. In the past 5 years, Mr. Lisio has served on Board of Directors: of Saputo Inc. (03/98 to 4/01) and Uniforet Inc. (10/98 to 4/01).

Stephen Bronfman is Chairman of Claridge SRB Investments Inc., a privately held company with worldwide interests, formed in 1998 to manage his existing holdings and to evaluate future investment opportunities. The Claridge Group currently owns approximately 17.0% of the issued and outstanding common shares of Stake Technology Ltd.. Mr. Bronfman has been active in numerous business and civic affairs. Mr. Bronfman 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. Previously Mr. Bronfman served on the Board of Directors of The Seagram Company, Ltd. and was Co-Chairman of the Executive Committee of the Montreal Expos Baseball Club.

Robert Fetherstonhaugh is a Chartered Accountant and is the Executive Vice President of The Claridge Group. Mr. Fetherstonhaugh has a broad business background both in North America and internationally, previously serving as Deputy Chairman of Trader.com, an international publishing company, and a former partner at KPMG. Mr. Fetherstonhaugh is also currently a director of Trader.com and Unity Wireless Corporation.

Steven Bromley is a Certified General Accountant and joined the Company in June 2001. The Board of Directors appointed Mr. Bromley Chief Financial Officer on September 19, 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. In his last position with Natrel Inc., Mr. Bromley served as Vice President, Business Development and Information Systems. 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.

Leslie Markow is a Chartered Accountant and joined the Company in 1991. Ms. Markow was appointed Chief Financial Officer in 1997 and held this position until September 2001 at which time Ms Markow shifted responsibilities to become the Chief Administrative Officer. Ms. Markow was with Coopers & Lybrand, now known as PricewaterhouseCoopers LLP, from 1983-1991, last as an Audit Manager. She is also CFO and nominated as a director of Easton Minerals Limited as well as being a director of Jemtec Inc., both CDNX listed companies.

David Kruse is a Certified Management Accountant and joined the Company in 1997. Mr. Kruse was appointed Vice President of the Company and the 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

Audit Committee

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

Mr. Boyd 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 10K and annual audited financial statements and before each quarter's earnings are filed to review interm financial statements and Form 10Q which is filed with the Securities and Exchange Commission/Nasdaq in the US 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, Mr. Michael Boyd. During, 2001, the audit committee met four times. The Audit Committee has free and unfettered access to PricewaterhouseCoopers, the Company's auditors.

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, Joe 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 Compensation Committee formally meets in person once a year, normally in December. In addition, several telephone meetings are held during the year for administrative matters connected to the responsibilities of this Committee.

Statement of Stake Technology Ltd.'s Corporate Governance Practices:

Governance Guidelines	Stake Technology Ltd.'s Practices
1. The Board of the Directors is responsible for the stewardship of Stake Technology Ltd. ("Corporation"), and specifically for:	In accordance with the Canada Business Corporations Act, the business of the Corporation is managed under the direction of its Board of Directors. The Chairman and Chief Executive Officer makes recommendations to the Board of Directors with respect to matters of corporate policy after discussion, when appropriate, with the members of Senior Management. The Board of Directors then takes the decisions that it deems appropriate, supervises the execution of such decisions and reviews the results obtained.
(a.) adoption of a strategic planning process	The duties of the Board of Directors include the review on an annual basis of the three-year strategic plan for each operating group of the Corporation.
(b.) identification of principal risks, and implementing risk managing systems	The Board of Directors' duties include the review of overall business risks and of the Corporation's practices and policies for dealing with these risks. In addition, the Audit Committee assesses principal risks which the Corporation faces and, where appropriate, proposes the implementation of risk management systems.
(c.) succession planning and monitoring senior management	The Board Governance Committee reviews, reports, and where appropriate, provides recommendations to the Board of Directors on succession planning matters and, with the Audit Committee and the Board of Directors, monitors the performance of senior management.
(d.) communications policy	Each of the Board of Directors and the Audit committee reviews and, where required, approves statutory disclosure documents prior to their distribution to shareholders. In addition, the Corporation has a shareholder relations process to respond to shareholder questions and concerns. All communications from shareholders are referred to the Chairman or the appropriate corporate officer for response. Management promptly advises the Board of Directors if shareholders raise any significant issues. In addition, the Corporation communicates with its shareholders, securities analysts and the media regularly on developments in its business and results, through the annual report, interim financial statements and reports to shareholders, press releases and material change reports as per communication policy.
(e.) integrity of internal control and management information systems	The Board of Directors' duties include the assessment of the integrity

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of the Corporation's internal controls and information systems. In addition, the Audit Committee has oversight responsibility of internal controls and management information systems.

2. Majority of Directors should be "unrelated" (independent of management and free from conflicting interest) to the Corporation and the Corporation's significant shareholder, if any.

The Board of Directors is composed of fourteen persons. Of the fourteen Directors, nine are "unrelated" under the Guidelines and the five others are Senior Officers of the Corporation. The composition of the Board of Directors fairly reflects, therefore, the investment in the Corporation by the shareholders.

3.	Disclose for each Director whether he is related, and how that conclusion was reached	Jeremy N. Kendall	Related	Chairman and Chief Executive Officer
		John D. Taylor	Related	President and Chief Operating Officer
		Allan Routh	Related	Director and President of the SunRich Food Group, Inc.
		Dennis Anderson	Related	Director and Executive Vice President - Operations of the SunRich Food Group, Inc.
		Larry (Andy) Anderson	Related	Director and Part-time Financial Officer of the Sunrich Food Group, Inc.
		Cyril A. Ing	Unrelated	
		Joseph Riz	Unrelated	
		Tim Bergqvist	Unrelated	
		Michael Boyd	Unrelated	
		Jim Rifembergh	Unrelated	
		Katrina Houde	Unrelated	
		Camillo Lisio	Unrelated	
		Robert Fetherstonhaugh	Unrelated	
		Stephen Bronfman	Unrelated	
4.	Appoint a Committee of Directors responsible for proposing to the full Board of Directors new nominees to the Board and for assessing Directors on an ongoing basis	The Chairman of the Board or other Directors submits to the Board Governance Committee candidates to fill vacancies on the Board of Directors. If the candidacy is endorsed by the Board Governance Committee, it is then submitted to the approval of the Board of Directors. New Directors are then included in an orientation and education program (see Item 6).		
5.	The Board Governance Committee is composed exclusively of outside Directors	The Board Governance Committee is composed of three outside Directors.		
6.	Implement a process for assessing the effectiveness of the Board of Directors, its Committees and individual Directors in accordance with overall governance policy	An annual review of Board members is undertaken by the Board Governance Committee with advice from the Chairman and CEO.		

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7.	Provide orientation and education programs for new Directors	New Directors participate in an initial information session on the Corporation in the presence of Management representatives. In addition, they are furnished with appropriate documentation relating to the commercial activities of the Corporation and the internal organization of the Corporation; monthly reports detailing the commercial activities of the Corporation and the internal organization of the Corporation. The meetings in which new Directors participate (including annual strategic planning sessions) as well as discussions with other Directors and with management permit new Directors to familiarize themselves rapidly with the operations of Corporation. Facility visits can also be arranged for new Directors.		
8.	Consider reducing the size of the Board of Directors, with a view to improving effectiveness	The Board of Directors is of the view that its size and composition is somewhat larger than ideal and intends to reduce its size from 14 to 9 over a period of time, reducing both related and unrelated Directors.		
9.	The Board of Directors should review compensation of Directors in light of risks and responsibilities	The Board Governance Committee of the Board of Directors reviews periodically compensation policies in light of market conditions and practice and in light of risks and responsibilities.		
10.	Committees of the Board of Directors should generally be composed of unrelated (non-management) Directors, a majority of whom are unrelated Directors	The Board Governance Committee is composed of three unrelated Directors. The Board Governance Committee has the responsibility, upon the recommendation of the Chairman and Chief Executive Officer, for defining salary classes and levels and extent of participation in the incentive program. In addition, this Committee determines, based on the proposal of the Chairman of the Board, the persons eligible to benefit from the stock option plan and in which proportion, according to their position. The Board Governance Committee also assesses the performance of the Chairman and Chief Executive Officer; the Committee's recommendations in this regard are then presented to the Board of Directors. When a vacancy on the Board of Directors needs to be filled, the Chairman of the Board recommends the person or persons whom he deems appropriate to fill the vacancy and submits his proposal to the Board Governance Committee. The Board Governance Committee can then endorse such recommendations, which, if endorsed, are presented to the Board of Directors.		
11.	The Board of Directors should expressly assume responsibility for, or assign to a	The Board Governance Committee is responsible for developing and monitoring the Corporation's approach to		

committee the general responsibility for, approach to corporate governance issues

governance issues and for the Corporation's response to the Guidelines and recommending these policies to the Board of Directors.

12.a. Define limits to Management's responsibilities by developing mandates for:

(i) the Board of Directors

The Board of Directors is, by law, responsible for managing the business and affairs of the Corporation. Any responsibility, which is not delegated to either Management or a Committee remains with the Board of Directors. In general, all matters of policy and all actions proposed to be taken which are not in the ordinary course of business require the prior approval of the Board of Directors or of a Board committee to which approval authority has been delegated.

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(ii) the CEO

The corporate objectives which the Chairman and Chief Executive Officer is responsible for meeting, with the rest of Management placed under his supervision, are determined by the strategic plans and the budget as they are approved each year by the Board of Directors. Performance of the Chairman and Chief Executive Officer and Management is assessed against the achievement of the strategic plans and the budget.

b. the Board of Directors should approve CEO's corporate objective

The Board of Directors governs the strategic plan and budgets for the Corporation.

13. Establish procedures to enable the Board of Directors to function independently of management

While there are no formal structures in place to ensure that the Board of Directors can function independently of Management, the Board of Directors of the Corporation is free to ask one or more members of Management to withdraw during certain discussions and the Directors of the Corporation would not hesitate to meet without the presence of the members of Management who are also Directors, including the Chairman and Chief Executive Officer, if the circumstances were to so require.

14(a.) establish an Audit Committee with a specifically defined mandate

The roles and responsibilities of the Audit Committee have been specifically defined by the Audit Committee and approved by the Board of Directors and include the review of the annual and interim financial statements of the Corporation. The Audit Committee has direct communication channels with both the internal financial management and external auditors to discuss and review specific issues as appropriate.

(b.) all members should be non-management Directors

The Audit Committee is composed of three outside Directors, all of whom are "unrelated" and are advised by the Vice President, Finance and Chief Financial Officer who can facilitate the understanding by the remaining members of the Committee of given situations.

15. Implement a system to enable individual Directors to engage outside advisors, at the Corporation's expense

Individual Directors could, if required, retain outside advisors at the Corporation's expense.

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Board Compensation

In addition to annual grants of options, Directors who are not Company officers receive a director fee of \$1,500 for each board meeting attended in person as well as \$250 for participating in committee meetings and telephone meetings, plus reimbursement of travelling 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 to the Company's Officers, including its Executive Officers as of March 8, 2002:

Name Age Officers of Stake

Jeremy N. Kendall *	62	Chairman of the Board (1983) Chief Executive Officer (1983) Director (1978)
John D. Taylor *	49	Director (1994) President and Chief Operating Officer (1991) Vice President, Marketing and Planning (1986)
Cyril A. Ing *	69	Corporate Secretary and Director (1984)
Steven R. Bromley *	42	Vice President, Finance and Chief Financial Officer (2001)
Leslie N. Markow *	41	Vice-President, Corporate Compliance/Regulatory Reporting and Chief Administration Officer (2001) Vice President, Finance and Chief Financial Officer (1997- 2001), Controller (1991-1997), Assistant Corporate Secretary (1993)
David Kruse *	34	Vice President, COO, Environmental Industrial Group (2000)

* Director and Officer biographies are detailed in the proceeding pages

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

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. Officers elected by the Board of Directors at any other time serve a term of office until the next Annual Meeting.

The Annual Meeting of Shareholders for 2002 will be held on June 18, 2002 at a location in downtown Toronto, Ontario, Canada.

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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, 2001, 2000 and 1999 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 (STATED IN US DOLLARS)

Name and Principal Occupation	Year	Annual Compensation			Awards			Payouts
		Salary	Bonus	Other Annual Compensation (6)	Restricted Stock Awards	Option SARs	LTIP Pay-outs	All Other Compensation (7)
Jeremy N. Kendall - C.E.O.	2001	\$167,332	\$13,347	\$14,001	--	--	--	\$269,123
	2000	\$169,263	\$45,590	\$6,910	--	--	--	--
	1999	\$154,478	\$4,889	\$17,524	--	--	--	--
John D. Taylor - C.O.O.	2001	\$109,679	\$10,968	\$10,003	--	--	--	\$147,828
	2000	\$115,479	\$32,870	\$15,560	--	--	--	--
	1999	\$112,245	\$14,747	\$11,494	--	--	--	--
Steven R. Bromley - C.F.O (1)	2001	\$60,282	\$6,236	\$10,425	--	--	--	--
Leslie N. Markow - C.A.O (2)	2001	\$90,381	\$8,314	\$11,937	--	--	--	\$39,800
	2000	\$69,014	\$11,824	\$13,137	--	--	--	--
	1999	\$60,573	\$5,358	\$7,745	--	--	--	--
David Kruse - VP, COO Environmental Industrial Group (3)	2001	\$83,925	\$1,358	\$11,049	--	--	--	\$3,790
	2000	\$62,618	\$8,457	\$12,345	--	--	--	\$12,345
Allan Routh - Director and President of the SunRich Food Group (4)	2001	\$116,923	\$40,000	\$5,370	--	--	--	--
	2000	\$110,000	\$20,000	\$6,555	--	--	--	--
	1999	\$44,423	\$60,000	\$3,774	--	--	--	--
Dennis Anderson - Director and	2001	\$130,960	\$18,689	\$2,619	--	--	--	--

2000 \$18,689 -- \$761 -- -- --

- (1) Mr. Steven R. Bromley joined the Company on June 4, 2001 and was appointed Vice President, Finance and Chief Financial Officer in September 2001, at an annual salary before bonuses and benefits of US\$103,292.
- (2) Ms. Leslie N. Markow was the Vice President, Finance and Chief Financial Officer in 1999, 2000. In September 2001, Ms. Markow relinquished this position and assumed the role of Chief Administrative Officer.

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- (3) Mr. David Kruse was appointed a Vice President of the Company during 2000; therefore 1999 earnings are not reported.
- (4) Mr. Alan Routh joined the Company in August 1999; therefore 1999 compensation reflects the five month period from August to December 1999.
- (5) Mr. Dennis Anderson joined the Company in September 2000; therefore 2000 compensation reflects the period of September 16 to December 31, 2000.
- (6) Other annual compensation represents taxable benefits for automobile use or reimbursement of costs, life insurance, retirement savings contributions, and interest on short-term loans.
- (7) All Other compensation is the value received over exercise price of stock options exercised.

Executive employment contracts

Mr. Jeremy Kendall, Chairman & C.E.O., 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 C.E.O. 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 renewable on a mutual basis between Mr. Routh and the Company each August 1st.

Mr. Dennis Anderson, Executive Vice President of The SunRich Food Group, Inc. has an initial 2 year employment contract that may be renewed on a mutual basis between Mr. Anderson and the Company starting at the end of the first two year period which expires on September 20, 2002.

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

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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

Name	Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise on base price (US\$/Share)	Expiration Date
Jeremy N. Kendall - C.E.O.	355,000	29.3%	\$1.86	225,000 on December 11, 2003, 102,500 on December 31, 2003, 27,500 on December 31, 2004
John D. Taylor - President and C.O.O.	195,000	16.1%	\$1.86	112,000 on December 11, 2003, 55,000 on December 31, 2003, 27,500 on December 31, 2004
Steven R. Bromley - C.F.O	50,000 - 10,000 vested on grant and 10,000 on each of June 4, 2002 to 2005	4.1%	\$1.53125	June 4, 2006
Leslie N. Markow - C.A.O.	52,500	4.3%	\$1.86	17,000 on December 11, 2003, 23,000 on December 31, 2003, 12,500 on December 31, 2004
David Kruse - Vice President, COO Environmental Industrial Group	5,000	0.4%	\$1.86	December 11, 2003

No options were granted to Mr. Routh or Mr. Dennis Anderson during 2001.

DECEMBER 31, 2001 OPTION VALUES
(STATED IN US DOLLARS)

(a) Name	(b) Shares Acquired on Exercise in 2001 (#)	(c) Value Realized in 2000 (\$)	(d) Number of Unexercised Options at 12/31/01 Vested/Not Yet Vested	(e) Value of Unexercised in the Money Options at 12/31/01 Vested/Not Yet Vested
Jeremy N. Kendall - C.E.O.	355,000	\$269,123	359,500/3,000	\$115,032/\$3,321
John D. Taylor - C.O.O.	195,000	\$147,828	199,500/3,000	\$65,432/\$3,321
Steven R. Bromley - C.F.O.	--	--	10,000/40,000	\$6,388/\$25,550
Leslie N. Markow - C.A.O.	52,500	\$39,800	61,000/9,000	\$24,685/\$8,463
David Kruse - Vice President, COO Environmental Industrial Group	5,000	\$3,790	19,500/18,000	\$15,102/16,176
Allan Routh - Director and President of the SunRich Food Group	--	--	110,000/90,000	\$238,700/\$99,630
Dennis Anderson - Director and Executive Vice President of Operations of the Food Group	--	--	4,000/4,500	\$2,571/\$3,857

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Item 12. Security Ownership of Certain Beneficial Owners and Management

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 8, 2002.

Name and Address of Beneficial Holder	Class of Share	Amount of Ownership	Percent of Class (2)
Claridge Israel LLC C/o Davies Ward Phillips and Vineberg 625 Madison Avenue Floor 12 New York, New York 10022	Common	7,011,600	17.0%
Gruber & McBaine Capital Management 50 Osgood Place, San Francisco California USA 94133	Common	3,837,100	9.3%
Dennis Anderson 2214 Geneva Road NE, Alexandria Minnesota USA 56308	Common	3,806,335	9.3%

All Directors and Officers	Common (1)	1,910,647 (a)	4.6% (a)
As a group (sixteen) - (a) excluding Dennis Anderson who is disclosed above and (b) not excluding Mr. Anderson's shares		5,716,982 (b)	13.9% (b)

- (1) For details of shares owned by officers and directors - Identification of Directors and Executive Officers.
- (2) Percentage ownership is calculated based on total Common Shares outstanding at March 8, 2002 of 41,129,328. It does not include warrants or options that have vested or have not yet vested.

Item 13. Certain Relationships and Related Transactions

Warrants

During 1995, the Company issued 1,220,000 warrants to acquire additional 1,220,000 common shares. Of these warrants, 37,500 warrants were exercised in 1996, and the remaining 1,182,500 warrants; 650,000 were exercisable at US\$2.25, and 532,500 were exercisable at US\$2.00. In 1997, these warrants were extended to December 31, 1998.

In 1995, a management director of the Company subscribed for and paid for 75,000 common shares in the private placement of shares. This transaction entitled this director the right to exercise 37,500 warrants of the 532,500 warrants noted above at US\$2.00 for 2 years. In addition, an independent director of the Company held 70,000 of the 532,500 warrants noted above which entitled this director to exercise 70,000 common shares at US\$2.00 for 2 years to October 3, 1997. As described above, both of these warrants were extended to December 31, 1998.

In 1997, subsequent to the extension of the expiration date, the third party holder of the 650,000 warrants exercisable at US\$2.25, and the independent director of the Company who held 70,000 of the 532,500 warrants exercisable at US\$2.00 asked the Company to find interested parties to purchase their respective warrants. As a result of this request, third parties purchased the right to 525,000 of the US\$2.25 warrants and 13,000 of the US\$2.00 warrants.

Employees purchased the right to 125,000 of the US\$2.25 warrant and 37,000 of the US\$2.00 warrant. The director sold 37,000 warrants to employees of the Company and 13,000 to a third party for \$0.15 per warrant. During 1998, all 1,182,500 warrants including those noted above held by employees and a director had their expiry date extended to June 30, 2000, by the Company's Board.

In December 1998, the Company offered all the warrant holders of the 1,182,500 warrants a 4 for 1 exchange for their warrants at a price of US\$0.50 until January 31, 2000 (162,000 warrants were held by employees and 20,000 by

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the director). As a result, employees and the director were offered the same terms and conditions as all of the warrant holders which was:

- (a) by exchanging their existing warrants 45,500 new warrants would be issued, exercisable at US\$0.50 expiring on January 31, 2000; and
- (b) provided that this US\$0.50 warrant was exercised prior to January 31, 2000, 45,500 additional warrants would be issued with an exercise price of US\$1.00 to December 31, 2000, rising to US\$2.00 on January 1, 2000 and expiring on December 29, 2000.

In January, 1999 all 45,500 exchanged warrants were exercised for proceeds of \$34,000, and 45,500 new warrants were issued to the respective employees and director with an exercise price of US\$1.00 to December 31, 1999, increasing to US\$2.00 on January 1, 2000 and expiring on December 31, 2000.

During 1999, two employees exercised 35,400 of the 45,500 new warrant issued to employees and a director for gross proceeds of \$35,400.

In October 2000, the Board of Directors authorized a 30-day reduction in the exercise price of these warrants reducing the price to US\$1.50 from US\$2.00. A

director exercised 9,375 warrants at US\$1.50 for gross proceeds of \$21,900 and the remaining 725 warrants issued to other employees expired without being exercised.

Loans

Included in other long-term debt is an uncollateralized loan due to a shareholder of US\$1,592,000 (2000 - \$nil) bearing interest at 6% with interest only payable to January 31, 2003, at which time the full note is due. Also included in other long-term debt is an uncollateralized loan of US\$154,000

(2000 - \$178,000) due to a shareholder, payable in monthly instalments of principal and interest of US\$2,543 through to August 24, 2005, bearing interest at 8%.

In March 2002, both notes were repaid as part of the Company's new financing arrangements with the Bank of Montreal and Harris Trust and Savings Bank.

Rental property

The Company leases certain real estate to a shareholder under operating leases that expire in August 2010. Annual rental under each of the leases is \$2.

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Item 14. Exhibits, Financial Statements and Reports on Form 8-K

STAKE TECHNOLOGY LTD. Form 10-K

(a) Documents filed as part of this Report	Page

1. Consolidated Financial Statements	F-1
Independent Auditors' Report	F-2
Consolidated Balance Sheets as at December 31, 2001 and 2000	F-3, F-4
Consolidated Statements of Earnings - For the Years ended December 31, 2001, 2000 and 1999	F-5
Consolidated Statements of Retained Earnings - For the Years ended December 31, 2001, 2000 and 1999	F-6
Consolidated Statements of Cash Flows - For the Years ended December 31, 2001, 2000 and 1999	F-7
Notes to Consolidated Financial Statements - For the Years ended December 31, 2001 and 2000	F-8 - F42
3. Exhibits	
3.1 - Amalgamation of Stake Technology Ltd and 3754481 Canada Ltd. (formerly George F. Pettinos (Canada) Limited) (I)	
3.3 - Bylaw No. 14 approved by shareholders - June 17, 1997 (D)	
10.1 - Court Order dated January 20, 1995 awarding certain assets of Barmin Inc. to Barnes Environmental Inc. (A)	
10.2 - Shareholder Agreement dated January 20, 1995 between Stake Technology Ltd., Bentonite of Canada Inc. and Barnes Environmental Inc. (A)	
10.3 - 1993 Employee/Director Stock Option Plan dated May 19, 1993 (B)	
10.4 - Share Purchase Agreement dated November 15, 1995 between	

Stake Technology Ltd., Bentonite of Canada Inc. and Peter Barnes. (B)

- 10.5 - 1996 Employee/Director Stock Option Plan dated September 27, 1996 (C)
- 10.6 - 1998 Stock Option Plan dated December 12, 1997 (E)
- 10.7 - Agreement and Plan of Reorganization among Stake Technology Ltd, Stake Minnesota, Inc. and SunRich, Inc. dated April 8, 1999. (F)
- 10.8 - 1999 Stock Option Plan dated February 18, 1999 (G)
- 10.9 - Agreement to purchase George F. Pettinos (Canada) Limited dated February 28, 2000 (I)
- 10.10 - Agreement to purchase Northern Food & Dairy, Inc. dated September 15, 2000 (H)

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Exhibits (continued)

- 10.11 - Agreement to purchase Temisca, Inc. dated October 31, 2000 (I)
- 10.12 Credit Agreement with Bank of Montreal dated February 28 2002 (J)
- 10.13 Facility B Loan Authorization Agreement with Harris Trust and Saving Bank (J)
- 10.14 2001 Stock Option Plan dated March 13, 2001 (J)
- 21 - List of subsidiaries (J)
- 24 - Powers of Attorney (J)
- (A) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1994 and incorporated herein by reference.
- (B) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1995 and incorporated herein by reference.
- (C) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1996 and incorporated herein by reference.
- (D) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1997 and incorporated herein by reference.
- (E) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1998 and incorporated herein by reference.
- (F) Previously filed as an Exhibit to the Company's registration statements number 333-10454 on Form S-4 filed June 24, 1999.
- (G) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 1999 and incorporated herein by reference.
- (H) Previously filed as an Exhibit to the Company's Form 8K filed September 28, 2000.
- (I) Previously filed as an Exhibit to Company's annual report of Form 10-KSB for the year ended December 31, 2000 and incorporated herein by reference.

(J) Filed herewith.

No filings of 8K in 2001

Filings of 8K in 2000

Form 8K filed March 12, 2000 relating to the acquisition of PECAL.

Form 8K filed September 28, 2000 relating to the acquisition of Northern Food & Dairy, Inc.

Form 8K amendments filed November 28, 2000 relating to the acquisition of Northern Food & Dairy, Inc.

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STAKE TECHNOLOGY LTD.

Date: March 27, 2002 /s/ Steven R. Bromley

Stake Technology Ltd.
Steven R. Bromley
Vice President, Finance and Chief Financial Officer

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	Date
----- * ----- Jeremy N. Kendall	Chairman, Chief Executive Officer And Director (Principal Executive Officer)	March 27, 2002
----- John D. Taylor	President and Chief Operating Officer	March 27, 2002
----- * ----- Steven R. Bromley	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 2002
----- * ----- Cyril A. Ing	Director and Corporate Secretary	March 27, 2002
----- * ----- Joseph Riz	Director	March 27, 2002
----- * ----- Tim Bergqvist	Director	March 27, 2002
----- * ----- Michael Boyd	Director	March 27, 2002
----- * ----- Jim Riftenbergh	Director	March 27, 2002
----- * ----- Allan Routh	Director	March 27, 2002
----- * ----- Dennis Anderson	Director	March 27, 2002
----- * ----- Larry Anderson	Director	March 27, 2002
----- * ----- Katrina Houde	Director	March 27, 2002
----- * ----- Camillo Lisio	Director	March 27, 2002

EXHIBIT 10.12

(Note Schedules to this Exhibit have not been filed due to their size,
but are available on request for inspection at the Company's offices)

Exhibit 10.12

CREDIT AGREEMENT

Made as of February 28, 2002

Among

STAKE TECHNOLOGY LTD.

TEMISCA, INC.

STAKE TECH LP

as Borrowers

and

BANK OF MONTREAL
as Lender

and

CERTAIN AFFILIATES OF
THE BORROWERS
as Obligors

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CREDIT AGREEMENT

This credit agreement is made as of February 28, 2002

A M O N G

STAKE TECHNOLOGY LTD.

and

TEMISCA, INC.

and

STAKE TECH LP

as Borrowers

and

BANK OF MONTREAL

as Lender

and

CERTAIN AFFILIATES OF THE BORROWERS

as Obligors

RECITALS:

- A. The Borrowers have requested that the Lender provide them with certain credit facilities and the Lender has agreed to make the requested credit facilities available to the Borrowers upon and subject to the terms and conditions of this Agreement.
- B. Each of 558497 Ontario Limited, 1510146 Ontario Inc., Sunrich Food Group, Inc., 3060385 Nova Scotia Company, Stake Technology LLC, Stake Technology (USA), Inc., Northern Food & Dairy, Inc., Nordic Aseptic, Inc., Virginia Materials Inc., International Materials & Supplies Inc. and Sunrich, Inc. will benefit from the Credit Facilities made available by the Lender to the Borrowers and, in order to induce the Lender to provide such Credit Facilities, each such corporation agrees to provide certain Security Documents in favour of the Lender and to be party to this Agreement in accordance with the terms hereof.

FOR VALUE RECEIVED, the parties agree as follows:

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SECTION 1
INTERPRETATION

1.1 Certain Defined Terms

The terms defined below shall have the indicated meanings unless the context expressly or by necessary implication requires otherwise:

"Acceptance Fee" means a fee payable by the Borrowers with respect to the acceptance of a Bankers' Acceptance under this Agreement, as set out in Section 4.4(a).

"Accounts Receivable" means all "accounts", as such term is defined in the PPSA, now or hereafter acquired by the Borrowers and includes all of the Borrowers' accounts, contract rights, instruments, documents, chattel paper, general intangibles relating to accounts, drafts and acceptances, and all other forms of obligations owing to the Borrowers arising out of or in connection with the sale or lease of Inventory or otherwise, all guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to the Lender hereunder or in connection herewith.

"Additional Obligor" means any Person who has executed and delivered an Additional Obligor Counterpart and such additional Security Documents as may be required by the Lender in its discretion.

"Additional Obligor Counterpart" means a counterpart to this Agreement in the form attached as Schedule A executed and delivered by any Additional Obligor and the Lender.

"Advance" means an extension of credit under any Credit Facility by the Lender to a Borrower by way of:

- (a) the advance of a Prime Loan, a USBR Loan, the acceptance of Bankers' Acceptances or the issuance of a Letter of Credit or a Letter of Guarantee, in the case of Facility A;
- (b) the advance of a USBR Loan or a Libor Loan, in the case of Facility C; or
- (c) the issuance of a Hedge Contract by the Lender, in its sole discretion, in the case of Facility D.

"Affiliate" has the meaning given to it in the Business Corporations Act (Ontario), as in effect on the date of this Agreement.

"Agreement" means this Credit Agreement, including the Schedules hereto, as amended, varied, supplemented, restated, renewed or replaced at any time and from time to time.

"Applicable Law" means, at any time, in respect of any Person, property, transaction or event, all laws, statutes, regulations, treaties, judgments and decrees applicable to that

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Person, property, transaction or event (whether or not having the force of law with respect to regulatory matters applicable to the Lender) and all applicable requirements, requests, official directives, consents, approvals, authorizations, guidelines, decisions, rules, orders and policies of any Governmental Authority having or purporting to have authority over such Person, property, transaction or event.

"Associate" has the meaning given in the Business Corporations Act (Ontario), as in effect on the Closing Date.

"Auditors" means PricewaterhouseCoopers LLP or any other independent chartered

accounting firm of national standing or otherwise acceptable to the Lender providing audit services to the Borrowers from time to time.

"Bankers' Acceptance" and "B/A" each means a bill of exchange, including a depository bill issued in accordance with the Depository Bills and Notes Act (Canada), in the Lender's usual form denominated in Canadian Dollars, drawn by a Borrower and accepted by the Lender.

"Basis Point" and "bp" each means one one-hundredth of one percent (.01%).

"Borrower" means (a) in respect of Facility A, the Facility A Borrowers, (b) in respect of Facility C, LP, and (c) in respect of Facility D, Stake. For greater certainty, the reference to the term "Borrower" or "Borrowers" without reference to any applicable Credit Facility, unless the context expressly or by necessary implication requires otherwise, is a reference to all of the Persons referred to above.

"Borrower's Account" means an account of any of the Borrowers maintained, as applicable, at the Chicago Branch, the Branch of Account or any other branch of the Lender in Canada as the Borrowers may from time to time advise the Lender in writing and includes those accounts listed on Schedule B and "Borrower's Accounts" means any two or more such accounts.

"Branch of Account" means the branch of the Lender located at 1 First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1A1.

"Business Day" means a day on which chartered banks are open for over-the-counter business in Toronto, Ontario and Chicago, Illinois and excludes (a) Saturday, Sunday and any other day which is a statutory holiday in Toronto, Ontario in respect of Facility A and Facility D and Chicago, Illinois in respect of Facility C and (b) in respect of Libor Loans, any other day on which transactions cannot be carried out by and between banks in the London Interbank Market.

"Business Plan" means collectively the business plans prepared in form and content satisfactory to the Lender from time to time, (a) for each of the primary operating Obligors on an unconsolidated basis, and (b) for the Obligors on a consolidated basis, each including budgets and projections for a one year period and detailing any proposed Capital Expenditures showing all adjustments made to prepare the business plan of the Obligors on a consolidated basis from the business plan of the Obligors on a

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unconsolidated basis. For greater certainty, budgets will be prepared for each of the key operating divisions (Corporate, Steam Explosion, Food Group and Environmental Industrial) plus related groups within the applicable division.

"Canadian Dollar Amount" means, for any amount on any particular date, the aggregate of:

- (a) the portion, if any, of the amount denominated in Canadian Dollars; and
- (b) the amount in Canadian Dollars (determined on that date unless otherwise specified herein in accordance with Section 1.4) of the portion, if any, of the amount denominated in US Dollars.

"Canadian Dollars" and the symbols "\$" and "C\$" each means lawful money of Canada.

"Canadian Pension Plans" means, in respect of any Person, all plans or arrangements which are considered to be pension plans for the purposes of any applicable pension benefits standards statute or regulation in Canada established, maintained or contributed to by such Person for its employees or former employees.

"Capital Asset" means, at any time, for any Person, the capital or fixed assets of that Person determined on a consolidated basis in accordance with GAAP.

"Capital Expenditure" means any expenditure for the acquisition, improvement or maintenance of a Capital Asset.

"Capital Lease" means, with respect to a Person, any lease or other arrangement relating to property or assets which would be required to be accounted for as a capital lease on a balance sheet of that Person in accordance with GAAP. The amount of any Capital Lease at any date shall be the amount of the obligation in respect thereof which would be included on the balance sheet.

"CDOR Rate" means, on any day, the annual rate of interest which is the arithmetic average of the "BA 1 month" rates applicable to Canadian Dollar banker's acceptances identified as such on the Reuters Screen CDOR Page at approximately 10:00 a.m. on such day (as adjusted by the Lender after 10:00 a.m. to reflect any error in any posted rate or in the posted average annual rate) or if such date is not a Business Day then on the immediately preceding Business Day. If the rate does not appear on the Reuters Screen CDOR Page as contemplated above, then the CDOR Rate shall be the rate per annum quoted from time to time by the Lender as being its reference rate then in effect for determining fees on Canadian Dollar denominated bills of exchange accepted by the Lender.

"Certificate" means, in respect of a Person that is not an individual, a written certificate signed in the name of the Person by an appropriate officer thereof and in respect of a Person that is an individual, a written certificate signed by that individual.

"Change of Circumstance Notice" has the meaning ascribed thereto in section 4.14.

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"Chicago Branch" means the branch of the Lender located at 115 South LaSalle St., 12-W, Chicago, Illinois 60603.

"Claim" means any claim of any nature whatsoever including any demand, cause of action, suit or proceeding.

"Closing" shall mean the closing on the Closing Date of the transactions contemplated herein.

"Closing Date" means February 28, 2002.

"Collateral" means the undertaking, property and assets covered by the Security Documents and any other property, real or personal, tangible or intangible, now existing or hereafter acquired by any Obligor, or any other party to a Security Document that may at any time be or become subject to a Lien in favour of the Lender to secure any or all of the Obligations. When used in relation to any Person, the term "Collateral" means the undertaking, property and assets covered by those Security Documents to which that Person is a party and any other property, real or personal, tangible or intangible, now existing or hereafter acquired by that Person, that may at any time be or become subject to a Lien in favour of the Lender to secure any or all of the Obligations.

"Commitment" means:

- (a) with respect to Facility A, \$4,000,000 as such amount may be reduced or cancelled in accordance with this Agreement;
- (b) with respect to Facility C, US\$15,000,000 as such amount may be reduced or cancelled in accordance with this Agreement; and
- (c) with respect to Facility D, up to \$1,000,000 in Deemed Risk Content as such amount may be reduced or cancelled in accordance with this Agreement.

"Consolidated Borrower" means Stake and all Included Subsidiaries on a consolidated basis.

"Contingent Obligations" means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person: (a) with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; (b) with respect to any letter of credit issued for the account of that Person or as to

which that Person is otherwise liable for reimbursement of drawings; (c) under any Swap Transaction; (d) to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement; (e) for the obligations of another through any agreement to purchase, repurchase or otherwise acquire any obligation of another Person

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or any property constituting security therefor, or to provide funds for the payment or discharge of such obligation; and (f) to maintain the solvency, financial condition or any balance sheet item or level of income of another Person. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed or supported.

"Contract Period" means the period selected by the Borrower and accepted by the Bank in respect of an Advance during which the interest rate, discount rate or stamping fee with respect to any Advance is established in accordance with Section 3.7 with respect to Libor Loans, Section 3.8 with respect to Bankers' Acceptances, Section 3.9 with respect to Letters of Credit or Letters of Guarantee and Section 3.10 with respect to Hedge Contracts.

"Conversion" means the conversion of an outstanding Advance, or a portion of an outstanding Advance, into an alternative type of Advance under Section 3.12.

"Conversion Date" means the Business Day that a Borrower elects as the date on which a Conversion is to occur.

"Credit Facilities" means, collectively, Facility A, Facility C and Facility D
"Credit Facility" means any one of them.

"Debt" of a Person means, without duplication:

- (a) all debts and liabilities of the Person for borrowed money;
- (b) all Contingent Obligations of the Person;
- (c) any obligation, contingent or other, which is required to be classified in accordance with GAAP upon the Person's balance sheet as a liability;
- (d) any obligation secured by any Lien existing on property owned or acquired by the Person subject to the Lien whether or not the obligation secured thereby shall have been assumed;
- (e) any debt or liability of the Person representing the deferred acquisition cost of property or assets created or arising under any conditional sale agreement or other title retention agreement even though the rights and remedies of the seller under that agreement in the event of default are limited to repossession or sale of property or assets covered thereby;
- (f) any liabilities, contingent, unmatured or other, under indemnities given in respect of any bankers' acceptance, letter of credit or letter of guarantee;
- (g) any operating lease under which the Person has furnished a residual value guarantee in respect of which the Person is liable as lessee; and

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- (h) any Capital Lease by which the Person is bound.

but "Debt" does not include deferred Taxes.

"Debt to Net Worth Ratio" means, with respect to the Consolidated Borrower, (a) Debt divided by (b) Net Worth.

"Debt Service" means, for any period, the amount required by the Obligors to service the outstanding Debt during that period and includes without limitation

interest, required principal payments, payments required or made under any Capital Lease, payments made in respect of letters of credit or letters of guarantee and the stamping fees and discount rates associated with bankers' acceptances facilities, less interest and required principal equivalent payments due under the Rhodia Note Receivable.

"Deemed Risk Content" means, in respect of a Hedge Contract, a percentage of the principal amount contracted with respect to such Hedge Contract as will be advised by the Lender upon request, which such percentage is subject to change without notice to the Borrowers, from time to time according to the Lender's policy.

"Default" means an event, circumstance or omission which is an Event of Default or which, with any or all of the giving of notice, lapse of time, or a failure to remedy the event, circumstance or omission within a period of time, would be an Event of Default.

"Discount Proceeds" means, for any Bankers' Acceptance issued hereunder, an amount calculated on the applicable Drawdown Date as follows:

$$\frac{1}{1 + \left[\frac{\text{DR}(\text{CP})}{365} \right]} \times \text{BA}$$

Where:

- (a) BA = the face amount of the Bankers' Acceptance
- (b) DR = the Discount Rate applicable to the Bankers' Acceptance expressed as a decimal
- (c) CP = the applicable Contract Period in days
- (d) the product of [DR (CP/365)] is rounded up or down to the fifth decimal place and .000005 is rounded up

"Discount Rate" means with respect to an issue of Bankers' Acceptances with the same maturity date, the discount rate for B/As for such term accepted by the Lender at or about 10:00 a.m. (Toronto time) on that day as quoted by the Lender.

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"Dispute" means any cause asserted for non-payment of Accounts Receivable including any dispute, claim, complaint, set-off, defence, contra account or counterclaim (real or asserted), lawful or unlawful, whether arising from or relating to a sale of merchandise by a Borrower or any other transaction or occurrence.

"Documents" means this Agreement, the Security Documents, and all Certificates, instruments, agreements and other documents delivered, or to be delivered, to the Lender under this Agreement or any Security Document and, when used in relation to any Person, "Documents" means the Documents executed and delivered by such Person.

"Drawdown Date" means any Business Day on which an Advance is made or is deemed to be made.

"EBITDA" means, with respect to any fiscal period of the Consolidated Borrower, the net income of the Consolidated Borrower (adjusted from time to time, with the prior written consent of the Lender, for extraordinary gains or losses, income or expenses) for that period, plus, to the extent deducted in determining the net income, interest and income taxes accrued during that period, and eliminating any non-cash items deducted or added in determining that net income, including depreciation, depletion and amortization expenses and unrealized foreign exchange losses or gains.

"EDC" means Export Development Corporation and its successors and assigns.

"EDC Insured Accounts Receivable" means Accounts Receivable which are, other than with respect to the requirement that the account debtor in respect of the

Accounts Receivable be located in Canada or the United States of America, are Eligible Accounts Receivables and are insured by an EDC Policy.

"EDC Policy" means, from time to time, one or more EDC comprehensive insurance policies issued by EDC in favour of a Borrower which insures the payment of certain Accounts Receivable owing to a Borrower from time to time and wherein EDC acknowledges that all payments under such EDC Policy have been assigned to the Lender, a certified copy of which such EDC Policy and acknowledgment shall be provided to the Lender upon issuance.

"Eligible Accounts Receivable" shall mean each Account Receivable arising in the ordinary course of the Facility A Borrowers' or Virginia Materials' business from the sale of Inventory which meets the requirements of the Lender set out herein and which such requirements may change from time to time. An Account Receivable shall not be deemed eligible unless such Account Receivable is subject to the Lender's perfected, first priority security interest and no other Liens other than Permitted Liens, and is evidenced by an invoice or other documentary evidence satisfactory to the Lender. In addition, and without limiting the Lender's discretion to establish criteria of eligibility in its reasonable credit judgment from time to time, an Account Receivable shall not be an "Eligible Accounts Receivable" if:

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- (a) it arises out of a sale made by the Borrower or Virginia Materials to an Affiliate of the Borrower or Virginia Materials or to a Person controlled by an Affiliate of the Borrower;
- (b) it is due or unpaid more than 90 days after the original invoice date;
- (c) 30% or more of the aggregate amount of the Accounts Receivable from the account debtor are unpaid more than 60 days after the invoice due date;
- (d) any covenant, representation or warranty contained in this Agreement with respect to such Account Receivable has been breached;
- (e) the account debtor is also the Borrower's or Virginia Materials' creditor or supplier, or the account debtor has disputed liability, or the account debtor has made any claim with respect to any other Account Receivable due from such account debtor to the Borrower or Virginia Materials, or the Account Receivable otherwise is or may become subject to any right of setoff by the account debtor;
- (f) any one or more of the following events has occurred and is continuing with respect to the account debtor on such account: (i) death or judicial declaration of incompetency of an account debtor who is an individual; (ii) the filing by or against the account debtor of a request, proposal, notice of intent to file a proposal, proceeding, action or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, restructuring, liquidation, winding-up, corporate or similar laws of Canada, any province or territory thereof, or any foreign jurisdiction, now or hereafter in effect; (iii) the making of a general assignment by the account debtor for the benefit of creditors; (iv) the appointment of a receiver, trustee, monitor, custodian, liquidator, administrator, interim receiver, monitor or trustee or other official for the account debtor or for any of the assets of the account debtor, including "trustee" under the Bankruptcy and Insolvency Act, (Canada); (v) the institution by or against the account debtor of any other type of insolvency, liquidation, bankruptcy, winding-up or reorganization proceeding (under the laws of Canada, the United States of America or otherwise, including applicable corporate statutes, the Bankruptcy and Insolvency Act (Canada) and the Companies' Creditors Arrangement Act (Canada) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the account debtor; (vi) the sale, assignment, or transfer of all or any material part of the assets of the account debtor; (vii) the nonpayment generally by the account debtor of its debts as they become due; (viii) the failure,

cessation of the business of the account debtor as a going concern or insolvency of the account debtor; or

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- (ix) the account debtor calling a meeting of its creditors or indicating its consent to any proceeding or action hereinabove described;
- (g) the sale giving rise to the Account Receivable is to an account debtor outside Canada or the United States of America, unless the sale is on letter of credit, guarantee or acceptance terms, in each case acceptable to the Lender in its reasonable credit judgment, or unless the Account Receivable is an EDC Insured Accounts Receivable;
- (h) the sale giving rise to the Accounts Receivable to the account debtor is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;
- (i) the Lender believes, in its reasonable credit judgment, that collection of such Account Receivable is insecure or that such Account Receivable may not be paid by reason of the account debtor's financial inability to pay and written notice thereof has been provided to the Borrower;
- (j) the account debtor is the United States of America, any state or any department, agency or instrumentality of any of them, unless the Borrower assigns its right to payment of such Account Receivable to the Lender pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 203 et seq.) or has otherwise complied with other applicable laws, statutes, regulations or ordinances;
- (k) the account debtor is Canada or any province thereof, or any agency or instrumentality thereof, unless the Borrower has complied with all applicable laws, statutes (including the Financial Administration Act (Canada)) and regulations in order to duly and validly assign such Account Receivable;
- (l) the goods giving rise to such Account Receivable have not been shipped and delivered to and accepted by the customer or the services giving rise to such Account Receivable have not been performed by the Borrower and accepted by the customer or the Account Receivable otherwise does not represent a final sale;
- (m) the Accounts Receivable of the account debtor exceed a credit limit determined by the Lender, in its sole discretion acting reasonably of which the Borrower has received prior written notice, to the extent such Accounts Receivable exceeds such limit;
- (n) any Account Receivable to the extent rebilled or to the extent subject to any credit notes, allowances, or rebates, including volume rebates;
- (o) the Account Receivable is subject to any offset, deduction (other than ordinary course volume rebates deducted as provided in paragraph (m)

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- above), defence, Dispute, or counterclaim or if the Account Receivable is contingent in any respect or for any reason;
- (p) the Borrower or Virginia Materials has made any agreement with any account debtor for any extension of the time for payment or any deduction from payment, except for discounts or allowances made in the ordinary course of business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

- (q) shipment of the merchandise or the rendition of services has not been completed or the Account Receivable otherwise represents a progress billing or the account debtor's obligation to pay is otherwise conditional upon completion of any further performance under any contract, agreement or arrangement;
- (r) any return, rejection or repossession of the merchandise has occurred;
- (s) such Account Receivable is subject to a Lien ranking in priority to the Liens granted to the Lender under the Security Documents;
- (t) such Account Receivable is not payable to the Borrower or Virginia Materials; or
- (u) such Account Receivable is not otherwise satisfactory to the Lender as determined in good faith by the Lender in the exercise of its reasonable credit judgment upon written notice being provided to the Borrower;

provided, however, that the Lender will provide the Facility A Borrowers with 20 days prior written notice if the Lender is to change any of the criteria relating to the determination of Eligible Accounts Receivable and such change will take effect with the delivery of the Borrowing Base certificate immediately following the expiry of such notice.

"Eligible Inventory" means the aggregate Inventory of the Facility A Borrowers and Virginia Materials calculated at the lower of cost and net realizable value less:

- (a) Inventory that does not meet the quality or other standards imposed by any Governmental Authorities;
- (b) Inventory that is unsaleable;
- (c) Inventory that is subject to any Lien ranking in priority to the Liens granted to the Lender under the Security Documents;
- (d) Inventory that is not in the possession of the Borrower or Virginia Materials either on premises owned by the Borrower or Virginia Materials or in respect of which the Lender has not received a waiver of the

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Landlords' rights in respect of such Inventory in form and substance satisfactory to the Lender;

- (e) Inventory located outside Canada or the United States, other than Inventory for which title has passed to a Facility A Borrower or Virginia Materials, which is insured to the full value thereof and for which the Lender shall have in its possession (i) all negotiable bills of lading properly endorsed in favour of the Lender, and (ii) all non-negotiable bills of lading issued in the Lender's name.
- (f) any other Inventory deemed ineligible by the Lender at its sole discretion,

provided, however, that the Lender will provide the Facility A Borrowers with 20 days prior written notice if the Lender is to change any of the criteria relating to the determination of Eligible Inventory and such change will take effect with the delivery of the Borrowing Base Certificate immediately following the expiry of such notice.

"Environmental Activity" means any activity, event or circumstance in respect of a Hazardous Substance including its storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation or its Release into the natural environment including movement through or in the air, soil, subsoil, surface water or groundwater.

"Environmental Laws" means all Applicable Laws pertaining to environmental or occupational health and safety matters, in effect as at the date hereof and as may be brought into effect or amended at a future date, including those

pertaining to reporting, licensing, permitting, investigation, remediation and clean-up in connection with any presence or Release of a Hazardous Substance or threat of same or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation, handling and the like of a Hazardous Substance.

"Event of Default" means any of the events or circumstances specified in Section 10.1.

"Excluded Taxes" means, in relation to the Lender, any Taxes imposed on the net income or capital of the Lender by any Governmental Authority as a result of the Lender (a) carrying on a trade or business or having a permanent establishment in any jurisdiction or political subdivision thereof, (b) being organized under the laws of such jurisdiction or any political subdivision thereof, or (c) being or being deemed to be resident in such jurisdiction or political subdivision thereof.

"Existing Borrowers' Debt" means those Debts listed in Schedule R.

"Facility A" has the meaning given to it in Section 3.1(a).

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"Facility A Borrower" means either or both of Stake or Temisca, which may obtain Advances under Facility A and all of whose liability to the Lender under Facility A is joint and several.

"Facility A Borrowing Base" means, as of any date of determination thereof by the Lender from time to time, an amount equal to the aggregate at such time of:

- (a) 75% of the value of Eligible Accounts Receivable;
- (b) 90% of the value of EDC Insured Accounts Receivable, less any claims made by the Borrowers under and, without duplication, amounts received by the Borrowers pursuant to the EDC Policy in any particular calendar year, provided however that the amount available to the Borrowers from time to time under this clause (b) shall not at any time exceed an amount equal to the then maximum coverage amount for EDC Insured Accounts Receivables insured by the EDC Policy;
- (c) 100% of Accounts Receivable arising on sales on letter of credit, guarantees or acceptance terms acceptable to the Lender; and
- (c) 50% of the value of Eligible Inventory;

provided, however, that the Lender will provide the Facility A Borrowers with 20 days prior written notice if the Lender is to change any of the criteria relating to the Facility A Borrowing Base, which change shall take effect with the delivery of the Facility A Borrowing Base Certificate immediately following the expiry of such notice.

"Facility A Pricing Grid" has the meaning given to in Section 4.7(a).

"Facility C" has the meaning given to it in Section 3.1.

"Facility C Pricing Grid" has the meaning given to in Section 4.7(b).

"Facility D" has the meaning given to it in Section 3.1(c).

"Federal Funds Effective Rate" means, for any day, the annual rate of interest quoted for that day in H.15(519) opposite the caption "Federal Funds (Effective)". If H.15(519) is not available for the relevant day, the Federal Funds Effective Rate shall be the annual rate of interest quoted for that day in the Composite 3:30 p.m. Quotations for US Government Securities for that day under the caption "Federal Funds Effective Rate". If neither of the foregoing quotations is available, the "Federal Funds Effective Rate" shall be the average of the quotations for that day on overnight federal funds (those words to have the meaning generally given to them by money market brokers of recognized standing doing business in the United States of America) transactions received by the Lender from three federal funds brokers of recognized standing selected by the Lender. For the purposes of this definition, "H.15(519)" means the weekly statistical release published by the Board of Governors for the Federal Reserve System of the United States or any successor and "Composite 3:30 p.m. Quotations

for US

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"Government Securities" means the daily statistical release published by the Federal Reserve Bank of New York or any successor.

"Fiscal Quarter" means each three month period of any Obligor, as the case may be, all of which currently end on March 31, June 30, September 30 and December 31.

"Fiscal Year" means the fiscal year of each Obligor, all of which currently end on December 31.

"Fixed Charge Coverage" means, with reference to the Consolidated Borrower (a) EBITDA, divided by (b) Debt Service.

"Funded Debt" means, with reference to the Consolidated Borrower at any time and without duplication:

- (a) all debts and liabilities for borrowed money including the Obligations;
- (b) other than the deferred net profit interest payable to Jack Burns by Virginia Materials, all debts or liabilities representing the deferred acquisition cost of property or assets created or arising under any conditional sale agreement or other title retention agreement even though the rights and remedies of the seller under that agreement in the event of default are limited to repossession or sale of property or assets covered thereby;
- (c) all liabilities, contingent, unmatured or other, under indemnities given in respect of any bankers' acceptance, letter of credit or letter of guarantee;
- (d) all operating leases under which a residual value guarantee or the equivalent has been furnished.
- (e) all Capital Leases; and
- (f) all liabilities under Swap Transactions determined on a "mark to market" basis,

after deducting all cash on deposit with the Lender and the value of all marketable securities acceptable to the Lender in its sole discretion and which are subject to Liens in favour of the Lender under the Security Documents but excludes, to the extent included above, Subordinated Debt, accounts payable incurred in the ordinary course of the Borrowers' business, payment obligations with respect to the Rhodia Price Reduction, and the amount of the Rhodia Receivable, provided, however that all payments under the Rhodia Receivable are current.

"Funded Debt to EBITDA Ratio" means, with reference to the Consolidated Borrower (a) Funded Debt including amounts due to Affiliates, divided by (b) EBITDA.

"GAAP" means generally accepted accounting principles in effect from time to time in Canada applied in a consistent manner from period to period including the accounting

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recommendations published in the Handbook of the Canadian Institute of Chartered Accountants.

"Government Approvals" means, with respect to any Person, all licenses, permits, consents, authorizations and approvals from any and all Governmental Authorities required for the conduct of that Person's business as presently conducted.

"Governmental Authority" means any domestic or foreign government including any federal, provincial, state, territorial or municipal government and any executive, legislative, judicial, regulatory or administrative functions of, or

pertaining to, government or any person, body, department, bureau, agency, board, tribunal, commission branch or office thereof or having or claiming to have jurisdiction over the Obligations or any of their respective property or assets.

"Harris" means Harris Trust and Savings Bank and its successors and assigns.

"Harris Loan Agreement" has the meaning ascribed thereto in Section 8.1(i).

"Hazardous Substance" means any solid, liquid, gas, odour, heat, sound, vibration, radiation or combination of them that may impair the natural environment, injure or damage property or plant or animal life or harm or impair the health of any individual and includes, but is not limited to, petroleum, its derivatives, by-products or other hydrocarbons, asbestos, controlled products, wastes and any other materials are regulated by Environmental Laws or which may not by their nature be hazardous, either in fact or as defined in or pursuant to any Environmental Laws but which become prohibited, controlled or regulated by any Governmental Authority.

"Hedge Agreement" has the meaning set forth in Section 3.10(d).

"Hedge Contract" means a Swap Transaction issued under Facility D for the purchase of any currency with any other currency at an agreed rate of exchange on a specified date, an interest rate or currency swap or any other interest or exchange rate exposure management arrangement.

"Hedge Contract Exposure" means, with reference to any Hedge Contract, the amount owing to the issuer of that Hedge Contract in the event of a default under and determined in accordance with the terms of the applicable Hedge Agreement.

"Included Subsidiary" means (a) any Subsidiary of Stake, other than 1108176 Ontario, which, at any time has assets or revenues of greater than or equal to C\$100,000, and (b) 1108176 Ontario if (i) 1108176 Ontario becomes a direct or indirect wholly-owned subsidiary of Stake, or (ii) the consent of Bentonite of Canada Inc. is obtained to the grant of a security interest in favour of the Lender, (A) by 1108176 Ontario in the real property located at 411 Parkside Drive, Waterdown, Ontario and (B) by Stake in the common shares of 1108176 Ontario owned by Stake;

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"including" means "including without limitation" and the term "including" shall not be construed to limit any general statement which it follows to the specific or similar items or matters immediately following it.

"Indemnified Person" means the Lender and its officers, directors, employees, attorneys and agents.

"Intellectual Property" means all trade or brand names, business names, trade-marks (including logos), trade-mark registrations and applications, brand names, service marks, service mark registrations and applications, copyrights, copyright registrations and applications, issued patents and pending applications and other patent rights, industrial design registrations, pending applications and other industrial design rights, trade secrets, proprietary information and know-how, equipment and parts lists and descriptions, instruction manuals, inventions, inventors' notes, research data, blue prints, drawings and designs, formulae, processes, technology and other intellectual property, together with all registered user agreements, technology transfer agreements and other agreements or instruments relating to any of the foregoing.

"Interest Expense" means, with reference to the Borrowers and any period, the cost of advances of Funded Debt outstanding during that period including interest charges, the interest component of Capital Leases, fees payable in respect of letters of credit and letters of guarantee and discounts incurred and fees payable in respect of bankers' acceptances, all determined on a consolidated basis.

"Interest Payment Date" means, in respect of any Facility, the last Business Day of each month or such other day of each month as the Lender and the Borrowers may otherwise agree.

"Inventory" means inventory of the Borrowers and Virginia Materials now or

hereafter acquired consisting of all readily saleable finished goods for which an identifiable market is discernable but shall not include work in progress unless such work in progress is, in the opinion of the Lender in its sole discretion, in a readily saleable condition.

"International Materials" means International Materials and Supplies Inc., a corporation incorporated under the laws of Virginia, and its successors and permitted assigns.

"Issuance Date" means the date on which a Letter of Credit, Letter of Guarantee or Hedge Contract is issued by the Lender at the request of a Borrower.

"ITA" means the Income Tax Act (Canada) and any successor thereto, and any regulations promulgated thereunder.

"Landlord" means any landlord of a Borrower pursuant to a lease agreement between such landlord and a Borrower, whether oral or in writing, in respect of the lease of any property.

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"Lender" means the Bank of Montreal, through its Canadian operations in respect of Facility A and Facility D, and through the Chicago Branch in respect of Facility C, and its successors and assigns.

"Letter of Credit" means a standby documentary credit issued by the Lender at the request and for the account of a Borrower to beneficiaries resident in Canada.

"Letter of Guarantee" means a letter of guarantee issued by the Lender at the request and for the account of a Borrower to beneficiaries resident in Canada.

"LIBOR" means the rate of interest per annum for deposits in US Dollars appearing on page 3750 of the Telerate screen as of 11:00 a.m. London time two Business Days in Toronto and London prior to the relevant Drawdown Date or Rollover Date, for the designated maturity and the amount selected, provided that if Telerate page 3750 is unavailable, then LIBOR shall be determined by the Lender with reference to Reuters page LIBO as of 11:00 a.m. London time two Business Days in Toronto and London prior to the relevant Drawdown Date or Rollover Date, for the designated maturity and the amount selected, further provided that if Reuters page LIBO is unavailable, then LIBOR shall be determined by the Lender as the rate, if any, at which it is prepared to offer deposits to leading banks in the London interbank eurocurrency market in US Dollars, for the designated maturity and the amount selected, for delivery on the relevant Drawdown Date or Rollover Date.

"Libor Interest Date" means, with respect to any Libor Loan, the date falling on the last day of each Contract Period applicable to the Libor Loan and, if the applicable Contract Period is longer than three months, the date falling every three months after the beginning of the Contract Period and the last day of the Contract Period.

"Libor Loan" means an Advance which is denominated in US Dollars and in respect of which a Borrower has elected to pay interest in accordance with Section 4.3.

"Lien" means any mortgage, charge, lien, hypothec or encumbrance, whether fixed or floating on, or any security interest in, any property, whether real, personal or mixed, tangible or intangible, any pledge or hypothecation of any property, any deposit arrangement, priority, conditional sale agreement, other title retention agreement or equipment trust, Capital Lease or other security arrangement of any kind.

"LLC" means Stake Technology LLC, a limited liability company formed under the laws of the State of Delaware and its successors and permitted assigns.

"Loan" means a Prime Loan, a USBR Loan or a Libor Loan and "Loans" means any combination of them.

"Loss" means any loss whatsoever, whether direct or indirect, including expenses, costs, damages, judgments, penalties, awards, assessments, fines and any and all fees, disbursements and expenses of counsel, experts and consultants.

"LP" means Stake Tech LP, a limited partnership formed under the laws of the State of Delaware and its successors and permitted assigns.

"Material Adverse Change" means, with reference to any Person, a change that would reasonably be expected to have a Material Adverse Effect on that Person.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, or property or financial or other condition of a Person which would negatively affect the ability of that Person to perform and discharge its obligations under this Agreement, any of the other Documents, or its Material Contracts, (b) the Collateral, the Lender's Liens on the Collateral or the priority of those Liens, or (c) the Lender's ability to enforce its rights or remedies under this Agreement or any of the other Documents.

"Material Contract" means, in respect of any Person, any contract or agreement to which the Person is a party or by which it is bound which is material to its business, having regard to its subject matter or the potential consequences of breach or termination.

"Material License" means, in respect of any Person, any license granted to such Person which is material to its business, having regard to its subject matter or the potential consequences of breach or termination.

"Maturity Date" means, subject to the Lender's right to demand payment of one or more of the Credit Facilities at any time and from time to time notwithstanding the Borrowers' compliance or non-compliance with any or all of the provisions of the Documents, with respect to Advances under Facility C, the date which is 84 months from the initial Drawdown Date under Facility C.

"Net Worth" means, with respect to the Consolidated Borrower, the sum of the book value of all common share capital, contributed surplus, retained earnings and unrealized foreign currency adjustments held by the Consolidated Borrower plus any preferred share capital (other than the Class H preferred shares in the capital of Temisca) and Subordinated Debt, less Accounts Receivable owed by Affiliates to the Obligors, investments in Affiliates and deferred charges.

"Nordic" means Nordic Aseptic, Inc., a corporation incorporated under the laws of Minnesota, and its successors and permitted assigns.

"Northern Food" means Northern Food and Dairy, Inc., a corporation incorporated under the laws of Minnesota, and its successors and permitted assigns.

"Obligations" means all loans, advances, debts, liabilities and obligations for the performance of covenants, tasks or duties or for the payment of monetary amounts (whether or not performance is then required or contingent, or whether or not those amounts are liquidated or determinable) owing to the Lender under any or all of the Documents and all covenants and duties regarding those amounts, of any kind or nature, present or future, whether or not evidenced by any agreement or other instrument, owing under any or all of the Documents including all obligations owed under the Credit Facilities.

"Obligor" means each of the Borrowers, any other Person and their respective successors and permitted assigns delivering any of the Security Documents or any Additional Obligor and "Obligors" means all of them. For greater certainty, the term "Obligor" includes, 558497 Ontario, 1510146 Ontario, Sunrich Food, Nordic, Northern Food, Sunrich, Stake USA, ULC, LLC, Virginia Materials and International Materials.

"Original Currency" has the meaning given to it in Section 13.7(a).

"Other Currency" has the meaning given to it in Section 13.7(a).

"Permitted Liens" means, with respect to any property or asset of any Person:

(a) in respect of personal property:

(i) Liens arising under the Documents or intended to be created pursuant to this Agreement or any Security Document;

- (ii) Liens for Taxes against personal property (A) which are not delinquent or remain payable without penalty or which are being contested in good faith in accordance with Section 9.1(h) by appropriate proceedings and for which appropriate reserves have been taken in accordance with GAAP, provided that, in respect of this clause (ii), all such Liens secure claims in the aggregate at any time outstanding for the Borrowers not exceeding \$100,000, excluding any such Lien where there is any material risk that enforcement proceedings in respect thereof will result in the seizure or sale of the relevant property or assets;
 - (iii) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent for more than 90 days or remain payable without penalty or which are being contested in good faith and by appropriate proceedings diligently prosecuted, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject thereto and for which adequate reserves in accordance with GAAP are being maintained;
 - (iv) Liens (other than any Lien imposed in respect of a Canadian Pension Plan) consisting of pledges or deposits required in the ordinary course of business in connection with workplace safety insurance, employment insurance and other social security legislation or to secure the performance of tenders, statutory obligations, surety, stay, customs and appeals bonds, bids, leases, governmental contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money) or to secure liability to insurance carriers;
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- (v) Purchase Money Liens securing indebtedness not in excess of \$100,000 in the aggregate;
 - (vi) Liens arising in respect of indebtedness between any of the Obligors provided that such indebtedness is assigned to the Lender and such Liens are subordinated to Liens arising under the Security Documents;
 - (vii) Liens acceptable to the Lender in its sole discretion arising in respect of Existing Borrowers' Debt; and
 - (viii) any interest or title of a lessor or sublessor under any lease permitted by this Agreement; and
- (b) in respect of real property (whether leased or owned):
- (i) permits, licenses, agreements, restrictions, easements, rights-of-way and other similar interests in land (including permits, licenses, agreements, restrictions, easements and rights-of-way for sidewalks, public ways, sewers, drains, gas steam and water mains, utilities, telephone and telegraph conduits, poles, wires and cables) which will not, in the reasonable opinion of the Lender materially impair the use or the value of the real property and improvements thereon;
 - (ii) reservations, limitations, provisos and conditions, if any, expressed in any original grants from the Crown;
 - (iii) Liens for Taxes against real property which are not delinquent or remain payable without penalty or which are being contested in good faith in accordance with Section 9.1(h) by appropriate proceedings and for which appropriate reserves have been taken in accordance with GAAP, provided that, in respect of this clause (iii), all such Liens secure claims in the aggregate at any time outstanding for the Borrowers not exceeding \$100,000, excluding any such Lien where there is any material risk that enforcement proceedings in respect thereof will result in the

seizure or sale of the relevant property or assets;

- (iv) the Liens of the Security Documents created or intended to be created pursuant to this Agreement or any Security Document; and
- (v) any interest or title of a lessor or sublessor under any real property lease permitted by this Agreement.

"Person" means any natural person, sole proprietorship, partnership, syndicate, trust, joint venture, Governmental Authority or any incorporated or unincorporated entity or association of any nature.

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"PPSA" means the Personal Property Security Act (Ontario).

"Pricing Grids" means the Facility A Pricing Grid and the Facility C Pricing Grid and "Pricing Grid" means either one of them.

"Prime Loan" means an Advance which is denominated in Canadian Dollars and in respect of which a Borrower has elected to pay interest in accordance with Section 4.1(a).

"Prime Rate" means, with respect to a Prime Loan on any day, the greater of (a) the annual rate of interest announced from time to time by the Lender as being its reference rate then in effect for determining interest rates on Canadian Dollar denominated commercial loans made by it in Canada, and (b) the CDOR Rate in effect from time to time, plus 100 Basis Points per annum. Any change in Prime Rate shall be effective on the date the change becomes effective generally.

"principal amount" means (a) with reference to any Loan, the principal amount thereof; (b) with reference to a Bankers' Acceptance, the face amount thereof; (c) with reference to a Letter of Credit or a Letter of Guarantee, the maximum amount payable to the beneficiary thereof; and (d) with reference to a Swap Transaction, an amount determined by the Lender from time to time in its sole discretion as the amount which would be owing to the issuer of that Swap Transaction in the event of a default under that Swap Transaction determined in accordance with any Hedge Agreement or, in the case of an Advance by way of Hedge Contract, the anticipated credit exposure for that Hedge Contract determined as of the Issuance Date by the Lender in its discretion, acting reasonably, based on its usual practices.

"Purchase Money Liens" means any Lien on specific fixed assets (including Capital Leases but, for greater certainty, excluding real property) to secure the payment of the purchase price of those fixed assets where the amount of the obligations secured does not exceed 100% of the lesser of the cost or fair market value of those fixed assets; and extensions, renewals or replacements of such Lien if the amount of the obligations secured thereby is not increased.

"Release" means a discharging, spraying, injection, abandonment, depositing, spilling, leaking, seeping, pouring, emitting, emptying, throwing, dumping, placing, pumping, escaping, leaching, migrating, dispensing, dispersal, disposing, and exhausting, and when used as a noun has a correlative meaning.

"Reuters Screen LIBO Page" means the display designated as page LIBO on the Reuters Monitor Money Rates Service or other page as may, from time to time, replace that page on that service for the purpose of displaying interbank offered rates for deposits in the London interbank market.

"Rhodia Price Reduction" means amounts due to Rhodia Inc. by Northern pursuant to the Rhodia Rider.

"Rhodia Receivable" means the amount due to Northern Food by Rhodia Inc. pursuant to the Rhodia Rider.

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"Rhodia Rider" means Rider No. 5 to the manufacturing agreement between Rhodia Inc. and Northern dated September 1, 1999 attached hereto as Exhibit A to Schedule L.

"Rollover" means the rollover of an Advance by way of Libor Loan, Bankers' Acceptance, Letter of Credit or Letter of Guarantee for an additional Contract Period under Section 3.7(c), Section 3.8(h) or Section 3.9(h), respectively.

"Rollover Date" means the Business Day on which a Rollover occurs.

"Scheduled Payments" means payments made in accordance with Section 5.2(a) and "Scheduled Payment" means any such payment.

"Schedules" means the schedules attached to and forming part of this Agreement, as particularized in Section 1.15.

"Security Documents" means the Documents creating Liens on the assets of the Obligors, in favour of the Lender, and all other instruments, agreements, guarantees and documents which have been or may hereafter from time to time be executed in connection therewith, including the Documents set out in Section 7.1 and, when used in relation to any Person, the term "Security Documents" means the Security Documents executed and delivered by such Person.

"Senior Funded Debt to EBITDA Ratio" means, with reference to the Consolidated Borrower, the Consolidated Borrower's Funded Debt divided by the Consolidated Borrower's EBITDA.

"Stake" means Stake Technology Ltd., a corporation incorporated under the laws of Canada, and its successors and permitted assigns.

"Stake USA" means Stake Technology (USA), Inc., a corporation incorporated under the laws of Delaware, and its successors and permitted assigns.

"Subordinated Debt" means Debt owing by any Obligor where the payee has agreed to postpone payment of all principal and interest on such Debt to payment and satisfaction in full of the Obligations and has subordinated any security taken in respect of such Debt to the position of the Lender under the Security Documents, all in form and substance satisfactory to the Lender in its discretion.

"Subsidiary" of a Person means (a) any corporation of which the Person and/or any one of its Affiliates holds, directly or indirectly, other than by way of security only, securities to which are attached more than 50% of the votes that may be cast to elect directors of such corporation, (b) any corporation of which the Person and/or any one of its Affiliates has, through operation of law or otherwise, the ability to elect or cause the election of a majority of the directors of such corporation, (c) any partnership, limited liability company, unlimited liability company or joint venture in which such Person and/or one or more of its Affiliates has, directly or indirectly, more than 50% of the votes that may be cast to elect the governing body of such entity or otherwise control its activity, and (d) any partnership, limited liability company, unlimited liability company or joint venture in

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which such Person and/or one or more of its Affiliates has, through operation of law or otherwise, the ability to elect or cause the election of a majority of the members of the governing body of such entity or otherwise control its activity.

"Sunrich" means Sunrich, Inc., a corporation incorporated under the laws of Minnesota, and its successors and permitted assigns.

"Sunrich Food" means Sunrich Food Group, Inc., a corporation incorporated under the laws of Minnesota, and its successors and permitted assigns.

"Swap Transaction" means an agreement which may be entered into between the Lender and the Borrowers in connection with the management of foreign exchange risks in all major currencies acceptable to the Lender and includes (a) foreign currency options, (b) foreign exchange forward contracts, and (c) financial products offered by the Lender to the Borrowers in connection with management of interest rate risks including forward rate agreements and interest rate swaps.

"Tax" and "Taxes" include, at any time, all taxes, surtaxes, duties, levies, imposts, rates, fees, assessments, withholdings, dues and other charges of any nature imposed by any Governmental Authority (including income, capital

(including large corporations), withholding, consumption, sales, use, transfer, goods and services or other value-added, excise, customs, anti-dumping, countervail, net worth, stamp, registration, franchise, payroll, employment, health, education, business, school, property, local improvement, development, education development and occupation taxes, surtaxes, duties, levies, imposts, rates, fees, assessments, withholdings, dues and charges) together with all fines, interest, penalties on or in respect of, or in lieu of or for non-collection of, those taxes, surtaxes, duties, levies, imposts, rates, fees, assessments, withholdings, dues and other charges.

"Temisca" means Temisca, Inc., a corporation incorporated under the laws of Quebec, and its successors and permitted assigns.

"ULC" means 3060385 Nova Scotia Company, an unlimited liability company formed under the laws of Nova Scotia, and its successors and permitted assigns.

"US Base Rate" means, with respect to a USBR Loan on any day, the greater of (a) the annual rate of interest announced from time to time by the Lender as being its reference rate then in effect for determining rates on US Dollar denominated commercial loans made by it in Canada, and (b) the Federal Funds Effective Rate in effect from time to time (multiplied by 365 or 366/360 if the rate is calculated on the basis of a 360 day year), plus 100 Basis Points per annum. Any change in the US Base Rate shall be effective on the date the change becomes effective generally.

"USBR Loan" means an Advance which is denominated in US Dollars and in respect of which the Borrowers has elected to pay interest in accordance with Section 4.2(a).

"US Dollars" and the symbol "US\$" each means lawful money of the United States of America.

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"Virginia Materials" means Virginia Materials Inc., a corporation incorporated under the laws of Delaware, and its successors and permitted assigns.

"Working Capital Ratio" means, with reference to the Consolidated Borrower, current assets divided by current liabilities.

"written" or "in writing" includes printing, typewriting, or any electronic means of communication capable of being legibly reproduced at the point of reception.

"558497 Ontario" means 558497 Ontario Limited, a corporation incorporated under the laws of Ontario, and its successors and permitted assigns.

"1108176 Ontario" means 1108176 Ontario Limited, a corporation incorporated under the laws of Ontario, and its successors and permitted assigns.

"1510146 Ontario" means 1510146 Ontario Inc., a corporation incorporated under the laws of Ontario, its successors and permitted assigns.

1.2 Business Day.

If under this Agreement any payment or calculation is to be made, or any other action is to be taken, on or as of a day which is not a Business Day, that payment or calculation is to be made, and that other action is to be taken, as applicable, on or as of the next day that is a Business Day unless the Business Day next following the day is in the next following month, in which event the payment, calculation or action shall be made or taken on or as of the immediately preceding Business Day.

1.3 Conflict.

If there is a conflict or inconsistency between any provision of this Agreement and any provision of another document contemplated by or delivered under or in connection with this Agreement, the relevant provision of this Agreement is to prevail. For greater certainty, notwithstanding events of default set forth in the Security Documents, the Events of Default shall, if the Events of Default conflict with the events of default set forth in such Security Documents, be the Events of Default to the extent required to remove the conflict, and if a particular event of default is set out in such other Security Document and is

not set out in this Agreement, provided that such event of default does not pertain to representations, warranties, covenants or other matters relating specifically to the property secured, charged or hypothecated by the relevant Security Document, the particular event of default shall not be effective as an event of default in that Security Document. For greater certainty, the events of default contained in the Security Documents will only be effective and apply to the extent that the relevant representation, warranty and/or covenant relating specifically to the property secured, charged or hypothecated by such Security Document is not addressed in the Credit Agreement.

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1.4 Currency.

Unless otherwise specified, all amounts are stated in Canadian Dollars. For the purpose of determining the aggregate Canadian Dollar Amount outstanding on any date of one or more Advances made hereunder, unless otherwise specified, the principal amount of any Loans made in US\$ and the face amount of any Letters of Credit and Letters of Guarantee denominated in US\$ shall be converted to Canadian Dollars at the Lender's applicable noon spot buying rate on such date, or, if such date is not a Business Day, on the next Business Day.

1.5 Time.

Time shall be of the essence in all provisions of this Agreement.

1.6 GAAP.

Unless otherwise expressly provided, all accounting terms used in this Agreement shall be interpreted, all financial information shall be prepared and all financial calculations shall be made in accordance with GAAP, consistently applied from period to period.

1.7 Headings and Table of Contents.

The division of this Agreement into sections, the insertion of headings and the provision of a table of contents are for convenience of reference only and are not to affect the construction or interpretation of this Agreement.

1.8 Number and Gender.

Unless otherwise specified, words importing the singular include the plural and vice versa and words importing gender include all genders.

1.9 References.

Unless otherwise specified, references in this Agreement to Sections and Schedules are to sections of, and schedules to, this Agreement.

1.10 Statutory References.

Unless otherwise specified, each reference to an enactment is deemed to be a reference to that enactment, and to the regulations made under that enactment, as amended or re-enacted from time to time.

1.11 Time of Day.

Unless otherwise specified, references to time of day or date mean the local time or date in the City of Toronto, Province of Ontario or in respect of Facility C, the City of Chicago, Illinois.

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1.12 Governing Law.

This Agreement and each of the Documents are governed by, and are to be construed and interpreted in accordance with, the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario.

1.13 Entire Agreement.

This Agreement and all Documents constitute the entire agreement between the parties with respect to the subject matter and supersede all prior agreements, negotiations, discussions, undertakings, representations, warranties and understandings, whether written or oral including a summary of terms and conditions submitted to the Obligor by the Lender.

1.14 Severability.

If any provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, the illegality, invalidity or unenforceability of that provision will not affect:

- (a) the legality, validity or enforceability of the remaining provisions of this Agreement; or
- (b) the legality, validity or enforceability of that provision in any other jurisdiction.

1.15 Schedules.

The following Schedules are attached to and form part of this Agreement:

Schedule	Description
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A	Additional Obligor Counterpart
B	Branch of Account
C	Business and Operations
D	Governmental Approvals
E	Litigation
F	Unpaid Taxes
G	Subsidiaries
H	Labour Matters
I	Real Property and Locations of Collateral
J	Intellectual Property
K	Environmental Matters
L	Material Contracts and Material Licenses
M	Notice of Advance
N	Rollover and Conversion Notice
O	Bankers' Acceptance Power Of Attorney
P	Repayment Schedule
Q	Prepayment Notice

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R	Existing Debt
S	Transactions with Affiliates
T	Compliance Certificate
U	Cancellation Notice

SECTION 2
REPRESENTATIONS AND WARRANTIES

2.1 Representations, Warranties and Agreements of the Obligor.

Each Obligor, for itself and only with respect to itself, makes the following representations and warranties to the Lender, all of which shall survive the execution and delivery of this Agreement and acknowledges and confirms that the Lender is relying on such representations and warranties in entering into this Agreement and making Advances hereunder:

- (a) Corporate Status. It (i) is a duly organized and validly existing corporation in good standing under the laws of the jurisdiction of its incorporation, (ii) has the power and authority to own its property and assets and to transact the business in which it is engaged and presently proposes to engage, and (iii) is duly qualified as a foreign corporation or an extra-provincial corporation and is in good standing in each jurisdiction where the ownership, leasing or operation of its property or the conduct of its business requires such qualification.
- (b) Power and Authority. It has the corporate power to execute, deliver and perform the terms and provisions of each of the Documents and

has taken all necessary action to authorize the execution, delivery and performance by it of each of such Documents. It has duly executed and delivered each of the Documents, and each Document constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, subject to (i) applicable bankruptcy, reorganization, moratorium or similar laws affecting creditors' generally, (ii) the fact that specific performance and injunctive relief may only be given at the discretion of the courts, and (iii) the equitable or statutory powers of the courts to stay proceedings before them and to stay the execution of judgments.

- (c) No Violation. Neither the execution, delivery or performance by it of the Documents, nor compliance by it with the terms and provisions thereof, (i) will contravene any Applicable Law, (ii) will conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to the Security Documents) upon any of its property or assets pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement, loan agreement or any other agreement, contract or instrument to which it is a party or by

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which it or any of its property or assets is bound or to which it may be subject, or (iii) will violate any provision of its constating documents.

- (d) Business and Operations. Its business and operations and locations of its business and operations are accurately described in Schedule C.
- (e) Governmental Approvals. Except as set forth in Schedule D, no order, consent, certificate, approval, permit, license, authorization or validation of, or filing, recording or registration with or exemption by (except as have been obtained or made prior to the date hereof or exist and are in full force and effect) any Person (including any Governmental Authority), is required to authorize, or is required in connection with (i) the execution, delivery and performance by it of any Document, or (ii) the legality, validity, binding effect or enforceability with respect to it of any such Document.
- (f) Security Documents. The Security Documents create valid and enforceable Liens upon the Collateral on the terms set out therein, subject only to the terms of this Agreement and to Permitted Liens, and the Security Documents have been registered or recorded in all places where registration and recording is necessary to protect the charges and security interests created therein.
- (g) Title to Collateral. It has good and marketable title to all Collateral free and clear of all Liens except Permitted Liens.
- (h) Financial Statements; Financial Condition; Undisclosed Liabilities.
 - (i) The consolidated financial statements submitted to the Lender for the 9 month period ending September 30, 2001 and each subsequent set of audited and internally prepared financial statements submitted to the Lender present fairly (subject, in the case of interim internally prepared financial statements, to normal year end adjustments) the financial position of the Obligor, as at the date of said statements and the results of operations for the periods covered thereby and all such financial statements have been prepared in accordance with GAAP consistently applied except to the extent provided in the notes to said financial statements. Since September 30, 2001 there has been no Material Adverse Change to any Obligor; and
 - (ii) Except as fully reflected in the financial statements and the notes related thereto described in Section 2.1(h)(i), there were no liabilities or obligations with respect to it of any nature whatsoever (whether absolute, accrued, contingent or

otherwise and whether or not due) which, either individually or in aggregate, would be material to it. It does not know of any basis for the assertion

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against it of any liability or obligation of any nature whatsoever that is not fully reflected in the financial statements and notes related thereto described in Section 2.1(h) (i) which, either individually or in the aggregate, would be material to it.

- (i) Litigation. Except as set forth on Schedule E, there are no actions, suits or proceedings pending or threatened (i) with respect to any Document or the transactions contemplated thereby, or (ii) that are reasonably likely to have a Material Adverse Effect on it.
- (j) True and Complete Disclosure. All factual information heretofore or contemporaneously furnished by or on behalf of it in writing to the Lender (including all information contained in the Documents) for purposes of or in connection with this Agreement or any transaction contemplated herein, is true and accurate in all material respects on the date as of which such information is dated or certified and is not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading at such time in light of the circumstances under which such information was provided.
- (k) Tax Returns and Payments. Except as set forth in the financial statements for the 12 month period ending December 31, 2000 or Schedule F, (i) it has filed or caused to be filed all Tax returns which are required to have been filed with respect to its five most recent tax years, and has paid all Taxes shown to be due and payable on those returns or any assessments made against it and all other Taxes, fees or other charges imposed on it by any Governmental Authority, other than those the amount of or validity of which is currently being contested in good faith by appropriate proceedings being diligently pursued, and with respect to which adequate reserves in conformity with GAAP have been provided in its books and of which the details have been provided to the Lender, and (ii) no Liens for Taxes have been filed and, to its knowledge, no claims are being asserted against it with respect to any Taxes.
- (l) Subsidiaries. It has no Subsidiaries other than those listed on Schedule G. Schedule G correctly sets forth, the percentage ownership (direct and indirect) of it in each class of shares of each of its Subsidiaries and also identifies the direct owner thereof and also identifies any other owner of shares or options of any of its Subsidiaries.
- (m) No Restrictions. There does not exist any encumbrance or restriction on its ability to (i) pay dividends or make any other distributions on its shares or any other interest or participation in its profits, or to pay any Debt owed by it, (ii) make loans or advances, or (iii) transfer any of its properties or assets, except, in each case, for such encumbrances or restrictions existing under or by reason of (i) Applicable Law, (ii) this Agreement or the other Documents, (iii) customary provisions restricting subletting or assignment

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of any lease governing any of its leasehold interests, or (iv) customary provisions restricting the assignment of contracts, permits and/or licenses.

- (n) Compliance with Applicable Laws, etc. It (i) has obtained and is in compliance with all Governmental Approvals which are necessary for the conduct of its business as presently conducted and the use of its property and assets (both real and personal), each of which is in full force and effect, is a good, valid and subsisting approval which has not been surrendered, forfeited or become void or voidable and is unamended, and (ii) is in compliance with all Applicable

Laws, including Environmental Laws.

- (o) Labour Matters. There are no strikes or other labour disputes against it that are pending or, to its best knowledge, threatened. All payment due from it on account of employee insurance of every kind and vacation pay have been paid or accrued as a liability on its books. It does not have any obligation under any collective agreements or under any consulting or management agreement requiring payments which cannot be cancelled without material liability. It is in material compliance with the terms and conditions of all consulting agreements, management agreements and employment agreements, if any. There is no organizing activity involving it or, to its knowledge, threatened by any labour union or group of employees. No labour union or group of employees has made a pending demand for recognition. Except as set forth in Schedule H, there are no complaints or charges against it pending or threatened to be filed with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any individual by it.
- (p) Insurance. It maintains insurance in compliance with Section 9.1(b) and all premiums and other sums of money payable for that purpose have been paid.
- (q) Location of Collateral. All of the Collateral is located at the locations identified in Schedule I or is in transit to or from such locations. It has no material account debtors resident outside of Canada or the United States of America that are not insured to at least 90% of their book value by EDC.
- (r) Intellectual Property. It has no material Intellectual Property other than the Intellectual Property listed in Schedule J.

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- (s) Real Property.
 - (i) All real property owned or leased by it and the nature of its interest (both registered and beneficial) therein, is correctly set forth on Schedule I. It has good and marketable title to all real property owned by it free and clear of all Liens other than Permitted Liens.
 - (ii) The real property owned or leased by it described in Schedule I has full, free and unobstructed access to and from adjoining public highways, streets and/or roads, and it has no knowledge of any existing fact or condition which could reasonably be expected to result in the amendment or termination of such access. All entrances/exits to such real property are permitted under Applicable Law and allow free and uninterrupted ingress and egress to public highways, streets and/or roads.
 - (iii) There are no outstanding work orders, notices of deficiency and/or notices of violation issued by any Governmental Authority affecting or pertaining in any respect to part or all of its real property, other than those received and addressed in the normal course of business and which, in the aggregate, would not have a Material Adverse Effect.
 - (iv) Each of the Permitted Liens registered against its real property is in good standing and there are no unresolved disputes concerning the same except as disclosed in Schedule E.
 - (v) To the extent possible as of the date hereof, each of any outstanding site-plan, development and other municipal agreements entered into by it have been complied with and satisfied.
 - (vi) All its real property is zoned to permit its present use.
 - (vii) No written notice has been received by it from any

Governmental Authority or from any other source whatsoever (and it has otherwise no knowledge thereof), advising of, ordering, directing or requiring that any alteration, repair, improvement or other work be done with respect to its real property or relating to its non-compliance with any Applicable Law regarding land use or any other Applicable Law material to its real property which has not or will not be complied with within the relevant permitted period or relating to any threatened or impending condemnation, or relating to any changes (actual, pending or proposed) to any zoning or other land use law regulating or affecting the use to which such real property may be put.

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- (viii) It is not aware of any expropriation or pending expropriation of part or all of its real property.
 - (ix) It has not received notice of and, to the best of its knowledge, information and belief, after having made due enquiry, is not otherwise aware of any natural or artificial condition upon its real property which shall or could result in a Material Adverse Change or materially adversely limit or materially adversely affect the intended use of the real property.
 - (x) It has not received written notice of and is not otherwise aware of any pending or proposed amendment to any Applicable Law relating to its real property, or of any planning report or other government study concerning the real property, any of which shall or could result in any Material Adverse Change or materially adversely affect the intended use of the real property.
 - (xi) Taxes on its real property have not been reduced, deferred or eliminated pursuant to government schemes such as (but not limited to) a farm rebate tax program, a managed forest tax rebate program or conservation land tax rebate program; save for increases that will result from the development of its real property in the ordinary course, it has no knowledge of any proposal by a municipal corporation or other Governmental Authority to increase Taxes relating to or in respect of its real property other than normal annual tax increases levied from time to time.
 - (xii) It has no knowledge of any existing or future obligation to pay or any proposed assessment of local improvement charges in relation to its real property. It has done no act nor executed any agreement with a municipal corporation or other Governmental Authority the effect of which would be to provide for a future obligation to pay or a future assessment of local improvement charges in connection with the real property.
- (t) Environmental Matters.
- (i) It does not engage in any Environmental Activity which, if conducted improperly, could reasonably be expected to have a Material Adverse Effect on it or the value of its property and, except as disclosed in Schedule K, no material amount of Hazardous Substances are stored in or present in any form in or under any premises or lands owned, leased or operated, at any time by it and which, if Released, could reasonably be expected to have a Material Adverse Effect on it or the value of its property.

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- (ii) To its knowledge, there is no material amount of asbestos in any form present or suspected to be present at any premises owned leased or operated, at any time, by it.

- (iii) It has a waste management program in compliance with Applicable Law to deal with Hazardous Substances generated in the ordinary course of business, including but not limited to waste generated by its production activities.
- (u) Representations and Warranties in Other Documents. All representations and warranties made by it in the Documents other than this Agreement are true and correct in all material respects as of the time as of which such representations and warranties were made.
- (v) Material Contracts. All of its Material Contracts and Material Licenses are listed on Schedule L and true and complete copies thereof have been provided to the Lender.
- (w) GST Matters. There are no outstanding obligations owed by any Obligor to Canada Customs and Revenue Agency for payment of goods and services tax.
- (x) Debt. It has, as of the Closing Date, no Debt other than that listed in Schedule R.
- (y) Rhodia Rider. A true and complete copy of the Rhodia Rider is attached hereto as Exhibit A to Schedule L.

2.2 Deemed Repetition.

The representations and warranties made in Section 2.1 shall (a) continue in effect until payment and performance of all the Obligations, and (b) be deemed to be repeated on each Drawdown Date, Interest Payment Date, Rollover Date and Conversion Date, mutatis mutandis, as if made on that date.

SECTION 3 THE CREDIT FACILITIES

3.1 Establishment of Credit Facilities.

Subject to the terms and conditions of this Agreement, the Lender has established the following demand Credit Facilities:

- (a) in favour of the Facility A Borrowers on a joint and several basis, a demand revolving credit facility ("Facility A") in the aggregate principal amount of up to \$4,000,000;

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- (b) in favour of LP, a demand non-revolving reducing credit facility ("Facility C") in the aggregate principal amount of up to US\$15,000,000; and
- (c) in favour of Stake, a demand treasury facility ("Facility D"), at the sole discretion of the Lender, up to an aggregate principal amount not to exceed \$1,000,000 in Deemed Risk Content.

3.2 Availability of Credit Facilities.

Subject to the provisions of this Agreement:

- (a) Facility A. The Facility A Borrowers on a joint and several basis may borrow, repay and reborrow under Facility A up to the lesser of the Facility A Borrowing Base and a maximum principal amount of \$4,000,000.
- (b) Facility C. LP may borrow by way of a single drawdown under Facility C up to a maximum principal amount of US\$15,000,000.
- (c) Facility D. Stake may obtain Advances under Facility D at the sole discretion of the Lender up to a maximum principal amount not to exceed \$1,000,000 in Deemed Risk Content and the Lender may cancel the availability of Facility D at any time without notice to Stake.
- (d) Types of Advances. The Lender agrees to make:

- (i) Facility A available by way of Prime Loans, USBR Loans, Bankers' Acceptance, Letters of Credit or Letters of Guarantee;
- (ii) Facility C available by way of USBR Loans or Libor Loans; and
- (iii) Facility D available by way of Hedge Contracts.

3.3 Revolving Nature of Facility A.

Subject to the provisions of this Agreement:

- (a) Facility A. The Facility A Borrowers may increase or reduce the amount of Advances outstanding under Facility A by borrowing, repaying and reborrowing Prime Loans and USBR Loans, by causing the acceptance of Bankers' Acceptances and funding them at maturity, and by causing the issue and re-issue of Letters of Credit or Letters of Guarantee from time to time.
- (b) Cancellation of Unused Portion. The Facility A Borrowers may cancel any unused portion of Facility A at any time without penalty upon giving one Business Day's prior written notice to the Lender of such cancellation in the form attached hereto as Schedule U. Notwithstanding any other

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provision of this Agreement, upon cancellation such cancelled portion will not be available for reborrowing by the Facility A Borrowers.

3.4 Purpose.

- (a) Facility A. The proceeds of Advances made by the Lender under Facility A shall be used by the Facility A Borrowers solely to provide for ongoing general corporate and working capital purposes of the Facility A Borrowers. For greater certainty proceeds of Facility A will be used for corporate head office, Steam Explosion, BEI/Pecal, Temisca and Virginia Materials.
- (b) Facility C. The proceeds of the single Advance made by the Chicago Branch under Facility C shall be used by LP primarily to indirectly refinance, certain existing indebtedness. For greater certainty, the proceeds of the advance under Facility C shall be used by the LP primarily to subscribe for a wholly-owned equity interest in ULC which in turn will use the proceeds of such equity injection to subscribe for a wholly-owned equity interest in LLC which in turn will use the proceeds from such equity injection to make a secured loan to Sunrich Food for the purpose of refinancing existing Debt of Sunrich Food and its Subsidiaries.
- (c) Facility D. The proceeds of Advances made by the Lender under Facility D shall be used by Stake solely to assist in foreign exchange and interest rate risk management by Stake.

3.5 Initial and Maximum Utilization.

- (a) Facility A. Advances under Facility A shall not at any time exceed the Facility A Borrowing Base. Stake, on behalf of the Facility A Borrowers, shall submit monthly within thirty days after the last day of the month or, if that day is not a Business Day, the next preceding Business Day, a certified aged statement of Accounts Receivable and listing of Inventory in form and substance satisfactory to the Lender in its sole discretion (the "Borrowing Base Certificate").
- (b) Facility C. Only one Advance is available under Facility C. The Advance shall be based upon a written payout statements, satisfactory to the Lender, from those creditors identified by the Lender evidencing the amount of the existing debt to and an undertaking to release and discharge all security held by such

creditors and shall be paid by the Lender directly to LP. Any unused portion of Facility C shall be cancelled immediately upon the making of the Advance.

- (c) Facility D. Advances under Facility D shall not, in the aggregate, have a Deemed Risk Content, as determined from time to time by the Lender in its sole discretion, in excess of \$1,000,000. Advances under Facility D shall be made available to Stake at the sole discretion of the Lender upon

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request of Stake in order to hedge interest rate and foreign exchange exposure.

3.6 Borrowing Procedures - General.

- (a) Notice of Borrowing. All Advances require the delivery of prior notice to the Lender. To request an Advance, the applicable Borrower shall give to the Lender written notice substantially in the form attached as Schedule M, indicating the amount of the requested Advance, at or before the time set out below opposite the type of Advance that the applicable Borrower wishes to request:

Type of Advance -----	Time of Notice -----
Prime Loans, USBR Loans, Bankers' Acceptance and Letters of Credit and Letters of Guarantee less than or equal to \$10 million	Before 11:00 a.m. one Business Day prior to the requested Drawdown Date.
Prime Loans, USBR Loans, Bankers' Acceptance and Letters of Credit and Letters of Guarantee greater than \$10 million	Before 11:00 a.m. two Business Days prior to the requested Drawdown Date.
Libor Loans	Before 11:00 a.m. three Business Days prior to the requested Drawdown Date.
Hedge Contracts	Before 11:00 a.m. one Business Day prior to the requested Issuance Date.

Each notice given in respect of an Advance by way of Prime Loan or USBR Loan shall indicate the amount of the required Advance and the date funds are required. Each notice given in respect of an Advance by way of Libor Loan shall indicate the amount of the required Advance, the date funds are required and the duration of the initial Contract Period applicable thereto. Each notice given in respect of an Advance by way of Bankers' Acceptances shall indicate the amount of the Bankers' Acceptances to be issued and the applicable Contract Period of the Bankers' Acceptances. Each notice given in respect of an Advance by way of Letters of Credit or Letters of Guarantee shall indicate the amount of the Letter of Credit or Letter of Guarantee to be issued, the applicable Contract Period, the beneficiary, the terms of draw under the requested Letter of Credit or Letter of Guarantee and all other relevant information.

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Each notice given in respect of an Advance by way of Hedge Contract shall indicate the amount of the Hedge Contract to be issued, the applicable Contract Period and all other relevant information required by the Lender in the circumstances.

- (b) Limits on Advances. Notwithstanding any other term of this Agreement, a Borrower shall not request from the Lender an Advance under any Credit Facility if, on the day notice of the Advance is given pursuant to Section 3.6(a), after giving effect to the

Advance, in the case of Facility A and Facility D the Canadian Dollar Amount, and in the case of Facility C the US Dollar amount, of the principal amount of all Advances outstanding from the Lender under that Credit Facility would exceed the maximum aggregate principal amount available under that Credit Facility or, in the case of Facility A, the then current Facility A Borrowing Base. No Advance under any Credit Facility shall have a Contract Period that extends beyond the Maturity Date of that Credit Facility.

- (c) Lender Determination. Each determination by the Lender of the Prime Rate, the US Base Rate, the CDOR Rate, an Acceptance Fee, an issuance fee for a Letter of Credit or a Letter of Guarantee and LIBOR shall, in the absence of manifest error, be final, conclusive and binding on the Borrowers.

3.7 Libor Loans.

- (a) Minimum Advance. Each Advance by way of Libor Loan shall be in a minimum aggregate amount of US\$1,000,000 and larger whole multiples of US\$100,000.
- (b) Term. Each Libor Loan shall have a Contract Period of not less than 30 days or such greater period in multiples of 30 days to a maximum of 180 days, or a longer term, subject to availability. No Contract Period shall extend beyond the Maturity Date of the applicable Advance or Credit Facility.
- (c) Rollover of Libor Loans. At least three Business Days before the expiry of the Contract Period of each Libor Loan, a Borrower shall notify the Lender by irrevocable telephone notice, followed by written confirmation on the same day in form and substance substantially in accordance with Schedule N, if it intends to:
 - (i) enter into a new Contract Period with respect to the maturing Libor Loan, or
 - (ii) repay the maturing Libor Loan.

If a Borrower fails to provide the foregoing notice or make the required payment, payment of its Obligations to the Lender with respect to that

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maturing Libor Loan shall be funded with an Advance under a USBR Loan in the amount outstanding under that Libor Loan.

3.8 Bankers' Acceptances.

- (a) Minimum Advances. Each Advance by way of Bankers' Acceptance shall be in a minimum aggregate face amount of \$500,000 and larger whole multiples of \$100,000.
- (b) Term. Each Bankers' Acceptance shall have a Contract Period of not less than 10 days or such greater period in multiples of 10 days to a maximum of 180 days or a longer term, subject, in all cases, to availability.
- (c) Discount Rate. On each Drawdown Date on which Bankers' Acceptances are to be accepted, the Lender shall advise the Borrower as to the Lender's determination of the applicable Discount Rate for the Bankers' Acceptances which the Lender has agreed to purchase.
- (d) Purchase. If the Lender purchases a Bankers' Acceptance accepted by it, the Borrower shall sell and the Lender shall purchase the Bankers' Acceptance at the applicable Discount Rate. The Lender shall provide to the Borrower's Account the Discount Proceeds less the Acceptance Fee payable with respect to that Bankers' Acceptance.
- (e) Sale. The Lender may from time to time hold, sell, rediscount or otherwise dispose of any or all Bankers' Acceptances accepted and purchased by it.

- (f) Bankers' Acceptances in Blank. To facilitate the acceptance of Bankers' Acceptances under this Agreement, the Borrowers shall, upon execution of this Agreement, if so requested by the Lender, and from time to time as required, provide to the Lender Bankers' Acceptances substantially in the form as may be acceptable to the Lender duly executed and endorsed in blank by the Borrowers, in quantities sufficient for the Lender to fulfill its obligations under this Agreement or, if so requested by the Lender, provide to the Lender, a power of attorney substantially in the form of Schedule O executed by the Borrowers in favour of the Lender authorizing the Lender to execute drafts in the form attached thereto. If Bankers' Acceptances have been provided to the Lender duly executed and endorsed in blank by the Borrowers, the Lender is hereby authorized to issue Bankers' Acceptances endorsed in blank in face amounts as may be determined by the Borrowers provided that the aggregate amount thereof is equal to the aggregate amount of Bankers' Acceptances required to be accepted by the Lender. The Lender shall not be responsible or liable for its failure to accept a Bankers' Acceptance as required under this Agreement if the cause of the failure is, in whole or in part, due to the failure of the Borrowers to provide to the Lender on a timely basis a

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sufficient number of duly executed Bankers' Acceptances or a duly executed power of attorney, as applicable, nor shall the Lender be liable for any damage, loss or other claim arising by reason of any loss or improper use of any Bankers' Acceptance except a loss or improper use arising by reason of the gross negligence or willful misconduct of the Lender or its employees.

- (g) Execution. Drafts drawn by a Borrower to be accepted as Bankers' Acceptances shall be signed by a duly authorized officer or officers of the Borrower or by its attorneys. Notwithstanding that any Person whose signature appears on any Bankers' Acceptance may no longer be an authorized signatory for the Borrower at the time of issuance of a Bankers' Acceptance, that signature shall nevertheless be valid and sufficient for all purposes as if the authority had remained in force at the time of issuance and any Bankers' Acceptance so signed shall be binding on the Borrower.
- (h) Rollover. At or before 1:00 p.m. two Business Days before the maturity date of any Bankers' Acceptance, the Borrower shall give to the Lender written notice substantially in the form attached as Schedule N if the Borrowers intends to repay the maturing Bankers' Acceptances on the maturity date or if the Borrower intends to issue Bankers' Acceptances on the maturity date to provide for the payment of the maturing Bankers' Acceptances. Otherwise, the Borrower shall provide payment to the Lender of an amount equal to the aggregate principal amount of the Bankers' Acceptances issued by the Borrower on their maturity date. If the Borrower fails to make the payment, the Borrower's obligations in respect of the maturing Bankers' Acceptances shall be deemed to have been converted on the maturity date thereof into Prime Loans.
- (i) Waiver of Presentment and Other Conditions. Each Borrower waives presentment for payment and any other defence to payment of any amounts due to the Lender in respect of a Bankers' Acceptance accepted and purchased by it pursuant to this Agreement which might exist solely by reason of the Bankers' Acceptance being held, at the maturity thereof, by the Lender in its own right and each Borrower agrees not to claim any days of grace if the Lender as holder sues the Borrower on the Bankers' Acceptance for payment thereunder.
- (j) Depository Bills and Notes Act. At the option of the Borrowers and the Lender, Bankers' Acceptances under this Agreement to be accepted by the Lender may be issued in the form of depository bills for deposit with The Canadian Depository for Securities Limited pursuant to the Depository Bills and Notes Act (Canada). All depository bills so issued shall be governed by the provisions of this Section 3.8.

3.9 Letters of Credit and Letters of Guarantee.

- (a) Currency. Each Letter of Credit and each Letter of Guarantee shall be issued in Canadian Dollars, US Dollars or such other currency as the Lender may agree in its sole discretion and shall mature on a Business Day.
- (b) Letter of Credit and Letter of Guarantee Sublimit. The aggregate principal amount Advances which may be outstanding by way of Letter of Credit and Letter of Guarantee shall not exceed \$1,000,000.
- (c) No Guarantees. No Advance by way of the issue of a Letter of Credit or Letter of Guarantee shall be used by the Borrowers for the purpose of incurring Contingent Obligations of the type described in clause (a) of the definition of "Contingent Obligations".
- (d) Other Documentation. The issue of a Letter of Credit or a Letter of Guarantee is subject to the execution and delivery of an application and agreement and an indemnity in the Lender's standard form or other specific agreement relative to the instrument in form and substance satisfactory to the Lender acting reasonably (the "L/C Agreement").
- (e) Retirement. A Letter of Credit or Letter of Guarantee may only be retired on its maturity date unless and to the extent it has been honoured or unless the written consent of the beneficiary of the instrument has been obtained and the original instrument has been returned to the Lender.
- (f) Drawings. Any drawing under a Letter of Credit or Letter of Guarantee shall be funded by a Loan by way of a Prime Loan (if drawn in Canadian Dollars) or by way of a USBR Loan (if drawn in US Dollars or any other currency).
- (g) Term. Each Letter of Credit and each Letter of Guarantee shall have a Contract Period of not less than 30 days or more than 364 days.
- (h) Rollover. Before the maturity date of any Letter of Credit or Letter of Guarantee the Borrower shall notify the Lender at its Branch of Account by notice substantially in the form attached as Schedule O if it wishes the issue of a replacement Letter of Credit or Letter of Guarantee on the maturity date. If the Borrower fails to provide the foregoing notice, the maturing Letter of Credit or Letter of Guarantee shall expire on its maturity date.

3.10 Hedge Contracts.

- (a) Hedge Contract Sublimit. The aggregate principal amount of all outstanding Hedge Contracts shall not at any time exceed \$1,000,000 in Deemed Risk Content.
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- (b) Term. Each Hedge Contract that consists of a foreign exchange forward contract shall have a Contract Period of not more than 365 days and each Hedge Contract that consists of an interest rate hedging instrument shall have a contract period of not more than five years and three months.
 - (c) Subject to Approval. The Lender may refuse to issue a Hedge Contract at any time at its sole discretion.
 - (d) Other Documentation. The issuance of a Hedge Contract is subject to the execution and delivery of specific agreements as may be required by the Lender on its standard forms and modified by such schedules and addenda as are customarily used by the Lender (the "Hedge Agreement"). In the event of a conflict between the terms and conditions of the Hedge Agreement and this Agreement, the Hedge Agreement shall prevail notwithstanding Section 1.13.

3.11 Prime Loans and USBR Loans.

Each Advance by way of Prime Loan shall be in a minimum aggregate principal amount of \$100,000 and larger whole multiples of \$100,000. Each Advance by way of USBR Loan shall be in a minimum aggregate principal amount of US\$100,000 and larger whole multiples of US\$100,000.

3.12 Conversion Option.

Subject to this Agreement, a Borrower may, during the term of this Agreement, effective on any Business Day, convert, in whole or in part, an outstanding Advance (other than an Advance by way of Letter of Credit, Letter of Guarantee or Hedge Contract) into another type of Advance permitted under the relevant Credit Facility (other than an Advance by way of Letter of Credit, Letter of Guarantee or Hedge Contract) upon giving written notice to the Lender in substantially the form attached hereto as Schedule N, the notice period being that which would be applicable to the type of Advance into which the outstanding Advance is to be converted under Section 3.6. Conversions under this Section 3.12 may only be made provided that:

- (a) notwithstanding any other term in this Agreement, no Advance denominated in C\$ may be converted into an Advance denominated in US\$ and no Advance denominated in US\$ may be converted into an Advance denominated in C\$;
- (b) each conversion into an Advance shall be for minimum aggregate amounts and whole multiples in excess thereof as are specified in respect of that type of Advance in this Section 3;
- (c) an Advance by way of Libor Loan may be converted only on the last day of the relevant Contract Period; if less than all of the Libor Loan is converted, after the conversion not less than US\$1,000,000 shall remain as a Libor Loan;

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- (d) an Advance by way of Bankers' Acceptance may be converted only on the last day of the relevant Contract Period; if less than all Advances by way of Bankers' Acceptances are converted, after the conversion not less than C\$500,000 or US\$500,000, depending on the currency of the Advance, shall remain as Advances by way of Bankers' Acceptances to the Borrowers having the same maturity date;
- (e) a conversion into an Advance by way of Libor Loan shall only be made to the extent that the conditions outlined in Section 4.11 shall not exist on the relevant Conversion Date; and
- (f) no demand shall have been made and no Default or Event of Default shall have occurred and be continuing on the relevant Conversion Date or after giving effect to the conversion of the Advance to be made on the Conversion Date.

3.13 Conversion and Rollover Not Repayment.

No Conversion or Rollover shall constitute a repayment of any Advance or a new Advance.

3.14 Mandatory Conversion of Libor Loans and Bankers' Acceptances.

Notwithstanding Sections 3.8(h), 3.9(h) and 3.10, and subject to Section 10.2, if a Default or Event of Default has occurred and is continuing on the last day of a Contract Period, as regards a Libor Loan, or upon the maturity date, as regards a Bankers' Acceptance, (a) in respect of an Advance by way of a Libor Loan, the Borrower shall be deemed to have converted the Advance into a USBR Loan as of the last day of the applicable Contract Period, and (b) in respect of an Advance by way of Bankers' Acceptances, the Borrower shall be deemed to have converted the Advance into a Prime Loan or USBR Loan (depending on the currency of the Advance) in an amount equal to the principal amount of the Bankers' Acceptances on the maturity date.

3.15 Deposit of Proceeds of Loans and Discount Proceeds.

The Lender shall credit to the applicable Borrower's Account on the applicable

Drawdown Date (a) the proceeds of each Advance by way of Prime Loan, USBR Loan or Libor Loan made, and (b) the Discount Proceeds less the applicable Acceptance Fee with respect to each Bankers' Acceptance purchased by the Lender on that Drawdown Date. Where a Borrower has made separate arrangements for the purchase of Bankers' Acceptances issued under this Agreement, the Lender shall debit the applicable Borrower's Account for the applicable Acceptance Fee upon acceptance and the Borrower shall deposit the Discount Proceeds to the applicable Borrower's Account stipulated by the Borrower immediately upon receipt.

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3.16 Evidence of Obligations.

The Lender shall open and maintain at its Branch of Account and the Chicago Branch, as applicable, accounts and records evidencing the Obligations of the Borrowers under this Agreement. The Lender shall record in those accounts by appropriate entries all amounts owing on account of those Obligations and all payments on account thereof. Those accounts and records will constitute, in the absence of manifest error, conclusive evidence of the Obligations outstanding from time to time, the date each Advance was made and the amounts that each Borrower has paid from time to time on account of the Obligations.

SECTION 4 INTEREST, FEES AND EXPENSES

4.1 Interest on Prime Loans.

- (a) Rate. Each Borrower shall pay to the Lender interest on Prime Loans outstanding to it under each Credit Facility at a rate per annum equal to the Prime Rate plus the applicable margin set out in the Pricing Grid. The obligations of the Facility A Borrowers in respect of Facility A are joint and several in this regard.
- (b) Change in Rate. Each change in the fluctuating interest rate applicable to each Prime Loan will take place simultaneously with the corresponding change in the Prime Rate without the necessity for any notice to the Borrowers.
- (c) Calculation. Interest on Prime Loans shall be payable monthly in arrears on every Interest Payment Date and on the Maturity Date, as applicable, for the period from and including, as the case may be, the Drawdown Date, the Conversion Date or the immediately preceding Interest Payment Date to but excluding the first-mentioned Interest Payment Date or the Maturity Date, as applicable, and shall be calculated daily on the principal amount of each Prime Loan remaining unpaid on the basis of the actual number of days elapsed in a year of 365 days.
- (d) Payment of Interest. Interest on Prime Loans shall be paid on every Interest Payment Date and on the Maturity Date, as applicable, by debit to the Borrowers' Account by the Lender.

4.2 Interest on USBR Loans.

- (a) Rate. Each Borrower shall pay to the Lender interest on USBR Loans outstanding to it under each Credit Facility at a rate per annum equal to the US Base Rate plus the applicable margin set out in the relevant Pricing Grid. The obligations of the Facility A Borrowers in respect of Facility A are joint and several in this regard.

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- (b) Change in Rate. Each change in the fluctuating interest rate applicable to each USBR Loan will take place simultaneously with the corresponding change in the US Base Rate without the necessity for any notice to the Borrowers.
- (c) Calculation. Interest on USBR Loans shall be payable monthly in arrears on every Interest Payment Date and on the Maturity Date for the period from and including, as the case may be, the Drawdown Date, the Conversion Date, or the immediately preceding Interest

Payment Date to but excluding the first-mentioned Interest Payment Date or the Maturity Date, as applicable, and shall be calculated daily on the principal amount of each USBR Loan remaining unpaid on the basis of the actual number of days elapsed in a year of 365 or 366 days, as applicable.

- (d) Payment of Interest. Interest on USBR Loans shall be paid on every Interest Payment Date and on the Maturity Date by debit to the applicable Borrower's Account by the Lender.

4.3 Interest on Libor Loans.

- (a) Rate. Each Borrower shall pay to the Lender interest on Libor Loans outstanding to it at a rate equal to LIBOR plus the applicable margin set out in the relevant Pricing Grid.
- (b) Calculation. Interest on each Libor Loan shall be payable on each Libor Interest Date applicable to the Libor Loan, for the period commencing from and including the first day of the Contract Period or the immediately preceding Libor Interest Date, as the case may be, applicable to the Libor Loan, to but excluding the first mentioned Libor Interest Date, and shall be calculated daily on the principal amount of each Libor Loan remaining unpaid on the basis of the actual number of days elapsed in a year of 360 days.
- (c) Payment of Interest. Interest on Libor Loans shall be paid on each Libor Interest Date by debit to the applicable Borrower's Account by the Lender.

4.4 Fees on Bankers' Acceptances.

- (a) Rate. Upon acceptance of a Bankers' Acceptance by the Lender under a Credit Facility, the Borrower shall pay to the Lender at the Lender's Branch of Account a fee (the "Acceptance Fee") at the rate per annum equal to the CDOR Rate plus the applicable fee set out in the relevant Pricing Grid. The obligations of the Facility A Borrowers in respect of Facility A are joint and several in this regard.
- (b) Calculation. The Acceptance Fee shall be payable on issuance of each Bankers' Acceptance calculated on the face amount of each Bankers' Acceptance on the basis of the number of days in the Contract Period for

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the Bankers' Acceptance and a year of 365 or 366 days, as applicable. Each determination by the Lender of the Acceptance Fee applicable to any Banker's Acceptance shall, in the absence of manifest error, be final, conclusive and binding upon the Borrowers.

4.5 Letters of Credit and Letters of Guarantee.

Upon the issue of a Letter of Credit or a Letter of Guarantee by the Lender, the Borrower shall pay to the Lender a fee at the rate per annum set out in the relevant Pricing Grid on issue. Issuance fees shall be calculated on the principal amount of each Letter of Credit or Letter of Guarantee on the date of issue. Issuance fees shall be calculated on the basis of the number of days in the applicable Contract Period and a year of 365 days. The obligations of Facility A Borrowers in respect of Facility A are joint and several in this regard.

4.6 Hedge Contracts.

Hedge Contracts shall be issued at market prices in effect on the date of issuance as determined by the Lender. Each determination by the Lender of the market price for a Hedge Contract shall, in the absence of manifest error, be final, conclusive and binding upon the Borrower.

4.7 Applicable Pricing

The Borrowers shall pay to the Lender interest and fees in respect of Advances obtained by the Borrowers under the Credit Facilities in accordance with the

relevant Pricing Grid below. The applicable margin or fee payable by the Borrowers will be established quarterly and will be effective at the beginning of the third month of each Fiscal Quarter of the Borrowers and is based upon the attainment by Stake, on a consolidated basis, in its four previous Fiscal Quarters of the Funded Debt to EBITDA Ratio, calculated quarterly, as set out in Section 9.3, on the last day of any Fiscal Quarter based on the most recent period of twelve fiscal months completed and ending on or immediately prior to such day. For greater certainty, the applicable pricing as of the Closing Date shall reflect Stake's most recent Fiscal Quarter immediately preceding the Closing Date.

- (a) Facility A Pricing Grid. The Facility A Borrowers shall jointly and severally pay to the Lender interest in respect of Advances obtained by the Facility A Borrowers under Facility A in accordance with the pricing grid below (the "Facility A Pricing Grid"):

Pricing Level	Senior Debt/EBITDA	Prime Rate		BA's/LC's/LG's Fee
		US Base Rate Plus	Libor Rate Plus	
1.	< 1.5:1.0	0.00%	0.90%	0.90%
2.	> 1.5:1.0 -	0.15%	1.15%	1.15%

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3.	> 2.0:1.0 -	0.40%	1.40%	1.40%
4.	> 2.5:1.0 -	0.65%	1.65%	1.65%

- (b) Facility C Pricing Grid. The LP shall pay to the Lender, at its Chicago Branch, interest and fees in respect of Advances obtained by the [LP] under Facility C in accordance with the pricing grid below (the "Facility C Pricing Grid"):

Pricing Level	Senior Debt/EBITDA	US Base Rate Plus	Libor Rate Plus
1.	< 1.5:1.0	0.15%	1.15%
2.	> 1.5:1.0 -	0.40%	1.40%
3.	> 2.0:1.0 -	0.65%	1.65%
4.	> 2.5:1.0 -	0.90%	1.90%

4.8 Interest on Overdue Amounts.

The Borrowers shall pay to the Lender interest as prescribed in this Agreement both before and after demand, default and judgment. Interest on any overdue amounts hereunder, is payable, for overdue amounts in Canadian Dollars, at the Prime Rate plus the applicable margin as required by the then current Pricing

Level plus 200 Basis Points per annum and, for overdue amounts in US Dollars, at the US Base Rate plus the applicable margin for the then current Pricing Level plus 200 Basis Points per annum, in each case calculated on a daily basis on the actual number of days elapsed in a 365 or 366 day year, as applicable, computed from the date the amount becomes due for so long as the amount remains overdue. Interest on overdue amounts shall be payable upon demand by the Lender and shall be compounded on each Interest Payment Date.

4.9 Interest Act.

For purposes of the Interest Act (Canada), where in this Agreement a rate of interest is to be calculated on the basis of a year of 360, 365, or 366 days, the yearly rate of interest to which the rate is equivalent is that rate multiplied by the number of days in the calendar year for which the calculation is made and divided by 360, 365, or 366, as applicable.

4.10 Limit on Rate of Interest.

- (a) Adjustment. If any provision of this Agreement or any of the other Documents would obligate a Borrower to make any payment of interest or other amount payable to the Lender in an amount or calculated at a rate

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which would be prohibited by law or would result in a receipt by the Lender of interest at a criminal rate (as construed under the Criminal Code (Canada)), then notwithstanding that provision, that amount or rate shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by law or result in a receipt by the Lender of interest at a criminal rate, the adjustment to be effected, to the extent necessary, as follows:

- (i) first, by reducing the amount or rate of interest required to be paid to the Lender under this Section 4; and
 - (ii) thereafter, by reducing any fees, commissions, premiums and other amounts required to be paid to the Lender which would constitute interest for purposes of the Criminal Code (Canada).
- (b) Reimbursement. Notwithstanding Section 4.10(a), and after giving effect to all adjustments contemplated thereby, if the Lender shall have received an amount in excess of the maximum permitted by the Criminal Code (Canada), then the applicable Borrower shall be entitled, by notice in writing to the Lender, to obtain reimbursement from the Lender in an amount equal to the excess, and pending reimbursement, the amount of the excess shall be deemed to be an amount payable by the Lender to the applicable Borrower.
 - (c) Actuarial Principles. Any amount or rate of interest referred to in this Section 4.10 shall be determined in accordance with generally accepted actuarial practices and principles as an effective annual rate of interest over the term that any Advance remains outstanding on the assumption that any charges, fees or expenses that fall within the meaning of "interest" (as defined in the Criminal Code (Canada)) shall, if they relate to a specific period of time, be pro-rated over that period of time and otherwise be pro-rated over the period from the earlier of the date of advance and the Closing Date to the relevant Maturity Date and, in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Lender shall be conclusive for the purposes of that determination.

4.11 Substitute Basis of Advance - Libor Loans.

If, at any time during the term of this Agreement, the Lender acting in good faith determines (which determination shall be final, conclusive and binding upon the Borrowers) that:

- (a) adequate and fair means do not exist for ascertaining the rate of interest on a Libor Loan;

- (b) LIBOR does not accurately reflect the effective cost to the Lender of making, funding or maintaining a Libor Loan and the costs to the Lender

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are increased or the income receivable by the Lender is reduced in respect of a Libor Loan;

- (c) the making, funding or maintaining of a Libor Loan or a portion thereof by the Lender has become impracticable by reason of circumstances which materially and adversely affect the London interbank market; or
- (d) deposits in US Dollars are not available to the Lender in the London interbank market in sufficient amounts in the ordinary course of business for the applicable Contract Period to make, fund or maintain a Libor Loan during the Contract Period;

the Lender shall promptly notify the Borrowers setting forth the basis of that determination and each Borrower hereby instructs the Lender to repay the affected Libor Loan with the proceeds of a USBR Loan in the amount of the Libor Loan, to be drawn down on the last day of the then current Contract Period. The Lender shall not be required to make any further Libor Loans available under this Agreement so long as any of the circumstances referred to in this Section 4.11 continue.

4.12 Indemnity.

- (a) General. Each Obligor shall, and does hereby, jointly and severally indemnify the Lender and its directors, officers, employees, attorneys and agents (each, an "Indemnified Person") against all suits, actions, proceedings, claims, losses (other than loss of profits), expenses (including reasonable fees, charges and disbursements of counsel), damages and liabilities including liabilities arising under Environmental Laws (each, a "Claim") that the Lender may sustain or incur as a consequence of (i) any default under this Agreement or any other Document, (ii) any misrepresentation contained in any writing delivered to the Lender in connection with this Agreement, (iii) the Lender entering into this Agreement, (iv) the use of proceeds of the Credit Facilities, or (v) the operations of any of the Obligors or any Affiliate of any of the Obligors, except that no Indemnified Person will be indemnified for any Claim resulting from its own gross negligence or willful misconduct.
- (b) Certificate. A certificate of the Lender setting out the basis for the determination of the amount necessary to indemnify the Lender pursuant to this Section 4.12 shall be conclusive evidence, absent manifest error, of the correctness of that determination.
- (c) Survival. It is the intention of each of the Obligors and the Lender that Sections 3.15, 4.12, 4.13 and 6.2(b) shall supersede any other provisions in this Agreement which in any way limit the liability of any of the Obligors and that each of the Obligors shall be liable for any obligations arising under Sections 3.15, 4.12, 4.13 and 6.2(b) even if the amount of the liability incurred exceeds the amount of the other Obligations. The

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obligations of the Obligors under these Sections are joint and several and absolute and unconditional and shall not be affected by any act, omission or circumstance whatsoever, whether or not occasioned by the fault of the Lender, except in respect of the Lender's gross negligence or willful misconduct. The obligations of each of the Obligors under Sections 3.15, 4.12, 4.13 and 6.2(b) shall survive the repayment of the other Obligations and the termination of the Credit Facilities.

4.13 Breakage Costs

- (a) The Borrowers may not repay, prepay or cancel an Advance by way of Bankers' Acceptances prior to the expiry of the Contract Period relating thereto.
- (b) If a Borrower repays, prepays or cancels an Advance (including repayment pursuant to Sections 4.11 and 5.3), by way of Libor Loan, Letter of Credit, Letter of Guarantee or Hedge Contract, the Borrower shall indemnify the Lender for any loss or expense suffered or incurred by the Lender including any loss of profit or expenses which the Lender incurs by reason of the liquidation or redeployment of deposits or other funds acquired by it to effect or maintain the Advance or any interest or other charges payable to Lender of funds borrowed by the Lender in order to maintain the Advance together with any other charges, costs or expenses incurred by the Lender relative thereto.
- (c) A certificate of the Lender setting out the basis for the determination of the amount necessary to indemnify the Lender pursuant to this Section 4.13 shall be conclusive evidence, absent manifest error, of the correctness of that determination.

4.14 Change in Circumstances.

If at any time the Lender determines in good faith (which determination shall be conclusive) and notifies (a "Change of Circumstance Notice") the Borrowers that any present or future law, regulation, order, treaty, official directive or guideline (relating to capital adequacy or otherwise and whether or not having the force of law), or any change therein or in the interpretation or application thereof by any authority charged with the administration thereof, including the Superintendent of Financial Institutions for Canada, or by any court or any compliance by the Lender with any request, directive or guidelines of any applicable monetary, fiscal or other governmental agency or authority, including the Superintendent of Financial Institutions for Canada, (whether or not having the force of law), has the effect in respect of any Advance of:

- (a) increasing the cost to the Lender of making, maintaining or funding such Advance;
- (b) reducing the amount of principal, interest, fees or other amounts received or receivable by the Lender hereunder or its effective return hereunder; or

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- (c) causing the Lender to make any payment, or to forego any interest or other return on or calculated by reference to, any sum received or receivable by it hereunder;

then in any such case, upon demand being made from time to time to the Borrowers by the Lender, the Borrowers shall forthwith pay to the Lender such an amount as shall compensate the Lender for such additional cost, reduction, payment, foregone interest or other return; provided, however, that the Borrowers shall not be required to compensate the Lender for (a) any amounts in respect of capital taxes, income taxes and other similar taxes imposed on the Lender by any Governmental Authority and (b) any amounts relating to costs, reductions, payments, foregone interest or other returns incurred, suffered, or lost by the Bank on or after receipt of the Change of Circumstance Notice by the Borrowers.

SECTION 5 REDUCTION AND REPAYMENT

5.1 Payment on Demand.

Each Credit Facility is payable by the Borrowers immediately on demand by the Lender at its option at any time and from time to time without any other or further notice notwithstanding the conformity or not of the Obligors to the terms and conditions of this Agreement or any other Documents and whether or not a Default or an Event of Default has occurred and is continuing or has been waived.

5.2 Repayment.

Without prejudice to the Lender's right to demand payment at its option at any time and from time to time, LP shall repay the principal amount of the Advances under Facility C quarterly, commencing the first fiscal quarter after the Closing Date, by paying the amounts set out in the amortization schedule attached as Schedule P. In addition, 100% of the net cash proceeds from the permitted sale or sale/leaseback of any fixed assets of the Obligors (collectively, the "Permitted Proceeds") shall be applied to repay, on or before the last Business Day of the Fiscal Quarter immediately following the Fiscal Quarter in which such sale or sale/leaseback occurs, the then outstanding principal amount under Facility C, until Facility C is repaid in full. Notwithstanding the foregoing, to the extent Permitted Proceeds are reinvested by the applicable Obligor, as applicable, in existing lines of business by the end of the Fiscal Quarter immediately following the Fiscal Quarter in which such permitted sale or sale/leaseback of assets takes place, then the Permitted Proceeds need not be applied to the outstanding principal amount under Facility C as set out herein.

5.3 Mandatory Repayment - Currency Fluctuations.

- (a) If, due to exchange rate fluctuations or for any reason whatsoever, in the case of Facility A or Facility D, the Canadian Dollar Amount of the principal amount of all Advances outstanding under such Credit Facility shall, at any time, exceed the Commitment for such Credit Facility (the

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amount of the excess being referred to herein as an "Excess Amount"), then within three Business Days of written notice from the Lender, the Borrowers shall, at their option:

- (i) forthwith repay Loans and/or fund the Lender's obligations with respect to outstanding Bankers' Acceptances, Letters of Credit or Letters of Guarantee in an amount equal to or greater than such Excess Amount; or
- (ii) provide cash collateral or such other security as the Lender may require in an amount equal to or greater than such Excess Amount which collateral shall remain in the Lender's possession until the Canadian Dollar Amount of the principal amount of all Advances outstanding under such Credit Facility is equal to or less than the Commitment for such Credit Facility whereupon such collateral shall be released by the Lender to the Borrowers.
- (b) Notwithstanding any other provision of this Agreement, including any provision contemplating a Rollover or Conversion, whenever the Canadian Dollar Amount of the principal amount of all Advances outstanding under Facility A or Facility D is in excess of the Commitment for such Credit Facility, the Borrowers shall (i) repay any USBR Loan or (ii) upon the maturity of any Banker's Acceptance, repay the Banker's Acceptance, or (iii) upon the last day of the Contract Period in respect of a Libor Loan, repay the Libor Loan, and any repayments under clauses (i), (ii) and (iii) shall be applied in reduction of such Excess Amount.
- (c) The Borrowers shall, on demand, reimburse the Lender for and hold the Lender harmless against any loss, cost or expense suffered or incurred by the Lender by virtue of the necessity to resort to this Section 5.3 including any loss of profit or expenses which the Lender incurs by reason of the liquidation or re-deployment of deposits or other funds acquired by the Lender to maintain its obligations under this Agreement and any interest or other charges payable to the Lender of funds borrowed by the Lender in order to maintain the obligations of the Lender under this Agreement.
- (d) The Borrowers shall pay interest on any Excess Amount at a rate of Prime Rate plus 5% per annum, calculated on a daily basis on the actual number of days elapsed in a 365 day year, computed from the date an Excess Amount arises to, but excluding, the date on which the Excess Amount is repaid. Notwithstanding the foregoing, if a Borrower is aware that it will require an Excess Amount for a period

not longer than three Business Days, such Borrower may request that such Excess Amount be made available at the rate normally applicable to the relevant Credit Facility for such anticipated short term requirement. The Lender may refuse such a request in its discretion.

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5.4 Optional Prepayment.

LP may prepay, without penalty, in whole or in part and in a minimum amount of \$100,000, the Advances outstanding under Facility C, other than Advances by way of Libor Loans which Advances may not be prepaid prior to the end of the relevant Contract Period, at any time provided that all accrued interest with respect to the amount to be prepaid shall have been paid and provided that LP indemnify the Lender for any loss or expense suffered or incurred by the Lender, including any breakage costs which the Lender incurs by reason of the liquidation or redeployment of deposits or other funds acquired by it to effect or maintain Facility C or any interest or charges payable to the Lender of funds borrowed by the Lender and any other charges, costs or expenses incurred by the Lender relative thereto. A certificate of the Lender setting out the basis for the determination of the amount necessary to indemnify the Lender pursuant to this Section 5.4 shall be conclusive evidence, absent manifest error, of the correctness of that determination. LP shall give three Business Days' notice of its desire to make any prepayment, substantially in the form attached hereto as Schedule Q.

SECTION 6 PAYMENTS AND TAXES

6.1 Payments Generally.

All amounts owing in respect of a Credit Facility, whether on account of principal, interest or fees or otherwise, shall be paid in the currency in which the Advance is outstanding. Each payment under this Agreement shall be made for value on the day the payment is due. All interest and other fees shall continue to accrue until payment has been received by the Lender. Each payment shall be made by debit to the applicable Borrower's Account by the Lender at or before 1:00 p.m. on the day the payment is due. Each Borrower hereby authorizes the Lender to debit the applicable Borrower's Account in respect of any and all payments to be made by each Borrower under this Agreement.

6.2 Taxes.

- (a) Payments. All payments to be made by or on behalf of the Borrowers under or with respect to this Agreement are to be made free and clear of and without deduction or withholding for, or on account of, any present or future Taxes, unless such deduction or withholding is required by Applicable Law. If a Borrower is required to deduct or withhold any Taxes from any amount payable to the Lender (i) the amount payable shall be increased as may be necessary so that after making all required deductions or withholdings (including deductions and withholdings applicable to, and taking into account all Taxes on, or arising by reason of the payment of, additional amounts under this Section 6.2), the Lender receives and retains an amount equal to the amount that it would have received had no such deductions or withholdings been required, (ii) the Borrowers shall make such deductions or withholdings, and (iii) the Borrowers shall remit the full amount deducted or withheld to the relevant

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taxing authority in accordance with Applicable Laws. Notwithstanding the foregoing, the Borrowers shall not be required to pay additional amounts in respect of Excluded Taxes.

- (d) Indemnity. The Borrowers shall indemnify the Lender for the full amount of any Taxes (other than Excluded Taxes) imposed by any jurisdiction on amounts payable by the Borrowers under this Agreement and paid by the Lender and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes were correctly or

legally asserted, and any Taxes levied or imposed with respect to any indemnity payment made under this Section 6.2. The Borrowers shall also indemnify the Lender for any Taxes (other than Excluded Taxes) that may arise as a consequence of the execution, sale, transfer, delivery or registration of, or otherwise with respect to this Agreement or any other Document. The indemnifications contained in this Section 6.2(b) shall be made within 30 days after the date the Lender makes written demand therefor.

- (c) Evidence of Payment. Within 30 days after the date of any payment of Taxes by the Borrowers, the Borrowers shall furnish to the Lender the original or a certified copy of a receipt evidencing payment by the Borrowers of any Taxes with respect to any amount payable to the Lender hereunder.
- (d) Survival. The Borrowers' obligations under this Section 6.2 shall survive the termination of this Agreement and the payment of all amounts payable under or with respect to this Agreement.

6.3 No Set-Off.

All payments to be made by the Borrowers shall be made without set-off or counterclaim and without any deduction of any kind.

6.4 Application of Payments Before Exercise of Rights.

Subject to the provisions of this Agreement, all payments made by or on behalf of the Borrowers before the exercise of any rights arising under Section 10.2, or otherwise, shall be paid to the Lender in each instance in the following order:

- (a) firstly, in payment of any amounts due and payable as and by way of recoverable expenses hereunder;
- (b) secondly, in payment of any interest, other fees, or default interest then due and payable on or in respect of the Advances;
- (c) thirdly, in repayment of any principal amounts of the Advances; and

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- (d) fourthly, in payment of any other amounts then due and payable by the Borrowers hereunder or in connection herewith.

6.5 Application of Payments After Exercise of Rights Under Section 10.2.

All payments made by or on behalf of the Obligors after the exercise of any rights arising under Section 10.2 shall be paid to the Lender in each instance in the following order:

- (a) firstly, in payment of agency fees, if any, and the reasonable costs and expenses of any realization against the Obligors and any and all other sureties and guarantors or of its or their respective property and assets, including the out-of-pocket expenses of the Lender and the reasonable fees and out-of-pocket expenses of counsel, consultants and other advisers employed in connection therewith and in payment of all costs and expenses incurred by the Lender in connection with the administration and enforcement of this Agreement or the other Documents, to the extent that those funds, costs and expenses shall not have been reimbursed to the Lender; and
- (b) thereafter as the Lender may determine in its discretion.

SECTION 7 SECURITY DOCUMENTS

7.1 Security Documents.

The Borrowers shall cause the following documents to be executed and delivered to the Lender to secure the Obligations, those documents to be in form and substance satisfactory to the Lender:

- (a) in respect of Stake:

- (i) separate guarantees of the obligations of each of Temisca, 558497 Ontario, 1510146 Ontario and LP owing to the Lender;
- (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Stake, including securities (or the equivalent) registered in every location where Stake has assets;
- (iii) security under 427 of the Bank Act (Canada);
- (iv) a general assignment of book debts;
- (v) a first collateral charge, by way of debenture or other appropriate security, over the real property located at: (A) 2838 Highway 7, Norval, Ontario, (B) 407 Parkside Drive, Waterdown, Ontario, (C)

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70 Brant Street, Hamilton, Ontario, and (D) 2270-43rd Avenue, Lachine, Quebec;

- (vi) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Stake; and
 - (vii) an offset agreement regarding cash balances;
- (b) in respect of Temisca:
- (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a movable and immovable hypothec creating a hypothec in all of the real and personal personal property, assets and undertaking of Temisca, including securities (or the equivalent) registered in every location where Temisca has assets including over the real property located at: 1299 Rang, P.O. Box 34, St. Bruno de Gignes, Quebec;
 - (iii) security under 427 of the Bank Act (Canada);
 - (iv) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Temisca; and
 - (v) an offset agreement regarding cash balances.
- (c) in respect of 558497 Ontario:
- (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of 558497 Ontario, including securities (or the equivalent) registered in every location where 558497 Ontario has assets;
 - (iii) security under 427 of the Bank Act (Canada);
 - (iv) a general assignment of book debts;
 - (v) an offset agreement regarding cash balances; and
 - (vi) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of 558497 Ontario;

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- (d) in respect of 1510146 Ontario:
 - (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of 1510146 Ontario, including securities (or the equivalent) registered in every location where 1510146 Ontario has assets;
 - (iii) security under 427 of the Bank Act (Canada);
 - (iv) a general assignment of book debts;
 - (v) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of 1510146 Ontario; and
 - (vi) an offset agreement regarding cash balances;
- (e) in respect of LP:
 - (i) a guarantee of the obligations of Stake owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of LP, including securities (or the equivalent) registered in every location where LP has assets;
 - (iii) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of LP; and
 - (iv) an offset agreement regarding cash balances;
- (f) in respect of the ULC:
 - (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of ULC, including securities (or the equivalent) registered in every location where ULC has assets;
 - (iii) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of ULC; and
 - (iv) an offset agreement regarding cash balances;
- (g) in respect of LLC:
 - (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of LLC, including securities (or the equivalent) registered in every location where LLC has assets;
 - (iii) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of LLC;
 - (iv) an offset agreement regarding cash balances; and
 - (v) assignment of debt owing by Sunrich Food and related security;
- (h) in respect of Sunrich Food:

- (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Sunrich Food, including securities (or the equivalent) registered in every location where Sunrich Food has assets;
 - (iii) a general assignment of book debts;
 - (iv) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Sunrich Food; and
 - (v) an offset agreement regarding cash balances;
- (i) in respect of Northern Food:
- (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Northern Food, including securities (or the equivalent) registered in every location where Northern Food has assets;
 - (iv) a general assignment of book debts;

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- (iv) a first collateral charge, by way of debenture or other appropriate security, over the real property located at: (A) 2214 Geneva Road NE, Alexandria, Minnesota, (B) 601 3rd Avenue W, Alexandria, Minnesota, (C) 4601 Co. Road, 13 NE, Alexandria, Minnesota, (D) 3035 Evergreen Lane, Alexandria, Minnesota, (E) 308-2nd Avenue NW, Bertha, Minnesota, (F) 701 W 1st Street, Fosston, Minnesota, (G) 199 W 2nd Avenue, Afton, Wyoming, and (H) 2442 Cty Road 120 NE, Alexandria, Minnesota;
 - (v) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Northern Food; and
 - (vi) an offset agreement regarding cash balances;
- (j) in respect of Nordic:
- (i) separate guarantees of the obligations of each of Stake and LP;
 - (ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Nordic, including securities (or the equivalent) registered in every location where Nordic has assets;
 - (iii) a general assignment of book debts;
 - (iv) a first collateral charge, by way of debenture or other appropriate security, over the real property located at: 3915 Minnesota Street, Alexandria, Minnesota;
 - (v) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Nordic; and
 - (vi) an offset agreement regarding cash balances;
- (k) in respect of Sunrich:
- (i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;
 - (ii) a general security agreement creating a security interest in

all of the personal property, assets and undertaking of Sunrich, including securities (or the equivalent) registered in every location where Sunrich has assets;

(iii) a general assignment of book debts;

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(iv) a first collateral charge, by way of debenture or other appropriate security, over the real property located at: (A) 3824-93rd Street SW, Hope, Minnesota, and (B) 616-6th Avenue W, Cresco, Iowa;

(v) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Sunrich; and

(vi) an offset agreement regarding cash balances;

(l) in respect of Stake USA:

(i) separate guarantees of the obligations of each of Stake and the LP owing to the Lender;

(ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Stake USA, including securities (or the equivalent) registered in every location where Stake USA has assets;

(iii) a general assignment of book debts; and

(iv) an assignment of all insurance policies, including but not limited to fire and all perils insurance on real property and policies insuring the assets of Stake USA;

(v) an offset agreement regarding cash balances;

(m) in respect of Virginia Materials:

(i) separate guarantees of the obligations of each of Stake and LP owing to the Lender;

(ii) a general security agreement creating a security interest in all of the personal property, assets and undertaking of Virginia Materials, including securities (or the equivalent) registered in every location where Virginia Materials has assets;

(iii) a general assignment of book debts; and

(iv) an offset agreement regarding cash balances;

(n) a subordination agreement from each of the shareholders of each of the Obligors subordinating any interest of each such shareholder in the property, assets or undertaking of the applicable Obligor securing payment of shareholder loans by or to the Obligors, as applicable;

(o) the Lender's standard form LIBOR agreements;

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(p) the Lender's standard form Bankers' Acceptances in blank in accordance with Section 3.8(f); and

(q) such other additional or substitute security as the Lender may require from time to time.

7.2 Further Assurances.

(a) Additional Obligors. The Borrowers shall cause any Included Subsidiary to sign an Additional Obligor Counterpart and execute and

deliver a guarantee unlimited as to amount, substantially similar to the guarantees executed by the Obligors, supported by:

- (i) a general security agreement or the equivalent, substantially similar to the general security agreements executed by the Obligors, creating a security interest in all its personal property, assets and undertaking, including securities registered in every location where such Included Subsidiary has assets;
- (ii) a charge (or the equivalent) of such Included Subsidiary creating a fixed charge on all such Included Subsidiary's real property registered against title to such property;
- (iii) an assignment of all insurance policies held by the Included Subsidiary insuring the real property or assets of the Included Subsidiary; and
- (iv) such other additional or substitute security as the Lender may require from time to time;

all immediately upon that Person becoming an Included Subsidiary.

- (b) Further Documents. Upon request of the Lender, the Obligors or any of them shall execute and deliver, or shall cause to be executed and delivered, to the Lender such further documents or instruments and shall do or cause to be done such further acts as may be necessary or proper in the reasonable opinion of the Lender, in its sole discretion, to secure the Obligations, including executing and delivering or causing to be executed and delivered such further documents or instruments to give the Lender a first priority security interest in any and all property and assets acquired, subject to any Permitted Liens ranking prior to the Lender's Liens.

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SECTION 8 CONDITIONS PRECEDENT

8.1 Conditions Precedent to Disbursements of Advances.

The obligation of the Lender to make available the first Advance, Rollover or Conversion under this Agreement is subject to and conditional upon the satisfaction of the following conditions:

- (a) Delivery of Documents. The Lender shall have received sufficient copies, in form and substance satisfactory to the Lender, of the following:
 - (i) this Agreement duly executed by all the parties hereto;
 - (ii) each Security Document and all other Documents duly executed by all the parties thereto;
 - (iii) timely notice as may be required by any term of this Agreement in connection with any action to be taken thereunder;
 - (iv) a Certificate of each Obligor dated the Closing Date certifying:
 - A. that its constating documents and the by-laws, which shall be attached thereto, are complete and correct copies and are in full force and effect;
 - B. all resolutions and all other authorizations necessary to authorize the execution and delivery of and the performance by it of its obligations under this Agreement, the Security Documents and the other Documents to which it is a party and all the transactions contemplated thereby; and
 - C. all representations and warranties contained in this Agreement are true and correct as if made on the date of

the Certificate.

- (v) financial statements for the nine month period ended September 30, 2001 and draft financial statements for the 12 month period ended December 31, 2001;
- (vi) opinions of counsel to the Obligors, addressed to the Lender and counsel to the Lender with respect to, inter alia, due authorization, execution, delivery and enforceability of the Documents executed by the Obligors;

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- (vii) opinions of Donahue LLP, counsel to the Lender, and local agents in all relevant jurisdictions regarding registration of the Security Documents addressed to the Lender;
 - (viii) duly executed certificate(s) of insurance evidencing the insurance required under this Agreement and endorsements of those policies each showing loss payable to the Lender;
 - (ix) such other documents as the Lender may reasonably request including (A) the documents listed in Section 7.1 hereof, and (B) standard documentation used by the Lender in connection with the issuance of Letters of Credit and Letters of Guarantee, prior to any Advance by way of any such method;
 - (x) a duly completed Environmental Checklist in the Lender's standard form, or if available, a Phase I environmental report in respect of real property owned by the Obligors;
 - (xi) landlord waivers satisfactory to the Lender in respect of real property leased by any Obligor; and
 - (xii) a copy of all of the relevant Obligor's agreements relating to the Rhodia Note Payable and the Rhodia Note Receivable.
- (b) Payout and Discharge. All funds owed by the Obligors to those creditors identified by the Lender shall be repaid in full and all security registrations made in favour of such creditors shall be discharged or the Lender shall have received an undertaking from such creditors to discharge all such security registrations in form and substance satisfactory to the Lender.
- (c) Registration of Security Documents. All registrations, recordings and filings of or with respect to the Security Documents which in the opinion of counsel to the Lender are necessary to render effective the Lien intended to be created thereby shall have been completed.
- (d) Fees. All fees payable in accordance with this Agreement on or before the Closing Date (including legal fees and expenses of the Lender) shall have been paid to the Lender.
- (e) Due Diligence. The Lender shall have completed its business, legal and accounting due diligence (including receipt of environmental checklists from the Obligors, a list of the contents of the inventory of each of the Steam Explosion Technology Group and BEI/PECAL divisions of Stake and a listing of Stake's fixed assets and assessments and real estate appraisals) with results satisfactory to the Lender.
- (f) Market Change. No material adverse change or material disruption of the financial, banking or capital markets shall have occurred and be

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continuing, in each case, determined by the Lender in its sole and absolute discretion.

- (g) Material Adverse Change. No Material Adverse Change shall have

occurred with respect to the Obligors.

- (h) Existing Debt. The Lender shall have reviewed the Obligors' existing Debt obligations, with results satisfactory to the Lender.
- (i) Harris. Sunrich Food shall have entered into a credit agreement with Harris on terms acceptable to the Lender (the "Harris Loan Agreement").
- (j) Security Sharing. The Lender and Harris shall have entered into a mutually acceptable security sharing agreement.

8.2 Conditions Precedent to All Advances.

The obligations of the Lender to make available any subsequent Advance, Rollover or Conversion, after the conditions in Section 8.1 being satisfied, are subject to and conditional upon each of the conditions below being satisfied on the applicable Drawdown Date, Rollover Date or Conversion Date:

- (a) No Default. No Default or Event of Default shall exist.
- (b) No Demand. No demand for repayment of any Credit Facility shall have been made.
- (c) Representations Correct. The representations and warranties contained in Section 2.1 shall be true and correct on each Drawdown Date, Rollover Date or Conversion Date as if made on that date.
- (d) Notice of Advance. The Borrowers shall have provided any notice required in respect of an Advance, Rollover or Conversion.
- (e) Facility A Advances. The Facility A Borrowers shall have provided a current certified aged statement of Accounts Receivable and listing of Inventory in accordance with Section 3.5(a).
- (f) Certain Advances. Each applicable Borrower executing and delivering to the Lender customary documentation required by the Lender from time to time for purposes of extending Advances by way of Letter of Credit, Letter of Guarantee, Bankers' Acceptance and Hedge Contract.

8.3 Waiver of a Condition Precedent.

The conditions stated in Sections 8.1 and 8.2 are inserted for the sole benefit of the Lender and may be waived by the Lender, in whole or in part, with or without terms or conditions, in respect of all or any portion of the Advances, without affecting the right of

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the Lender to assert terms and conditions in whole or in part in respect of any other Advance.

SECTION 9 COVENANTS

9.1 Affirmative Covenants.

While any amount owing under this Agreement or any of the other Documents remains unpaid, or the Lender has any obligations under this Agreement or any of the other Documents, each of the Obligors covenants, for itself, with the Lender as follows:

- (a) Corporate Existence. It shall do or cause to be done all things necessary to keep in full force and effect its corporate existence and all rights, trade-marks, licenses and qualifications required for it to carry on its businesses and own, lease or operate its properties in each jurisdiction in which it carries on business or owns, leases or operates property or assets from time to time.
- (b) Insurance. It shall maintain insurance on its properties and assets and for the operation of its businesses in such amounts and against such risks as would be customarily obtained and maintained by a prudent owner of similar properties and assets operating a similar

business, including appropriate liability insurance, business interruption insurance and third party liability insurance. It shall provide copies of those policies to the Lender, which policies shall be satisfactory to the Lender. Each insurance policy shall include an endorsement whereby the insurers agree to give the Lender not less than 30 days notice of the cancellation of the policy of insurance and permit the Lender to cure any default which may exist under the policy. It shall name the Lender as loss payee or additional insured as the Lender's interest may appear in all of its policies of insurance or otherwise assure the Lender of the availability of continuing coverage in a manner satisfactory to the Lender.

- (c) Compliance with Laws, etc. It shall comply with all Applicable Laws and all Government Approvals required in respect of its businesses, properties, the Collateral, or any activities or operations carried out thereon including health, safety and employment standards, labour codes and Environmental Laws. If required by the Lender, it shall deliver to the Lender evidence satisfactory to the Lender concerning such compliance with all Applicable Laws and Government Approvals.
- (d) Government Approvals. It shall obtain (to the extent not in existence on the date of this Agreement) and maintain, by the observance and performance of all obligations thereunder and conditions thereof, all Government Approvals required for it to carry on its businesses.

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- (e) Conduct of Business. It shall:
 - (i) conduct its business and the operation of its property in a proper and efficient manner and keep proper books of account and records with respect to the operation of its business and the operation of its property;
 - (ii) diligently maintain, repair, use and operate its property and premises in a proper and efficient manner;
 - (iii) maintain its physical assets in good condition so that each asset may be used at all times for the purpose for which it was intended; and
 - (iv) perform all of its obligations under the terms of each mortgage, indenture, security agreement and other debt instrument by which it is bound.
- (f) Payment. It shall duly and punctually pay or cause to be paid all sums of money due and payable by it under this Agreement and the other Documents on the dates, at the places and in the currency and the manner set forth herein and therein.
- (g) Litigation. It shall (i) promptly give notice to the Lender of any litigation, proceeding or dispute, threatened or commenced, if the litigation, proceeding or dispute, if adversely determined, could reasonably be expected to have a Material Adverse Effect on it or the other Obligors, (ii) advise the Lender of the extent to which any adverse determination is covered by insurance, (iii) provide all reasonable information requested by the Lender concerning the status of any litigation, proceeding or dispute, and (iv) use reasonable efforts to bring about a reasonable, favourable and speedy resolution or disposition of the litigation, proceeding or dispute.
- (h) Pay Claims and Taxes. It shall promptly pay and discharge, when due, all Taxes charged to or payable by it and all obligations which may result in Liens (other than Permitted Liens) on its properties or assets unless the relevant Tax or obligation is being actively and diligently contested in good faith by appropriate proceedings and is adequately reserved against in accordance with GAAP. It shall notify the Lender of each contest promptly upon forming the intention to contest the relevant payment, Tax or obligation.

- (i) Notice of Default or Material Adverse Change. It shall, upon obtaining knowledge thereof, provide to the Lender as soon as practicable, and in any event within one Business Day after obtaining that knowledge, notice of any Material Adverse Change, Default or Event of Default, together with an officer's certificate setting forth the details of any such Material

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Adverse Change, Default or Event of Default and the action taken or to be taken to remedy it.

- (j) Other Reports and Filings. Promptly upon transmission thereof it shall deliver to the Lender copies of all financial information, statutory audits, proxy materials and other information and reports, if any, which it (i) has filed with the Securities and Exchange Commission or any governmental agencies substituted therefor or with the Ontario Securities Commission or any securities regulatory authority or any other equivalent governmental agencies in any state, province or territory of Canada or the United States of America, (ii) has delivered to holders of, or any agent or trustee with respect to, its Debt in their capacity as such a holder, agent or trustee, or (iii) has delivered to any shareholder in its capacity as a shareholder.
- (k) Other Information. From time to time, it shall deliver to the Lender such other information or documents (financial or otherwise) as the Lender may reasonably request.
- (m) Books, Records and Inspections. It will keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to its business and activities. It will permit officers and designated representatives of the Lender to visit and inspect, under guidance of its officers, any of its properties and to examine its books of account and discuss its affairs, finances and accounts, and be advised as to the same by, its officers, all at such reasonable times and intervals and to such reasonable extent as the Lender may request.
- (n) First Priority. It will take all actions, sign all documents, effect all registrations and otherwise act so as to carry out the intent of this Agreement which is that the Liens created by the Security Documents are to rank first against all of its undertaking, property and assets subject only to Permitted Liens.
- (o) Environmental Compliance. It will carry on all activities in compliance with all Environmental Laws. It will not cause or permit the Release or storage of a Hazardous Substance in or under its properties except in compliance with all Environmental Laws. If it comes to its attention that it is not in material compliance with all applicable Environmental Laws, it will remedy that non-compliance immediately. If immediate remedy is not possible, it will notify the Lender immediately of the problem and describe in detail the action it intends to take to return to compliance with this Section 9.1(n).
- (o) Capital Expenditures. It will make, subject to a permitted 10% variance above the budgeted amount, Capital Expenditures only in accordance with

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and as budgeted for in its Business Plan, unless otherwise approved in writing by the Lender.

- (p) Annual Meetings with Lender. On or before April 30th in each Fiscal Year, it shall hold a meeting with the Lender upon the request of the Lender at which meeting shall be reviewed the financial results of the previous fiscal year and the financial condition of the Obligors and the Business Plan.

- (q) Auditors. It shall promptly give notice to the Lender of a change in its Auditors and the reasons for the change.

9.2 Negative Covenants.

While any amount owing under this Agreement or any of the other Documents remains unpaid, or the Lender has any obligations under this Agreement or any of the other Documents, each Obligor covenants, for itself, with the Lender as follows:

- (a) Limitation on Liens. It shall not directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any material part of its property or assets, whether now owned or hereafter acquired, other than Permitted Liens. The ability of the Obligors to incur or suffer to exist Permitted Liens is not to be construed as a subordination, constructive or otherwise, of the Liens granted to the Lender to such Permitted Liens.
- (b) Disposition of Assets. It shall not sell, lease, transfer, assign, convey or otherwise dispose of any of its properties or assets except in the ordinary course of business and in accordance with the terms of the Security Documents unless the Permitted Proceeds of such sale are applied as set out in Section 5.2.
- (c) Consolidations and Mergers. It shall not merge, consolidate, amalgamate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favour of any Person without the Lender's prior written approval which may be withheld at the Lender's sole discretion, except that any Obligor may merge, amalgamate with, or dissolve or liquidate into, any other Obligor (so long as it remains an Obligor), provided that in any such transaction, other than an amalgamation, the Obligor shall be the continuing or surviving corporation.
- (d) Limitation on Debt. It shall not create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Debt in excess of \$500,000 in the aggregate during the term of this Agreement, except:

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- (i) Debt incurred pursuant to this Agreement;
- (ii) Debt consisting of Contingent Obligations described in clause (b) of the definition thereof and permitted pursuant to Section 9.2(g);
- (iii) Debt existing on the date of the Closing Date as set forth in Schedule R;
- (iv) Debt secured by or which could be secured by Permitted Liens;
- (v) Debt for amounts payable to suppliers in the ordinary course of business;
- (vi) unsecured Debt to an Obligor; and
- (vii) Debt of Temisca in respect of the Class H Shares in the capital of Temisca in the maximum aggregate amount of \$109,000.
- (e) Transactions with Affiliates or Associates. It shall not enter into any transactions with any Affiliate or Associate of it, except:
- (i) as expressly permitted by this Agreement or listed on Schedule S hereto; or
- (ii) in the ordinary course of business and pursuant to the reasonable requirements of its business;

and, in the case of clause (ii), upon fair and reasonable terms no

less favourable to it than would obtain in a comparable arm's-length transaction with a Person which is not its Affiliate or Associate.

- (f) Management Fees and Compensation. It shall not pay any management, consulting or similar fees to any Affiliate or to any officer, director or employee of it or any Affiliate except (i) payment of reasonable compensation and expense reimbursement to officers and employees for actual services rendered to, and expenses incurred for, it in the ordinary course of business, and (ii) payment of directors' fees and reimbursement of actual out-of-pocket expenses incurred in connection with attending board of director meetings not to exceed in the aggregate for the Obligor with respect to all such items \$150,000 in any Fiscal Year provided that no such payment shall be made if a Default or an Event of Default is outstanding or if the making of such payment will result in a Default or an Event of Default.
- (g) Contingent Obligations. It shall not create, incur, assume or suffer to exist any Contingent Obligations, other than in respect of the Obligations except:

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- (i) endorsements for collection or deposit in the ordinary course of business;
- (ii) Contingent Obligations incurred in the ordinary course of business with respect to surety and appeal bonds, performance bonds and other similar obligations; and
- (iii) Contingent Obligations arising with respect to customary indemnification obligations in favour of purchasers in connection with dispositions permitted under Section 9.2(b).

The foregoing permission to incur Contingent Obligations is not consent for any Obligor to honour those Contingent Obligations if otherwise restricted or prohibited by this Agreement.

- (h) Restricted Payments. It shall not (i) declare or make any payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any of its capital stock, partnership interests, membership interests or other equity securities (except that any Obligor may declare and pay dividends to another Obligor (so long as it remains an Obligor)), or (ii) purchase, redeem or otherwise acquire for value any of its, or any of its Affiliates', shares of capital stock, partnership interests, membership interests or other equity securities or any warrants, rights or options to acquire such interests or securities now or hereafter outstanding.
- (i) Change in Business. It shall not engage in any material line of business substantially different from those lines of business carried on by it on the date hereof and it shall not change the location from which such line of business is carried on by it, all as described in Schedule C, without the Lender's prior written consent.
- (j) Change in Structure. It shall not make any changes in its equity capital structure (including a change in the terms of its outstanding equity securities), or amend its constating documents (including any shareholder agreement) without the Lender's prior written consent, except as necessary to effect transactions permitted under Section 9.2(c).
- (k) Accounting Changes. It shall not make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change its Fiscal Year.
- (l) Material Contracts. It shall not (i) cancel or terminate any Material Contract; (ii) waive any default or breach under any Material Contract; (iii) amend or otherwise modify any Material Contract; or (iv) take any other action in connection with any Material Contract, that would, in each case, have a Material Adverse Effect.

- (m) Limitation on Sale and Leaseback Transactions. It will not, directly or indirectly, enter into any sale and leaseback transaction with respect to any property or assets (whether now owned or hereafter acquired).
- (n) Investments. It will not, other than in respect of the proceeds of the Advance under Facility C and the corresponding equity contribution in each of the ULC and the LLC make or commit to make any capital contributions to, or any purchase of any shares of, or any other equity investment in, or any acquisition of all or any substantial part of, the assets, rights and properties of, any Person without the Lender's prior written approval.
- (o) Use of Cash. Use any cash on deposit with the Lender which is subject to an offset agreement in breach of any term or covenant contained in this Agreement.
- (p) Loans of 1108176 Ontario. It will not make loans or advance funds or make or increase, as the case may be, any equity investment in 1108176 Ontario without the prior written consent of the Lender.

9.3 Financial Covenants of the Borrowers.

While any amount owing under this Agreement or any of the other Documents remains unpaid, or the Lender has any obligations under this Agreement or any of the other Documents, the Borrowers covenant with the Lender as follows:

- (a) Funded Debt to EBITDA Ratio. The Funded Debt to EBITDA Ratio of the Consolidated Borrower shall at all times prior to September 30, 2002 be less than 3.00 : 1.00, shall at all times from September 30, 2002 to August 31, 2003 be less than 2.75 : 1.00 and shall at all times thereafter be less than 2.50 : 1.00.
- (b) Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio of the Consolidated Borrower shall at all times up to and including June 30, 2002 be greater than or equal to 1.25 : 1.00 and thereafter shall at all times be greater than or equal to 1.5 : 1.00.
- (c) Debt to New Worth Ratio. The Debt to Net Worth Ratio of the Consolidated Borrower shall at all times be 2.5 : 1.00.
- (d) Working Capital Ratio. The Working Capital Ratio of the Consolidated Borrower shall not at any time be less than 1.25 : 1.00.
- (e) Net Worth. The Consolidated Borrower shall maintain a Net Worth of not less than \$30,000,000 at all times plus 75% of cumulative net income plus the stated capital amount of any share issuance.

- (f) Calculation of Ratios, etc. The Funded Debt to EBITDA Ratio, the Fixed Charge Coverage Ratio and the Debt to Net Worth Ratio shall each be calculated quarterly on any day based on the most recent period of twelve fiscal months completed and ending on or immediately prior to such day. The initial Fixed Charge Coverage Ratio shall be based upon the first six months of the calendar year 2001 on an annualized basis. The initial Funded Debt to EBITDA Ratio, Fixed Charge Coverage Ratio and Debt to Net Worth Ratio shall be calculated based upon the first nine months of the calendar year 2001 on an annualized basis with the balance sheet further adjusted to include the results of the private placement of 3,400,000 common shares at an issue price of C\$3.30 per share and 850,000 common shares at an issue price of US\$2.10 in the capital of Stake. On an ongoing basis EBITDA shall be adjusted to include the results of any business acquisition on an annualized basis.
- (g) Changes to GAAP. Upon the occurrence of any change in GAAP, the Lender will adjust the ratios set out in this Section 9.3.

9.4 Accounting, Financial Statements and Other Information.

While any amount owing under this Agreement or any of the other Documents remains unpaid, or the Lender has any obligations under this Agreement or any of the other Documents, each Borrower covenants with the Lender as follows:

- (a) Quarterly Consolidated Financial Statements. Within 60 days of the end of each Fiscal Quarter, it will deliver to the Lender the consolidated balance sheet of Stake as at the end of such Fiscal Quarter and the related consolidated statements of income and cash flows, together with schedules prepared in a manner satisfactory to the Lender, presenting the balance sheet of the Obligor as at the end of such Fiscal Quarter and the related consolidating spreadsheets (including balance sheets and income statements) in respect of each Obligor of income and cash flows, (and showing all adjustments made to prepare such balance sheet and statement) all of which shall be certified by the chief financial officer of Stake together with a certificate of such officer relating to the compliance or non-compliance with this Agreement in the form attached hereto as Schedule T.
- (b) Facility A Borrowing Base Statements. Within 30 days of the end of each fiscal month, the Facility A Borrowers will deliver to the Lender an aged Accounts Receivable listing and Inventory listing segregating United States, Canadian and foreign domiciled Accounts Receivable of the Facility A Borrowers and categorizing Inventory as either raw materials, parts or supplies and finished goods of the Facility A Borrowers for such period all of which shall be certified by the chief financial officer of Stake. Accounts Receivable guaranteed by EDC or secured by a letter of credit

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from a financial institution acceptable to the Lender shall be separately identified.

- (c) Annual Audited Financial Statements. Within 120 days of the end of each Fiscal Year, Stake will deliver to the Lender the consolidated balance sheets of Stake as at the end of such Fiscal Year and the related consolidated statements of income, retained earnings and statements of cash flows for such Fiscal Year, certified by the Auditors, together with a signed opinion of the Auditors (which opinion shall not be qualified in any respect) on the consolidated financial statements.
- (d) Annual Unaudited Financial Statements. Within 120 days of the end of each Fiscal Year, Stake will cause Sunrich Food to, and Sunrich Food will, deliver to the Lender the unaudited consolidated balance sheets of Sunrich Food and its Subsidiaries as at the end of such Fiscal Year and the related consolidated statements of income, retained earnings and statements of cash flows for such Fiscal Year, all of which shall be certified by the chief financial officer of Sunrich Food.
- (e) Management Letters. Promptly after the receipt thereof by any Obligor, a copy of any "management letter" received by any Obligor from the Auditors.
- (f) Annual Business Plan. Not later than one day prior to the first day of each Fiscal Year, a Business Plan for Stake on a consolidated basis and for each Obligor (other than Stake) and Subsidiary on an unconsolidated basis in form satisfactory to the Lender and consistent with past practice (including financial projections, Capital Expenditure budgets, budgeted statements of income and sources and uses of cash and balance sheets) prepared for (i) each calendar month of such fiscal year, and (ii) the Fiscal Year immediately following such Fiscal Year, in each case, prepared in reasonable detail with appropriate presentation and discussion of the principal assumptions upon which such projections and budgets are based, accompanied by the statement of the chief financial officer of each Obligor and Subsidiary to the effect that, to the best of his or her knowledge, the projections and budget are a

reasonable estimate for the period covered thereby.

- (g) Other Information. Such other information as the Lender may reasonably request.

SECTION 10
DEFAULT AND ENFORCEMENT

10.1 Events of Default.

Without in any way limiting the demand nature of the Credit Facilities and the right of the Lender to demand payment under any or all Credit Facilities at any time and from

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time to time notwithstanding the compliance or non-compliance by the Obligors or any of them with any or all of the terms and conditions of the Documents, upon the occurrence of any one or more of the following events the Lender may by written notice to the Borrowers, declare that an Event of Default under the Credit Facilities has occurred:

- (a) Non-payment of Principal. Any Borrower fails to make when due, whether by acceleration or otherwise, any payment of principal required to be made under this Agreement or any other Document.
- (b) Non-payment of Interest, Fees or Other Amounts. Any Obligor fails to make when due, whether by acceleration or otherwise, any payment of interest, fees, costs or any other payment under this Agreement or any other Document and that failure continues for three Business Days after the due date.
- (c) Breach of Covenants, etc. Any Obligor:
 - (i) fails to perform or observe any term, condition, covenant or undertaking contained in Sections 7.2, 9.1, 9.2, 9.3 and 9.4 and that failure, if capable of being remedied, is not remedied within 20 days of its occurrence;
 - (ii) fails to bring any of its real property into material compliance with applicable Environmental Laws as contemplated by Section 9.1(o) within a reasonable period which, in no event, shall exceed six months from the date hereof;
 - (iii) fails to observe or perform any other term, condition, covenant or undertaking contained in any Document which is not otherwise specifically addressed in this Section 10.1(c) and which failure cannot be remedied; or
 - (iv) fails to observe or perform any other term, condition, covenant or undertaking contained in any Document which is not otherwise specifically addressed in this Section 10.1(c) and that failure, if capable of being remedied, is not remedied within 20 days of its occurrence.
- (d) Cross-Default. With respect to any other Debt of any Obligor or Subsidiary:
 - (i) demand is made of Debt in excess of \$500,000 payable on demand or default occurs in the payment thereof when due, whether by virtue acceleration or otherwise;
 - (ii) default occurs in the performance or observance of any obligation or condition with respect thereto and that default remains unremedied after any remedial period with respect thereto; or
 - (iii) any other event occurs with respect thereto;

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and the effect of that default or other event is to accelerate the maturity of that Debt or to permit the holder or holders thereof, or any trustee or agent for the holder or holders, to cause the Debt to become due and payable prior to its expressed maturity and/or to realize on any security that may be held for such Debt.

- (e) Representations and Warranties. Any representation, warranty or statement which is made by any Obligor in any Document or which is contained in any certificate, written statement or written notice provided under or in connection with any Document or which is deemed to have been made is untrue or incorrect when made in any material respect.
- (f) Execution. Judgments are made against a the Obligors or any Subsidiary or any one of them in excess of \$500,000 by any court of competent jurisdiction and either (i) a writ, execution or attachment or similar process is levied against the property of any of them in respect of such judgment, or (ii) the judgment is not actively and diligently appealed and execution thereof stayed pending appeal within 30 days of the rendering of the judgment, or (iii) the judgment is not paid or otherwise satisfied within 30 days of the rendering of the judgment.
- (g) Invalidity and Contest. This Agreement or any of the other Documents, or any provision hereof or thereof, shall at any time after execution and delivery hereof or thereof, for any reason, cease to be a legal, valid and binding obligation of any Obligor, as applicable, or any other party thereto or cease to be enforceable against any Obligor, as applicable, or any party thereto in accordance with its terms or shall be declared to be null and void, or the legality, validity, binding nature or enforceability of this Agreement or any other Document, or any provision hereof or thereof, shall be contested by any of the Obligors, as applicable, or any other party thereto or any of the Obligors, as applicable, or any party thereto shall deny that it has any further liabilities or obligations hereunder or thereunder.
- (h) Government Approval. Any Government Approval required to enable any of the Obligors and/or the Subsidiaries to conduct its business substantially as presently conducted or to perform its obligations under any Document is not obtained or is withdrawn or ceases to be in full force and effect and that required Government Approval cannot be acquired or reinstated within 30 days of the date on which the relevant Obligor or Subsidiary knew or ought to have known the Government Approval was required or withdrawn.

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- (i) Voluntary Proceedings. Any Obligor:
 - (i) institutes proceedings for substantive relief in any bankruptcy, insolvency, debt restructuring, reorganization, readjustment of debt, dissolution, liquidation, winding-up or other similar proceedings (including proceedings under the Bankruptcy and Insolvency Act (Canada), the Winding-up and Restructuring Act (Canada), the Companies' Creditors Arrangement Act (Canada), the incorporating statute of the relevant corporation or other similar legislation), including proceedings for the appointment of a trustee, interim receiver, receiver, receiver and manager, administrative receiver, custodian, liquidator, provisional liquidator, administrator, sequestrator or other like official with respect to the relevant corporation or all or any material part of its property or assets;
 - (ii) makes an assignment for the benefit of creditors;
 - (iii) is unable or admits in writing its inability to pay its debts as they become due or otherwise acknowledges its insolvency or commits any other act of bankruptcy or is taken to be insolvent under any applicable legislation;
 - (iv) voluntarily suspends the conduct of its business or

operations;

or acquiesces to, or takes any action in furtherance of, any of the foregoing.

- (j) Involuntary Proceedings. If any third party in respect of any Obligor:
- (i) makes any application under the Companies' Creditors Arrangement Act (Canada) or similar legislation in Canada or the United States of America;
 - (ii) files a proposal or notice of intention to file a proposal under the Bankruptcy and Insolvency Act (Canada) or similar legislation in Canada or the United States of America;
 - (iii) institutes a winding-up proceeding under the Winding-up and Restructuring Act (Canada), any relevant incorporating statute or any similar legislation in Canada or the United States of America;
 - (iv) presents a petition in bankruptcy under the Bankruptcy and Insolvency Act (Canada) or any similar legislation in Canada or the United States of America; or
 - (v) files, institutes or commences any other petition, proceeding or case under any other bankruptcy, insolvency, debt restructuring,

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reorganization, incorporation, readjustment of debt, dissolution, liquidation, winding-up or similar law now or hereafter in effect, seeking bankruptcy, liquidation, reorganization, dissolution, winding-up, composition or readjustment of debt of any of them, the appointment of a trustee, interim receiver, receiver, receiver and manager, administrative receiver, custodian, liquidator, provisional liquidator, administrator, sequestrator or other like official for any of them, or any material part of any of their respective assets or any similar relief in Canada or the United States of America;

and if the application, filing, proceeding, petition or case is not contested by bona fide action on the part of the relevant Obligor or Subsidiary and is not dismissed, stayed or withdrawn within 30 days of commencement thereof or if relief is granted against the relevant Obligor or Subsidiary.

- (k) Creditor Action. Any secured creditor, encumbrancer or lienor, or any trustee, interim receiver, receiver, receiver and manager, administrative receiver, agent, bailiff or other similar official appointed by any secured creditor, encumbrancer or lienor, takes possession of, forecloses, seizes, retains, sells or otherwise disposes of, or otherwise proceeds to enforce security over, all or a substantial part of the assets of any Obligor or gives notice of its intention to do any of the foregoing.
- (l) Material Adverse Effect. At any time there occurs an event or circumstance which in the view of the Lender has or could have a Material Adverse Effect on any Obligor.
- (m) Material Contracts. Any Obligor defaults in any material respect under any Material Contract and all applicable notice or cure periods under the Material Contract have expired and the default has not been cured or waived.
- (n) Change of Control Regarding Persons Other Than Stake. There occurs, directly or indirectly, a change in the legal or beneficial ownership of any shares in the capital stock of any Obligor (other than Stake) or any Subsidiary such that Stake shall cease to own or control, directly or indirectly, shares or ownership interests of such Obligor or Subsidiary carrying voting rights sufficient to

permit Stake to elect a majority of the members of the board of directors of such Obligor or Subsidiary.

- (o) Change of Control Regarding Stake. There occurs, directly or indirectly, a change in the legal or beneficial ownership of any shares in the capital stock of Stake such that a Person or group of Persons acting in concert beneficially owns or controls 51% or more of the shares of the Borrower carrying voting rights.

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- (p) Harris Default. A default or event of default occurs under the Harris Loan Agreement.

10.2 Rights upon Default and Event of Default.

Upon demand for payment or occurrence of a Default, the Lender may, on notice to the Borrowers, declare that the ability of the Borrowers to make request for further Advances under any Credit Facility shall be suspended pending the remedying of the Default. Upon the occurrence of an Event of Default the Lender may do either or both of the following:

- (a) declare that the Commitment under any or all Credit Facilities has expired and that the Lender's obligations to make Advances have terminated; and
- (b) declare the entire principal amount of all Advances outstanding, all unpaid accrued interest and all fees and other amounts required to be paid hereunder to be immediately due and payable without the necessity of presentment for payment, notice of non-payment and of protest (all of which are hereby expressly waived) and proceed to exercise any and all rights and remedies hereunder and under any other Document.

From and after the issuance of any declaration referred to in this Section 10.2, the Lender shall not be required to honour any cheque or other instrument presented to it by any Borrower regardless of the date of issue or presentation. Immediately upon receipt of a declaration under Section 10.2(b), the Borrowers shall pay to the Lender all amounts outstanding hereunder including the Hedge Contract Exposure owing under each Hedge Contract. Without limiting the generality of the foregoing, the Borrowers shall pay the Lender the principal amount of all Bankers' Acceptances which have not matured and the principal amount payable under all outstanding Letters of Credit, which are unmatured or unexpired, which amounts shall be held by the Lender as collateral security for the Borrowers' obligations with respect to those Bankers' Acceptances and Letters of Credit, as applicable. The Hedge Contract Exposure under any Hedge Contract shall be determined in accordance with the applicable Hedge Agreement.

10.3 Waiver of Default.

No express or implied waiver by the Lender of any demand, Default or Event of Default shall in any way be or be construed to be a waiver of any future or subsequent Default or Event of Default. To the extent permitted by Applicable Law, the Obligors hereby waive any rights now or thereafter conferred by statute or otherwise which may limit or modify any of the Lender's rights or remedies under any Document. The Obligors acknowledge and agree that the exercise by the Lender of any rights or remedies under any Document without having declared an acceleration shall not in any way alter, affect or prejudice the right of the Lender to make a declaration pursuant to Section 10.2 at any time and, without limiting the foregoing, shall not be construed as or deemed to constitute a waiver of any rights under Section 10.2.

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SECTION 11 REMEDIES

11.1 Remedies Cumulative.

For greater certainty, the rights and remedies of the Lender under this Agreement and the other Documents are cumulative and are in addition to and not

in substitution for any rights or remedies provided by law. Any single or partial exercise by the Lender of any right or remedy upon the occurrence of a demand, Default or Event of Default shall not be deemed to be a waiver of, or to alter, affect or prejudice any other right or remedy to which the Lender may be lawfully entitled as a result of the demand, Default or Event of Default, and any waiver by the Lender of the strict observance of, performance of or compliance with any term, covenant, condition or agreement herein contained, and any indulgence granted thereby, shall be deemed not to be a waiver of any subsequent demand, Default or Event of Default or of the right of the Lender to demand payment under the Credit Facilities at any time and from time to time.

11.2 Remedies Not Limited.

The Lender may, to the extent permitted by Applicable Law, bring suit at law, in equity or otherwise, for any available relief or purpose including, but not limited to: (a) the specific performance of any covenant or agreement contained in this Agreement or in any other Document; (b) an injunction against a violation of any of the terms of this Agreement or any other Document; (c) in aid of the exercise of any power granted by this Agreement or any other Document or by law; or (d) the recovery of any judgment for any and all amounts due in respect of the Obligations.

11.3 Set-Off, etc.

Upon the occurrence of demand, Default or Event of Default, the Lender and each of its respective branches and offices are hereby authorized by each Obligor from time to time, without notice to: (a) set off and apply any and all amounts owing by the Lender or any of its branches or offices to any Obligor (whether payable in Canadian Dollars or any other currency and any amounts so owing in any other currency may be converted into one or more currencies in which the Obligations are denominated at such rate or rates as the party may be able to obtain, acting reasonably - whether matured or unmatured, and in the case of deposits, whether general or special, time or demand and however evidenced) against and on account of the Obligations (whether or not any declaration under Section 11.2 has been made and whether or not those Obligations are unmatured or contingent); (b) hold any amounts owing by the Lender as collateral to secure payment of the Obligations owing to it to the extent that those amounts may be required to satisfy any contingent or unmatured Obligations owing to it; and (c) return as unpaid for insufficient funds any and all cheques and other items drawn against any deposits so held as the Lender in its sole discretion may elect.

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11.4 Lender May Perform Covenants.

If any Obligor fails to perform any of its obligations under any covenant contained in this Agreement or any other Document, the Lender may (but has no obligation to), upon notice to the Borrowers, perform any covenant capable of being performed by it and, if the covenant requires the payment or expenditure of money, it may make an Advance to fund that requirement, which Advance shall be repaid by the Borrowers on demand. That Advance shall bear interest at a rate calculated and paid in accordance with Section 4.

SECTION 12 FEES

12.1 Arrangement Fee.

The Borrowers shall pay to the Lender on or before the Closing Date an arrangement fee (the "Arrangement Fee") of C\$150,000. The Lender acknowledges having received a deposit of C\$37,500 toward the payment of the Arrangement Fee. The Borrowers acknowledge to the Lender that:

- (a) the C\$37,500 deposit has been fully earned by the Lender and is non-refundable to the Borrowers;
- (b) the remaining balance of such Arrangement Fee shall be fully earned by the Lender on Closing and is non-refundable to the Borrowers; and
- (c) the Arrangement Fee compensates the Lender for the time and expense incurred by the Lender in evaluating, reviewing, approving, authorizing and arranging the Credit Facilities.

SECTION 13
MISCELLANEOUS

13.1 Assignment.

- (a) Benefit and Burden of this Agreement. This Agreement shall enure to the benefit of and be binding on the parties hereto, their respective successors and any permitted assignees.
- (b) Participation. The Lender may, with the prior written consent of the Borrowers, which consent may not be unreasonably withheld, grant a participation in any Credit Facility to one or more financial institutions or other entities (the "Participant"). If a participation is granted, (a) the Lender shall remain fully liable for all of its obligations and responsibilities under this Agreement to the same extent as if the participation had not been granted and (b) the Lender shall administer the participation of the Participant. Neither the Participant nor the Borrowers shall have any rights against or obligations to one another, nor shall any of

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them be required to deal directly with one another in respect of the participation by a Participant.

- (c) Assignment. The Lender may, with the prior written consent of the Borrowers, which consent may not be unreasonably withheld, assign all or any part of its rights to and may have its obligations in respect of any Credit Facility assumed by one or more financial institutions or other entities (each an "Assignee"). Notwithstanding the foregoing, no consent shall be required in respect of any assignment by the Lender to its Affiliate. An assignment shall become effective when the Borrowers have been notified by the Lender and have received from the Assignee an undertaking to be bound by this Agreement and to perform the obligations assigned to it. The Assignee shall be treated as a Lender for all purposes of the Agreement, shall be entitled to the full benefit hereof and shall be subject to the obligations of the Lender to the same extent as if it were an original party in respect of the rights or obligations assigned to it, and the Lender shall be released and discharged accordingly and to the same extent and such Schedules as applicable shall be amended accordingly from time to time without further notice or other requirement.
- (d) Expenses. Any expenses incurred by the Lender in connection with a Participation or Assignment including any subsequent amendments of this Agreement or any other Document, including the reasonable fees and disbursements of counsel to the Lender shall be paid or reimbursed, on demand, by the Borrowers.
- (e) Obligors. The Obligors may not assign, delegate or transfer all or any part of their respective rights or obligations under this Agreement or any other Document without the prior written consent of the Lender.

13.2 Amendments.

No amendment or waiver of any provision of this Agreement or consent to any departure by a party from any provision of this Agreement will be effective unless it is in writing, and then the amendment, modification, waiver or consent will be effective only in the specific instance, for the specific purpose and for the specific length of time for which it is given.

13.3 Notice.

- (a) Unless otherwise specified, any notice or other communication required or permitted to be given to a party under this Agreement shall be in writing and may be delivered personally or sent by prepaid registered mail or by facsimile, to the address or facsimile number of the party set out beside its name at the foot of this Agreement to the attention of the Person there indicated or to such other address, facsimile number or other Person's attention as the

party may have specified by notice in writing given under

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this Section. Any notice or other communication shall be deemed to have been given (i) if delivered personally, when received; (ii) if mailed, subject to Section 13.4, on the fifth Business Day following the date of mailing; (iii) if sent by facsimile, on the Business Day when the appropriate confirmation of receipt has been received if the confirmation of receipt has been received before 3:00 p.m. on that Business Day or, if the confirmation of receipt has been received after 3:00 p.m. on that Business Day, on the next succeeding Business Day; and (iv) if sent by facsimile on a day which is not a Business Day, on the next succeeding Business Day on which confirmation of receipt has been received.

- (b) All communication with any Obligor hereunder may be directed through Stake. For greater certainty, any notice or other document or instrument which is required to be given or delivered to any Obligor hereunder shall be deemed to have been given to and received by such Obligor if given to Stake.

13.4 Disruption of Postal Service.

If a notice has been sent by prepaid registered mail and before the fifth Business Day after the mailing there is a discontinuance or interruption of regular postal service so that the notice cannot reasonably be expected to be delivered within five Business Days after the mailing, the notice will be deemed to have been given when it is actually received.

13.5 Environmental Indemnity.

Each of the Obligor shall, and does hereby, indemnify and hold each Indemnified Person harmless from and against any and all Claims and Losses incurred or suffered by, or asserted against, the Indemnified Person, with respect to or as a direct or indirect result of, (a) the presence on or under, or any Release or likely Release of any Hazardous Substance from any of the Collateral comprising real property or any other real properties owned or used by any of the Obligors or any Subsidiary or any of their successors and assigns; or (b) the breach of any Applicable Laws by any mortgagor, owner, lessee or occupant of such properties.

13.6 Further Assurances.

The Obligors shall from time to time promptly, upon the request of the Lender, take or cause to take such action, and execute and deliver such further documents as may be reasonably necessary or appropriate to give effect to the provisions and intent of this Agreement and the Documents.

13.7 Judgment Currency.

- (a) If for the purpose of obtaining judgment in any court it is necessary to convert all or any part of the liabilities or any other amount due to the Lender in respect of any of the Borrowers' obligations under this Agreement in any currency (the "Original Currency") into another

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currency (the "Other Currency"), each Borrower, to the fullest extent that it may effectively do so, agrees that the rate of exchange used shall be that at which, in accordance with normal banking procedures, the Lender could purchase the Original Currency with the Other Currency on the Business Day preceding that on which final judgment is paid or satisfied.

- (b) The obligations of the Borrowers in respect of any sum due in the Original Currency from it to the Lender shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by the Lender of any sum adjudged to be so due in such Other Currency the Lender may, in

accordance with its normal banking procedures, purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to the Lender in the Original Currency, the Borrowers agree, as a separate obligation and notwithstanding any such judgment, to indemnify the Lender against such loss, and if the amount of the Original Currency so purchased exceeds the sum originally due to the Lender in the Original Currency, the Lender agrees to remit such excess to the Borrowers.

13.8 Waivers.

No failure to exercise, and no delay in exercising, on the part of the Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, remedy, power or privilege shall preclude the exercise of any other right, remedy, power or privilege.

13.9 Reimbursement of Expenses.

The Obligors jointly and severally agree to: (a) pay or reimburse the Lender, on demand, for all of its reasonable out-of-pocket costs and expenses (including legal fees) incurred in connection with the preparation, negotiation and execution of this Agreement and the other Documents including any subsequent amendments of this Agreement or any other Document, and the consummation and the administration of the transactions contemplated hereby including the reasonable fees and disbursements of counsel to the Lender; and (b) pay or reimburse, on demand, the Lender for all its costs and expenses (including legal fees) incurred in connection with the determination, preservation and enforcement of any responsibilities, rights and remedies under this Agreement and the other Documents, including the reasonable fees and disbursements of its counsel. The obligations of the Obligors under this Section 13.9 shall survive the repayment of all Advances and the termination of the Credit Facility.

13.10 Submission to Jurisdiction.

Each of the parties irrevocably submits to the non-exclusive jurisdiction of the courts of the Province of Ontario.

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13.11 Counterparts.

This Agreement and the Documents may be executed and delivered in any number of counterparts, each of which when executed and delivered is an original but all of which taken together constitute one and the same instrument.

The parties have executed this Agreement.

STAKE TECHNOLOGY LTD.
2838 Hwy 7
Norval, Ontario LOP 1K0
Attention: Chief Financial Officer
Fax: (905) 455-2529

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

STAKE TECH LP
By: 1510146 Ontario Inc., its General Partner

By: "Steven Bromley"

Name: Steven Bromley
Title:

TEMISCA, INC.

By: "JeremyKendall"

Name: Jeremy Kendall
Title:

558497 ONTARIO LIMITED

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

1510146 ONTARIO INC.

By: "Steven Bromley"

Name: Steven Bromley
Title:

SUNRICH FOOD GROUP, INC.

By: "Steven Bromley"

Name: Steven Bromley
Title:

3060385 NOVA SCOTIA COMPANY

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

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STAKE TECHNOLOGY LLC

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

SUNRICH, INC.

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

NORTHERN FOOD AND DAIRY INC.

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

NORDIC ASEPTIC, INC.

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

STAKE TECHNOLOGY (USA), INC.

By: "Jeremy Kendall"

Name: Jeremy Kendall
Title:

VIRIGINIA MATERIALS INC.

By: "Steven Bromley"

Name: Steven Bromley
Title:

BANK OF MONTREAL
Corporate Finance
100 King Street West
11th Floor
Toronto, Ontario
M5X 1A1
Attention: Senior Manager
Fax: (416) 360-7168

By: "G.J. Card"

Name: Gordon J. Card
Title:

EXHIBIT 10.13

(Note Schedules to this Exhibit have not been filed due to their size, but are available on request for inspection at the Company's offices)

EXHIBIT 10.13

FACILITY B LOAN AUTHORIZATION AGREEMENT

The Customer referred to below has applied for, and Harris Trust and Savings Bank, Chicago, Illinois ("Bank"), has approved the establishment of, a loan authorization account ("Loan Account") from which the Customer may from time to time request loans and letters of credit in the aggregate amount of credit shown below (the "Maximum Credit"). The Loan Account shall be secured as described in this Agreement. Interest on such loans shall be computed at a variable rate which may change daily based upon changes in the Bank's Prime Rate or at short term fixed rates based upon LIBOR. The Customer may make principal payments at any time and in any amount, subject to payment of the funding indemnity more fully provided in paragraph no. 2 below. The request by the Customer for, and the making by the Bank of, any loan or letter of credit against the Loan Account shall constitute an agreement between the Customer and the Bank as follows:

Name of Customer: SunRich Food Group, Inc., a Minnesota corporation

Address: 3824 93rd Street
Hope, Minnesota 56046

Type of Loan Account: Revolving, which means as principal is repaid, the Customer may reborrow subject to this Agreement.

Amount of Maximum Credit: \$5,000,000

Each Loan Requested Shall Be At Least: \$100,000 in the case of Loans bearing interest with reference to the Bank's Prime Rate or such greater amount which is an integral multiple of \$100,000; and \$1,000,000 in the case of Loans bearing interest with reference to LIBOR or such greater amount which is an integral multiple of \$100,000.

Interest Rate: The Loans will bear interest as set forth in paragraph no. 2 below.

Maturity Date: The Loan Account terminates, and Loans are payable, ON DEMAND.

Periodic Statement reflecting accrued interest will be sent and interest will be payable monthly.

Payments shall be due at the Bank's principal office in Chicago, Illinois, paid to the order of the Bank, and made by debit to Harris Account #420-981-3.

1. Using the Account. (a) All loans and advances from the Loan Account are referred to in this Agreement as "Loans." Loan requests shall be sent to the Customer's Harris Account Officer and may be made by writing or by telephone. Loan proceeds shall be credited to the Customer's deposit account at the Bank unless the Bank is otherwise directed by special written directions from the Customer. The amount of each Loan requested shall be at least the minimum amount shown above, and the Bank shall have the right to refuse to honor any Loan requested by the Customer which is less than that minimum amount, even if the Bank has previously honored a Loan request for less than the minimum amount. Each Loan shall initially constitute part of the Prime Rate Portion (as described in paragraph no. 2(a) below) except to the extent the Customer has otherwise timely elected that such Loan, or any part thereof, constitutes part of a LIBOR

Portion as provided in paragraph 2 below. The Customer shall not request any Loan which, when taken together with Loans and Letters of Credit then outstanding, would exceed the Maximum Credit. If Loans are secured directly or indirectly by securities traded on a national exchange or by other "margin stock" (as defined by the Federal Reserve Board in Regulation U), then the Customer promises to furnish the Bank a duly

executed and completed Form U-1 statement and agrees that the proceeds of Loans from the Loan Account will not be used to purchase or carry stock, convertible bonds or warrants unless the Customer has obtained the prior written consent of the Bank.

Loans will be made available from the Loan Account subject to the Bank's approval on a loan-by-loan basis as and when Loans are requested by the Customer. None of the proceeds of the Loans shall be loaned to or otherwise utilized by or for the benefit of Virginia Materials, Inc. or International Materials & Supplies, Inc.

All Loans shall be made against and evidenced by the Customer's promissory note payable to the order of the Bank in the principal amount of \$5,000,000, such note to be in the form of Exhibit A attached hereto (the "Note"). The Bank agrees that notwithstanding the fact that the Note is in the principal amount of \$5,000,000, it shall evidence only the actual unpaid principal balance of Loans made under the Loan Account. The Bank agrees that if it transfers or assigns the Note, the Bank will stamp thereon a statement of the actual principal amount evidenced thereby at the time of transfer. The Customer agrees that in any action or proceeding instituted to collect or enforce collection of the Note, the amount shown as owing the Bank on its records shall be prima facie evidence of the unpaid balance of principal and interest on the Note.

(b) Letters of Credit. Subject to the terms and conditions hereof, the Loan Amount may be availed of by the Customer in the form of commercial letters of credit issued by the Bank for the account of the Customer (individually a "Letter of Credit" and collectively the "Letters of Credit"), provided that the aggregate amount of Letters of Credit issued and outstanding hereunder shall not at any one time exceed \$1,500,000. For purposes of this Agreement, a Letter of Credit shall be deemed outstanding as of any time in an amount equal to the maximum amount which could be drawn thereunder under any circumstances and over any period of time plus any unreimbursed drawings then outstanding with respect thereto. If and to the extent any Letter of Credit expires or otherwise terminates without having been drawn upon, the availability shall to such extent be reinstated. Each Letter of Credit issued hereunder shall expire not later than twelve (12) months from the date of issuance. Each Letter of Credit issued hereunder shall be payable in U.S. Dollars, conform to the general requirements of the Bank for the issuance of a commercial letter of credit, as to form and substance, and be a letter of credit which the Bank may lawfully issue. At the time the Customer requests each Letter of Credit to be issued, the Customer shall execute and deliver to the Bank an application for such Letter of Credit in the form then customarily prescribed by the Bank (individually an "Application" and collectively the "Applications"). Subject to the other provisions of this subsection, the obligation of the Customer to reimburse the Bank for drawings under a Letter of Credit shall be governed by the Application for such Letter of Credit. Anything contained in the Applications to the contrary notwithstanding, (i) in the event the Bank is not reimbursed by the Customer for the amount the Bank pays on any draft drawn under a Letter of Credit issued hereunder by 11:00 a.m. (Chicago time) on the date when such drawing is paid, the obligation of the Customer to reimburse the Bank for the amount of such draft paid shall bear interest (which the Customer hereby promises to pay on demand) from and after the date the draft is paid until payment in full thereof at the fluctuating rate per annum determined by adding 3% to the sum of the Applicable Margin plus the Prime Rate as from time to time in effect (computed on the basis of a

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year of 360 days for the actual number of days elapsed), (ii) the Customer shall pay fees in connection with each Letter of Credit as set forth in Section 3 hereof, and (iii) the Customer shall, upon demand of the Bank, immediately pay to the Bank the full amount of each Letter of Credit then outstanding, the Customer agreeing to immediately make such payment and acknowledging and agreeing that the Bank would not have an adequate remedy at law for failure of the Customer to honor any such demand and that the Bank shall have the right to require the Customer to specifically perform such undertaking whether or not any draws have been made under any such Letters of Credit.

2. Interest Rate Options.

- (a) Subject to the terms and conditions hereof, portions of the principal of the Loans (all of the principal of the Loans bearing interest at the same rate for the same period of time being hereinafter referred to as a "Portion") may, at the Customer's option, bear interest with reference to the Prime Rate (the "Prime Rate Portion") or with reference to an Adjusted LIBOR ("LIBOR Portions"). Subject to the terms and conditions hereof, Portions may be converted from time to time from one basis to another. All principal of the Loans which is not part of a LIBOR Rate Portion shall constitute a single Prime Rate Portion. All principal of the Loans which bears interest with reference to a particular Adjusted LIBOR for a particular Interest Period shall constitute a single LIBOR Portion. There shall not be more than four (4) LIBOR Portions outstanding at any one time. Anything contained herein to the contrary notwithstanding, no LIBOR Portion shall be created, continued or effected by conversion after any demand for payment of the Loans or any non-compliance by the Customer with any of the terms or conditions of this Agreement. The Customer hereby promises to pay interest on each Portion at the rates and times specified herein. The interest rate payable under this Agreement shall be subject, however, to the limitation that such interest rate shall never exceed the highest rate which the Customer may contract to pay under applicable law.
- (b) Prime Rate Portion. The Prime Rate Portion shall bear interest at the rate per annum determined by adding the Applicable Margin to the Prime Rate as in effect from time to time, provided that if the Prime Rate Portion or any part thereof is not paid when due (whether by demand or otherwise), such Portion shall bear interest, whether before or after judgment, until payment in full thereof at the rate per annum determined by adding 3% to the sum of the Applicable Margin plus the Prime Rate as from time to time in effect. Interest on the Prime Rate Portion shall be payable monthly in arrears on the last day of each calendar month in each year; and interest shall also be due and payable upon demand. Any change in the interest rate on the Prime Rate Portion resulting from a change in the Prime Rate shall be effective on the date of the relevant change in the Prime Rate.
- (c) LIBOR Portions. Each LIBOR Portion shall bear interest for each Interest Period selected therefor at a rate per annum determined by adding the Applicable Margin to the Adjusted LIBOR for such Interest Period, provided that if any LIBOR Portion is not paid when due (whether by demand or otherwise), such Portion shall bear interest, whether before or after judgment, until payment in full thereof through the end of the Interest Period then applicable thereto at the rate per annum determined by adding 3% to the interest rate which would otherwise be applicable thereto, and effective at the end of such Interest Period such LIBOR Portion shall automatically be converted into and added to the Prime Rate Portion and shall thereafter bear interest at the interest rate applicable to the Prime Rate Portion after default. Interest on each LIBOR Portion shall be due

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and payable on the last day of each Interest Period applicable thereto and, with respect to any Interest Period applicable to a LIBOR Portion in excess of 3 months, on the date occurring every 3 months after the date such Interest Period began and at the end of such Interest Period; and interest shall also be due and payable upon demand. The Customer shall notify the Bank on or before 11:00 a.m. (Chicago time) on the third Business Day preceding the end of an Interest Period applicable to a LIBOR Portion whether such LIBOR Portion is to continue as a LIBOR Portion, in which event the Customer shall notify the Bank of the new Interest Period selected therefor; and in the event the Customer shall fail to so notify the Bank, such LIBOR Portion shall automatically be converted into and added to the Prime Rate Portion as of and on the last day of such Interest Period.

- (d) Computation of Interest. All interest on the Loans shall be computed on the basis of a year of 360 days for the actual number of days elapsed.
- (e) Manner of Rate Selection.
 - (i) LIBOR Portions. The Customer shall notify the Bank by 11:00 a.m. (Chicago time) at least 3 Business Days prior to the date upon which the Customer requests that any LIBOR Portion be created or that any part of the Prime Rate Portion be converted into a LIBOR Portion (each such notice to specify in each instance the amount thereof and the Interest Period selected therefor). If any request is made to convert a LIBOR Portion into another type of Portion available hereunder, such conversion shall only be made so as to become effective as of the last day of the Interest Period applicable thereto.
 - (ii) Interest Rate Selections. All requests for the creation, continuance and conversion of LIBOR Portions under this Agreement shall be irrevocable. Such requests may be written or oral and the Bank is hereby authorized to honor telephonic requests for creations, continuances and conversions received by it from any person the Bank in good faith believes to be the Customer, or its designated representative, without the need of independent investigation, the Customer hereby indemnifying the Bank from any liability or loss ensuing from so acting.
- (f) Change of Law. Notwithstanding any other provisions hereof, if at any time the Bank shall determine that any change in applicable laws, treaties or regulations or in the interpretation thereof makes it unlawful for the Bank to create or continue to maintain any LIBOR Portion, it shall promptly so notify the Customer and at the Bank's option make demand repayment of the Loans or only the affected LIBOR Portion and, even absent such demand, no LIBOR Portion shall be created, continued or maintained after the date of such determination until it is no longer unlawful for the Bank to create, continue or maintain such LIBOR Portion. Upon such a demand by the Bank for payment, the Customer shall thereupon prepay the outstanding principal amount of the Loans so demanded, together with all interest accrued thereon and all other amounts payable to the Bank with respect thereto under this Agreement (including without limitation any amount due the Bank under the funding indemnity paragraph below); provided, however, that unless the Bank makes demand for repayment of the Loans in full, the Customer may elect to convert the principal amount of the affected LIBOR Portion into the Prime Rate Portion, subject to the terms and

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conditions hereof (including, without limitation, the payment of such interest and other amounts so payable to the Bank hereunder).

- (g) Unavailability of Deposits or Inability to Ascertain Adjusted LIBOR. Notwithstanding any other provision hereof, if the Bank shall determine prior to the commencement of any Interest Period that deposits in the amount of any LIBOR Portion scheduled to be outstanding during such Interest Period are not readily available to the Bank in the relevant market or, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining Adjusted LIBOR, then the Bank shall promptly give notice thereof to the Customer and at the Bank's option make demand for repayment of the Loans and, even absent such demand, no LIBOR Portion shall be created, continued or effected by conversion, as the case may be, in such amount and for such Interest Period until deposits in such amount and for the Interest Period selected by the Customer shall again be readily available to the Bank in the relevant market and adequate and reasonable means exist for ascertaining Adjusted LIBOR.
- (h) Taxes and Increased Costs. With respect to any LIBOR Portion, if the Bank shall determine that any change in any applicable law, treaty, regulation or guideline (including, without limitation, Regulation D

of the Board of Governors of the Federal Reserve System) or any new law, treaty, regulation or guideline, or any interpretation of any of the foregoing by any governmental authority charged with the administration thereof or any central bank or other fiscal, monetary or other authority having jurisdiction over the Bank or its lending branch or the LIBOR Portions contemplated hereby (whether or not having the force of law), shall: (i) impose, increase, or deem applicable any reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, or any other acquisition of funds or disbursements by, the Bank which is not in any instance already accounted for in computing the interest rate applicable to such LIBOR Portion; (ii) subject the Bank, this Agreement or any LIBOR Portion to any tax (including, without limitation, any United States interest equalization tax or similar tax however named applicable to the acquisition or holding of debt obligations and any interest or penalties with respect thereto), duty, charge, stamp tax, fee, deduction or withholding in respect of this Agreement or any LIBOR Portion, except such taxes as may be measured by the overall net income or gross receipts of the Bank or its lending branches and imposed by the jurisdiction, or any political subdivision or taxing authority thereof, in which the Bank's principal executive office or its lending branch is located; (iii) change the basis of taxation of payments of principal and interest due from the Customer to the Bank hereunder (other than by a change in taxation of the overall net income or gross receipts of the Bank); or (iv) impose on the Bank any penalty with respect to the foregoing or any other condition regarding this Agreement or any LIBOR Portion, and the Bank shall determine that the result of any of the foregoing is to increase the cost (whether by incurring a cost or adding to a cost) to the Bank of creating or maintaining any LIBOR Portion hereunder or to reduce the amount of principal or interest received or receivable by the Bank (without benefit of, or credit for, any prorrations, exemption, credits or other offsets available under any such laws, treaties, regulations, guidelines or interpretations thereof), then the Customer shall pay on demand (which need not but may at the Bank's option be combined with a demand for repayment of the Loans) to the Bank from time to time as specified by the Bank such additional amounts as the Bank shall reasonably determine are sufficient to compensate and indemnify it for such increased cost or reduced amount. If the Bank makes such a claim for compensation, it shall provide to the Customer a certificate setting forth the computation of the increased cost or reduced

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amount as a result of any event mentioned herein in reasonable detail and such certificate shall be conclusive if reasonably determined.

- (i) Funding Indemnity. In the event the Bank shall incur any loss, cost or expense (including, without limitation, any loss (including loss of profit), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired or contracted to be acquired by the Bank to fund or maintain any LIBOR Portion or the relending or reinvesting of such deposits or other funds or amounts paid or prepaid to the Bank) as a result of:
 - (x) any payment of a LIBOR Portion on a date other than the last day of the then applicable Interest Period for any reason, whether before or after default, and whether or not such payment is required by any provisions of this Agreement; or
 - (y) any failure by the Customer to create, borrow, continue or effect by conversion a LIBOR Portion on the date specified in a notice given pursuant to this Agreement;

then the Customer shall pay to the Bank upon its demand (which need not but may at the Bank's option be combined with a demand for repayment of the Loans) such amount as will reimburse the Bank for such loss, cost or expense. If the Bank requests compensation under this paragraph, it shall provide to the Customer a certificate setting forth the computation of the loss, cost or expense giving

rise to the request for compensation in reasonable detail and such certificate shall be conclusive if reasonably determined.

- (j) Lending Branch; Discretion of Bank as to Manner of Funding. The Bank may, at its option, elect to make, fund or maintain Portions of the Loans hereunder at such of its branches or offices as the Bank may from time to time elect. Notwithstanding any provision of this Agreement to the contrary, the Bank shall be entitled to fund and maintain its funding of all or any part of the Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder with respect to LIBOR Portions shall be made as if the Bank had actually funded and maintained each LIBOR Portion during each Interest Period applicable thereto through the purchase of deposits in the relevant market in the amount of such LIBOR Portion, having a maturity corresponding to such Interest Period, and bearing an interest rate equal to the LIBOR for such Interest Period.
- (k) Notations. The status of all amounts evidenced by the Note as constituting part of the Prime Rate Portion or a LIBOR Portion, and, in the case of any LIBOR Portion, the rates of interest and Interest Periods applicable to such Portions shall be recorded by the Bank on its books and records or, at its option in any instance, endorsed on a schedule hereto and the unpaid principal balance and status, rates and Interest Periods so recorded or endorsed by the Bank shall be prima facie evidence in any court or other proceeding brought to enforce this Agreement of the principal amount remaining unpaid thereon, the status of the Loans evidenced by the Note, and the interest rates and Interest Periods applicable thereto; provided that the failure of the Bank to record any of the foregoing shall not limit or otherwise affect the obligation of the Customer to repay the principal balance of the Loan Account together with accrued interest thereon. Prior to any negotiation of the Note, the Bank shall record on a schedule hereto the status of all amounts

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evidenced thereby as constituting part of the Prime Rate Portion or a LIBOR Portion and, in the case of any LIBOR Portion, the rates of interest and the Interest Periods applicable thereto.

- (l) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Adjusted LIBOR" means a rate per annum determined by the Bank in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{100\% - \text{Reserve Percentage}}$$

"Reserve Percentage" means, for the purpose of computing Adjusted LIBOR, the maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental or other special reserves) imposed by the Board of Governors of the Federal Reserve System (or any successor) under Regulation D on Eurocurrency liabilities (as such term is defined in Regulation D) for the applicable Interest Period as of the first day of such Interest Period, but subject to any amendments to such reserve requirement by such Board or its successor, and taking into account any transitional adjustments thereto becoming effective during such Interest Period. For purposes of this definition, LIBOR Portions shall be deemed to be Eurocurrency liabilities as defined in Regulation D without benefit of or credit for prorations, exemptions or offsets under Regulation D. "LIBOR" means, for each Interest Period, (a) the LIBOR Index Rate for such Interest Period, if such rate is available, and (b) if the LIBOR Index Rate cannot be determined, the arithmetic average of the rates of interest per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) at which deposits in U.S. Dollars in immediately available funds are offered to the Bank at 11:00 a.m. (London, England time) 2 Business Days before the beginning of such Interest Period by 3 or more major banks in the interbank eurodollar market selected by the Bank for a

period equal to such Interest Period and in an amount equal or comparable to the applicable LIBOR Portion scheduled to be outstanding from the Bank during such Interest Period. "LIBOR Index Rate" means, for any Interest Period, the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a period equal to such Interest Period, which appears on the Telerate Page 3750 as of 11:00 a.m. (London, England time) on the day 2 Business Days before the commencement of such Interest Period. "Telerate Page 3750" means the display designated as "Page 3750" on the Telerate Service (or such other page as may replace Page 3750 on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for U.S. Dollar deposits). Each determination of LIBOR made by the Bank shall be conclusive and binding absent manifest error.

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"Applicable Margin" means, with respect to Loans and Letters of Credit, initially the following:

Applicable Margin for Prime Rate Portion of Loans: 0.15%

Applicable Margin for LIBOR Portions of Loans and Letters of Credit: 1.15%

; provided, however, that the Applicable Margin with respect to the Loans and Letters of Credit shall be subject to quarterly adjustments (commencing with an adjustment with respect to the fiscal quarter ending on March 31, 2002) as follows:

IF AS OF THE LAST DAY OF THE MOST RECENTLY COMPLETED FISCAL QUARTER THE SENIOR FUNDED DEBT TO EBITDA RATIO IS	APPLICABLE MARGIN FOR PRIME RATE PORTION OF LOANS IS	APPLICABLE MARGIN FOR LIBOR PORTIONS OF LOANS AND LETTERS OF CREDIT IS
below 1.50 to 1.0	0%	0.90%
at or above 1.50 to 1.0 but below 2.0 to 1.0	0.15%	1.15%
at or above 2.0 to 1.0 but below 2.5 to 1.0	0.40%	1.40%
at or above 2.5 to 1.0	0.65%	1.65%

After the close of each quarterly fiscal period of the Customer (the close of such quarterly fiscal period being hereinafter referred to as the "Margin Testing Time"), the Bank shall, within five days after receipt of the Customer's covenant compliance certificate delivered pursuant to Section 6 hereof, (i) confirm that the financial statements theretofore furnished to it indicate compliance with the Senior Funded Debt to EBITDA Ratio required in the chart above as of the Margin Testing Time and (ii) notify the Customer of such determination and of any change in the Applicable Margin resulting therefrom. Any change in the Applicable Margin shall be effective on the 5th Business Day immediately following the Bank's receipt of the Customer's most recent financial statement for the most recent completed fiscal quarter delivered pursuant to Section 6 and with such new Applicable Margin to continue in effect until the effectiveness of the next redetermination thereof. Any determination by the Bank of the Senior Funded Debt to EBITDA Ratio shall be conclusive and binding upon the Customer provided that it has been made in good faith.

"BMO" means Bank of Montreal and its successors and assigns.

"Business Day" means any day other than a Saturday or Sunday on which the Bank is not authorized or required to close in Chicago,

Illinois and, when used with respect to LIBOR Portions, a day on which the Bank is also dealing in United States Dollar deposits in London, England.

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"Capital Lease" means, with respect to a Person, any lease or other arrangement relating to property or assets which would be required to be accounted for as a capital lease on a balance sheet of that Person in accordance with generally accepted accounting principles. The amount of any Capital Lease at any date shall be the amount of the obligation in respect thereof which would be included on the balance sheet.

"Consolidated Borrower" means Stake and all Included Subsidiaries on a consolidated basis.

"EBITDA" means, with respect to any fiscal period of the Consolidated Borrower, the net income of the Consolidated Borrower (adjusted from time to time, with the prior written consent of the Bank, for extraordinary gains or losses, income or expenses) for that period, plus, to the extent deducted in determining the net income, interest and income taxes accrued during that period, and eliminating any non-cash items deducted or added in determining that net income, including depreciation, depletion and amortization expenses and unrealized foreign exchange losses or gains.

"Funded Debt" means, with reference to the Consolidated Borrower, at any time and without duplication:

- (a) all debts and liabilities for borrowed money including, without limitation, the obligations;
- (b) other than the deferred net profit interest payable to Jack Burns by Virginia Materials, Inc., all debts or liabilities representing the deferred acquisition cost of property or assets created or arising under any conditional sale agreement or other title retention agreement even though the rights and remedies of the seller under that agreement in the event of default are limited to repossession or sale of property or assets covered thereby;
- (c) all liabilities, contingent, unmatured or other, under indemnities given in respect of any bankers' acceptance, letter of credit or letter of guarantee;
- (d) all operating leases under which a residual value guarantee or the equivalent has been furnished.
- (e) all Capital Leases; and
- (f) all liabilities under Swap Transactions determined on a "mark to market" basis;

after deducting all cash on deposit with BMO and the value of all marketable securities acceptable to Bank in its sole discretion and which are subject to Liens in favour of the Bank under the Collateral Documents but excludes, to the extent included above, Subordinated Debt, accounts payable incurred in the ordinary course of the Stake's and its subsidiaries' business payment obligations with respect to the Rhodia Price Reduction and the amount of the Rhodia Receivable; provided, however, that all payments under the Rhodia Receivable are current.

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"Included Subsidiary" means (a) any Subsidiary of Stake, other than 1108176 Ontario, which, at any time has assets or revenues of greater than or equal to \$100,000, and (b) 1108176 Ontario if (i) 1108176 Ontario becomes a direct or indirect wholly-owned subsidiary

of Stake, or (ii) the consent of Bentonite of Canada Inc. is obtained to the grant of a security interest in favour of the Lender, (A) by 1108176 Ontario in the real property located at 411 Parkside Drive, Waterdown, Ontario and (B) by Stake in the common shares of 1108176 Ontario owned by Stake.

"Interest Period" means, with respect to any LIBOR Portion, the period commencing on, as the case may be, the creation, continuation or conversion date with respect to such LIBOR Portion and ending 1, 2, 3 or 6 months thereafter as selected by the Customer in its notice as provided herein; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

- (i) if any Interest Period would otherwise end on a day which is not a Business Day, that Interest Period shall be extended to the next succeeding Business Day, unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day; and
- (ii) the interest rate to be applicable to each LIBOR Portion for each Interest Period shall apply from and including the first day of such Interest Period to but excluding the last day thereof.

For purposes of determining an Interest Period, a month means a period starting on one day in a calendar month and ending on a numerically corresponding day in the next calendar month, provided, however, if an Interest Period begins on the last day of a month or if there is no numerically corresponding day in the month in which an Interest Period is to end, then such Interest Period shall end on the last Business Day of such month.

"NFD" means Northern Food and Dairy, Inc., a Minnesota corporation.

"Prime Rate" means, for any day, the greater of (i) the rate of interest announced by the Bank from time to time as its prime commercial rate, as in effect on such day (it being understood and agreed that such rate may not be the Bank's best or lowest rate); and (ii) the sum of (x) the rate determined by the Bank to be the average (rounded upwards, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Bank at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Bank for the sale to the Bank at face value of Federal funds in an amount equal or comparable to the principal amount owed to the Bank for which such rate is being determined, plus (y) 1%.

"Rhodia Price Reduction" means amounts due to Rhodia Inc. by NFD pursuant to the Rhodia Rider.

"Rhodia Receivable" means the amount due to NFD by Rhodia Inc. pursuant to the Rhodia Rider.

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"Rhodia Rider" means Rider No. 5 to the manufacturing agreement between Rhodia Inc. and NFD dated September 1, 1999 attached to the Stake Credit Agreement as Exhibit A to Schedule L.

"Senior Funded Debt to EBITDA Ratio" means Funded Debt of the Consolidated Borrower divided by the EBITDA of the Consolidated Borrower.

"Stake" means Stake Technology Ltd., a corporation organized under the laws of Canada.

"Stake Credit Agreement" means that certain Credit Agreement dated as of _____, 2002 among Stake and certain subsidiaries

thereof, as borrowers, Bank of Montreal, as lender, and certain affiliates of the borrowers, as obligors, as the same may be amended, modified or restated from time to time.

"Swap Transaction" means an agreement which may be entered into between the Bank or Bank of Montreal and Stake or any subsidiary thereof in connection with the management of foreign exchange risks in all major currencies acceptable to the Bank or Bank of Montreal and includes foreign currency options and foreign exchange forward contracts and includes financial products offered by the Bank or Bank of Montreal to Stake or any subsidiary thereof in connection with management of interest rate risks including forward rate agreements and interest rate swaps.

"1108176 Ontario" means 1108176 Ontario Limited, a corporation incorporated under the laws of Ontario, and its successors and permitted assigns.

3. Fees. (a) Commitment Fee. Since this is an uncommitted credit arrangement, no commitment or similar fee will be charged.

(b) Letter of Credit Fees. On the date of issuance of each Letter of Credit, and as a condition thereto, and annually thereafter, the Customer shall pay to the Bank a letter of credit fee computed at the rate per annum equal to the Applicable Margin in effect during the applicable period (computed on the basis of a year of 360 days for the actual number of days elapsed) on the maximum amount of the related Letter of Credit which is scheduled to be outstanding during the immediately succeeding twelve (12) months. In addition to the letter of credit fee called for above, the Customer further agrees to pay to the Bank such issuance and drawing fees with respect to commercial Letters of Credit and such other processing and transaction fees and charges with respect to any Letter of Credit, in each case as the Bank from time to time customarily imposes in connection with any issuance, amendment, cancellation, negotiation and/or payment of letters of credit and drafts drawn thereunder.
4. Maturity Date; Payments. The Customer shall pay to the Bank the principal balance of outstanding Loans together with any accrued interest ON DEMAND. Payments received by the Bank shall be applied first to accrued interest and then to the principal balance of outstanding Loans unless otherwise directed, provided that after demand all payments received shall be applied in such order and manner as the Bank shall determine. The Customer may make principal prepayments at any time and in any amount, subject to payment of the relevant funding indemnity more fully provided for in paragraph 2(j) above. Unless the Customer otherwise directs, principal payments shall be first applied to the Prime Rate Portion until payment in full thereof, with any balance applied to the LIBOR Portions in the order in which their Interest

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Periods expire. If any payment from the Customer under this Agreement becomes due on a day which is not a Business Day, such payment shall be made on the next Business Day and any such extension shall be included in computing interest under this Agreement.

5. Periodic Statements. The Bank will furnish the Customer with a statement for each billing period (either monthly or quarterly as shown on the front of this Agreement) which has any transaction or balance.
6. Customer Financial Statements. The Customer agrees to furnish financial information to the Bank upon request of the Bank from time to time and without request, the Customer shall furnish or cause to be furnished all of the financial information furnished to the Lender pursuant to Section 9.4 of the Stake Credit Agreement. Such information shall be furnished as soon as reasonably possible, but in any event within 30 days after request by the Bank.
7. Representation and Warranties. In consideration of establishing and maintaining the Loan Account, the Customer hereby represents and warrants to the Bank that: (a) the Customer is a corporation duly organized, validly existing, and in good standing under the laws of its state of organization; (b) the execution, delivery, and performance by the Customer

of this Agreement and the Note are within its corporate powers, have been duly authorized by all necessary corporate action, and do not contravene the Customer's charter, articles of incorporation or by-laws or any law or contractual restriction binding on or affecting the Customer; (c) no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the Customer's due execution, deliver, and performance of this Agreement or the Note; (d) this Agreement is, and the Note when executed and delivered by the Customer will be, the Customer's legal, valid, and binding obligation enforceable against the Customer in accordance with its terms; (e) the Customer is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of the Loans will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock; (f) the Customer's balance sheet as of December 31, 2000, and the Customer's related statements of income and retained earnings for the fiscal year then ended, copies of which have been furnished to the Bank, fairly present Customer's financial condition as at such date and result of the operations for the period ending on such date, all in accordance with generally accepted accounting principles consistently applied, and since December 31, 2000, there has been no material adverse change in the Customer's condition or operations; and (g) there is no pending or threatened action or proceeding affecting the Customer before any court, governmental agency or arbitrator, which may materially adversely affect the Customer's financial condition or operations or which purports to affect the legality, validity, or enforceability of this Agreement or the Note.

8. Security; Guaranties. The Loans (both for principal and interest) shall be secured by the property described in a Security Agreement from the Customer and each of the Customer's subsidiaries and from certain other parties and by various mortgages and deeds of trust executed by the Customer and each of its subsidiaries (all of such documents, as the same may be amended, supplemented or restated from time to time being hereinafter referred to as the "Collateral Documents"). In addition, the Loans may also be secured by collateral which secures other indebtedness which the Customer may have outstanding from the Bank at the present time or in the future. The Bank shall have the right to call for additional security satisfactory to the Bank should the value of the collateral decline or be deemed by the Bank inadequate or unsatisfactory.

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The Loans shall at all times be guarantied by each subsidiary of the Customer and by various other entities pursuant to various guaranties satisfactory to the Bank.

9. DEMAND OBLIGATION; ENFORCEMENT. THE LOANS ARE EXPRESSED TO BE PAYABLE "ON DEMAND." ACCORDINGLY, THE BANK CAN DEMAND PAYMENT IN FULL OF THE LOANS AT ANY TIME IN ITS SOLE DISCRETION EVEN IF THE CUSTOMER HAS COMPLIED WITH ALL OF THE TERMS OF THIS AGREEMENT.

No delay by the Bank in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by the Bank of any right or remedy shall preclude any other or further exercise thereof or the exercise of any other right or remedy. The Customer agrees to pay to the Bank all expenses incurred or paid by the Bank in connection with the establishment and maintenance of the Loan Account and the collection of the Loans and any other amounts due under this Agreement and the enforcement of rights to any collateral security therefor, including, without limitation, attorneys' fees and court costs. The Bank shall have the right at any time to set-off the balance of any deposit account that the Customer may at any time maintain with the Bank against any amounts at any time owing under this Agreement, whether or not the balance of Loans under this Agreement is then due.

10. Termination. The availability of additional Loans under this Agreement will automatically terminate ON DEMAND. The Bank reserves the right at any time without notice to terminate the Loan Account, suspend the Customer's borrowing privileges or refuse any Loan request or any request for a LIBOR Portion even though the Customer has complied with all of the terms of this Agreement. The Customer may terminate this Agreement at any time

effective upon receipt by the Bank of at least 5 Business Days prior written notice. No termination under this paragraph shall affect the Bank's rights or the Customer's obligations regarding payment or default under this Agreement. Such termination shall not affect the Customer's obligation to pay all Loans and the interest accrued through the date of final payment. The Bank may also elect to honor Loan requests after termination of this Agreement, and the Customer agrees that any such payment by the Bank shall constitute a Loan to Customer under this Agreement.

11. Notices. The Bank may rely on instructions from the Customer with respect to any matters relating to this Agreement or the Loan Account, including telephone loan requests which are made by a person whom the Bank believes to be the Customer or its designated representative. All notices and statements to be furnished by the Bank shall be sufficient if delivered to any such person at the billing address for the Loan Account shown on the records of the Bank. All notices from the Customer shall be sent to the Bank at 111 West Monroe Street, Chicago, Illinois 60603, Attention: Michael Laurie, Account Officer. The Customer waives presentment and notice of dishonor. This Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby. No amendment or waiver of any provision of this Agreement or the Note, nor consent to any departure by the Customer therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank. If any part of this Agreement is unenforceable, that will not make any other part unenforceable. This Agreement shall be governed by the laws of the State of Illinois.
12. Consent to Jurisdiction. THE CUSTOMER SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS AND OF ANY

-13-

ILLINOIS STATE COURT SITTING IN COOK COUNTY, ILLINOIS, FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

13. Jury Trial Waiver. THE CUSTOMER AND THE BANK WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

THE CUSTOMER AGREES TO THE TERMS SET FORTH ABOVE.

Signed by Customer on March 15, 2002.

SUNRICH FOOD GROUP, INC.

By: "Steven Bromley"

Name: Steven Bromley
Title: Chief Financial Officer

Accepted and agreed to this 15th day of March, 2002.

HARRIS TRUST AND SAVINGS BANK

By: "Shane Koonce"

Name: Shane Koonce
Title: Vice President

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EXHIBIT A

DEMAND NOTE

\$5,000,000

_____, 2002

ON DEMAND, for value received, the undersigned, SunRich Food Group, Inc., a Minnesota corporation, promises to pay to the order of HARRIS TRUST AND SAVINGS BANK (the "Bank") at its offices at 111 West Monroe Street, Chicago, Illinois, the principal sum of Five Million and 00/100 Dollars (\$5,000,000) or, if less, the amount outstanding under the Facility B Loan Authorization Agreement referred to below together with interest payable at the times and at the rates and in the manner set forth in the Facility B Loan Authorization Agreement referred to below.

This Note evidences borrowings by the undersigned under that certain Facility B Loan Authorization Agreement dated as of _____, 2002, between the undersigned and the Bank and is secured by various liens and security interests granted or to be granted to the Bank from time to time; and this Note and the holder hereof are entitled to all the benefits provided for under the Facility B Loan Authorization Agreement, to which reference is hereby made for a statement thereof. The undersigned hereby waives presentment and notice of dishonor. The undersigned agrees to pay to the holder hereof all expenses incurred or paid by such holder, including attorneys' fees and court costs, in connection with the collection of this Note. It is agreed that this Note and the rights and remedies of the holder hereof shall be construed in accordance with and governed by the laws of the State of Illinois.

SUNRICH FOOD GROUP, INC.

By _____
Name _____
Title _____

STAKE TECHNOLOGY LTD.

2001 STOCK OPTION PLAN

The purpose of the Stake Technology Ltd. 2001 Stock Option Plan (the "Plan") is to have options available to grant to the employees, directors and consultants of Stake Technology Ltd. and its subsidiaries. Such a Plan is vital to ensure the long-term retention of employees, directors and consultants. Stock option plans develop the interest and incentive of employees of the companies that Stake Technology Ltd. (Stake) and its subsidiaries may acquire by providing them with an opportunity to purchase common shares of the Company, thereby advancing the interests of the Company and its shareholders.

Subject to shareholder approval, the 2001 Stock Option Plan was approved by the Board of Directors (Board) of the Company, on March 13, 2001 at which time up to 1,000,000 Common Shares of the Company were reserved for the Plan.

The Plan

1. Purpose of the Plan

An option granted under the Plan provides an employee, director or consultant of Stake with the opportunity to purchase common shares of the Company.

2. Definitions

In this Plan:

"Date of Exercise" means the date upon which an Eligible Employee returns a completed Option purchase form to the Company together with payment in full for the number of Optioned Shares such employee, director or consultant is purchasing pursuant to such form;

"Eligible Person" means an employee, director or consultant of Stake or its subsidiaries at the time of the grant of an option;

"Option" means the right granted under this Plan to an eligible employee to purchase a specified number of common shares of the Company pursuant to the provisions of the Plan;

"Option Committee" means the committee chosen by the Board of the Company to administer the Plan;

"Optionee" means a eligible employee of the Company who has been granted an Option pursuant to the Plan;

"Option Period" means, unless otherwise provided by the Board of Directors of the Company, that period during which an Optionee granted an Option may purchase Optioned Shares commencing on the date approved by Shareholders and ending March 13, 2011.

"Option Price" means the price per share at which an Optionee may purchase Optioned Shares; and,

"Optioned Shares" means those Common Shares in respect of which an Option is granted to an Optionee under this Plan.

3. Eligibility

The eligibility to participate in the Plan is at the discretion of the Board of the Company.

4. The Number of Shares an Optionee is Entitled to Under the Plan

The Option Committee shall determine the number of Optioned Shares in respect of which an Option is granted at the time of the grant of the Option.

5. Purchase Price for Optioned Shares

The purchase price of Optioned Shares comprised in an Option granted under the Plan shall be equal to 100% of the fair market of the common shares of the Company based on the closing price on the previous trading day of the grant date as determined by the Board of the Company at the time of the grant of the Option in accordance with the policies of any applicable regulatory authority.

6. Exercise of Option

Each Option granted under the Plan shall vest at such time or times as may be determined by the Board or the Option Committee and no rights under the Plan or any Option shall accrue to any Optionee in any Optioned Shares forming the subject matter of an Option prior to the vesting date of such Shares.

The Option Committee will decide the vesting date of the Options granted to the Optionee under the Plan at the time of grant pursuant to Article 12 hereof.

The right of exercise shall be cumulative and any Optionee, if still an Employee of an eligible company, may exercise the Option in respect of any Optioned Shares, which have vested at any time during the Option Period subject to the provisions of Articles 10 and 11 hereof.

In order to purchase Optioned Shares under the Plan, an Optionee shall complete and execute an Option Exercise Form in the form of Schedule 1 attached hereto and deliver it to the Company together with a certified cheque for the full purchase price of the Optioned Shares being acquired.

Subject to the prior vesting of Optioned Shares and of restriction on purchase dates or as otherwise determined by the Option Committee, an Optionee can exercise all or any part of the Option at any time.

7. Optionee Commitment

An Optionee has no obligation to purchase any or all of the Optioned Shares at any time but, to the extent an Optionee exercises the Option, the full purchase price of the Optioned Shares purchased pursuant to such exercise must be paid in full as set out under "Exercise of Option" above.

8. Share Certificates

The Company will deliver a share certificate representing the Optioned Shares purchased pursuant to exercise of an Option as soon as reasonably possible after the exercise thereof.

9. Transfer and Assignment

No Option or any of the rights thereunder is assignable or transferable by an Optionee at any time during the Optionee's lifetime. Upon the exercise of an Option, the Optionee may sell or otherwise dispose of such shares in any manner that the Optionee wishes in any jurisdiction in which the same are qualified for sale and subject to any regulatory authority having jurisdiction over such sale.

10. Termination for any Reason other than Death

If an Optionee is terminated, resigns, or otherwise severs his or her relationship with the Company at any time before the end of the Option Period for any reason other than the death of such Optionee, such Optionee may, at any time during the 30 day period immediately next following the date of termination of employment, excluding the date of termination, purchase all or any part of the Optioned Shares which have vested in him or her and which he or she is entitled to purchase under the Option in the manner provided in the Plan. At 5:00 o'clock in the afternoon, local time, on such 30th day, if such day be a business day, such Option shall fully cease and determine and all rights of such Optionee thereunder shall cease, or, if such day shall not be a business day at 5:00 o'clock in the afternoon, local time, on the business day next following.

If through the operation of Article 6 hereof, none of the Optioned Shares shall have vested in such Optionee, the provisions of Article 6 hereof shall prevail and such Optionee shall not be entitled to purchase any Optioned Shares notwithstanding the provisions of this Article.

Transfer by the Optionee to a subsidiary of the Company or any other Company affiliated with it or from such subsidiary or affiliate to the Company shall be deemed not to be a termination of employment under this Article and all rights of the Optionee under such Option shall continue in full force and effect after such transfer.

11. Termination by Reason of Death

If any Optionee shall die at any time prior to the end of the Option Period and before such Optionee has purchased all of the Optioned Shares optioned to him or her, the exercise date with respect to any unexercised portion of an Option provided in Article 6 hereof will be accelerated and such Optionee's personal representatives may purchase all or any portion of the Optioned Shares of such deceased Optionee as provided in this Plan at any time during the shorter of the period of the Option Period or 180 days immediately next following the death of the Optionee excluding the date of death if such day be a business day or, if such day shall not be a business day, on the business day next following.

12. Administration of the Plan

An Option Committee shall administer the Plan. The Option Committee has been delegated the authority by the Board of the Company to designate those employees, consultants and directors of Sunrich or future business interest that Stake may acquire in the near term who are to be granted Options in the Plan, the number of Optioned Shares to be granted to each such Optionee and otherwise to administer and interpret the Plan and the Options granted thereunder. The Board may amend, modify or terminate the Plan or any Option granted thereunder in respect of any Optioned Shares which shall not have become vested in an Optionee pursuant to the provisions of the Plan at any time without notice, but no such amendment, modification or termination shall divest any rights under any Option which shall have become vested in any Optionee.

Any determination of the Option Committee shall be final and conclusive, unless the Board of the Company overrules any such determination, in which case the decision of the Board shall be final, conclusive and binding. The members of the Option Committee at the date hereof are as follows: Jeremy N. Kendall, Cyril Ing and Tim Bergqvist.

The Option Committee may delegate the day to day administration of the Plan to an officer of the Company.

13. Changes Affecting Optioned Shares

In the case of any reorganization or recapitalization of the Company (by reclassification of its outstanding capital stock), or its consolidation or merger with or into another corporation, or the sale, conveyance, lease or other transfer by the

Company of all or substantially all of its property, pursuant to any of which events the then outstanding shares of the Company's capital are consolidated or subdivided, or are changed into or become exchangeable for other shares or stock, the Optionee, upon exercise of his or her Option, shall be entitled to receive in lieu of the Optioned Shares which he or she would otherwise have been entitled to receive upon such exercise and without any payment in addition to the Option Price therefor, the shares of stock which the Optionee would have received upon such reorganization, recapitalization, consolidation, subdivision, merger, sale or other transfer, if immediately prior thereto he or she had owned the Optioned Shares to which such exercise of the Option relates and had exchanged such Optioned Shares in accordance with the terms of such reorganization, recapitalization, consolidation, subdivision, merger, sale or other transfer.

Notwithstanding the foregoing provisions of this Article 13, no adjustment

provided for herein shall require the Company to deliver a fractional share under the Option.

14. Employment

The granting of an Option to any person under the Plan shall not confer any rights upon such Optionee other than those provided in the Plan and, without limiting the generality of the foregoing, shall not confer or be deemed to confer upon any such Optionee any right to continue as an employee, director or consultant of the Company, or any subsidiary or affiliate thereof.

15. No Shareholder Right

The granting of an Option pursuant to the Plan shall not confer any rights upon any Optionee as a shareholder of the Company, nor the right to receive notice of, attend nor vote at any meeting of shareholders of the Company until the exercise of an Option and such rights shall extend only to those number of Optioned Shares in respect of which the Option was exercised.

16. Governing Law

The Plan is established under the laws of the Province of Ontario and the rights of all parties and the construction and effect of each provision of the Plan shall be governed by the laws of the Province of Ontario; except in respect to any sale of any of the Common Shares in respect of which an Option has been exercised which shall be governed by the laws of the jurisdiction in which an Optionee proposes to sell such shares.

17. Termination of the Plan

The Plan will terminate on March 13, 2011 unless otherwise determined by the Option Committee unless all of the Options granted under the Plan are exercised, in which case the Plan will terminate on the date all of the Options granted under the Plan have been exercised.

IN WITNESS WHEREOF, subject to shareholder approval, the Company has executed this Plan as of March 13, 2001.

STAKE TECHNOLOGY LTD.

J. N. Kendall, Chairman and CEO

Leslie N. Markow, CAO and Assistant
Corporate Secretary

SCHEDULE 1

To the STAKE TECHNOLOGY LTD.

2001 Stock Option Plan

To: Stake Technology Ltd.

And to: American Stock Transfer and Trust Company

OPTION EXERCISE FORM

The undersigned hereby subscribes for _____ Common Shares of Stake Technology Ltd. (the "Company") that the undersigned is entitled to pursuant to the provisions of the Stake Technology Ltd. 2001 Stock Option Plan.

I attach my cheque payable to the Company in the sum of \$ _____, representing the purchase price of the said Shares.

Dated at _____, this _____ day of _____, 20__.

Name: _____ SIN: _____

Address: _____ or

S.S.: _____

Signature: _____

Please call Leslie Markow - CAO at (905) 455-1990 x 109 if you wish to exercise any of your options.

LIST OF SUBSIDIARIES
OF
STAKE TECHNOLOGY LTD.

Name of Company	Jurisdiction of Incorporation
Stake Technology Ltd.	Federal Canada
1108176 Ontario Limited	Ontario
Temisca, Inc.	Quebec
558497 Ontario Limited	Ontario
1510146 Ontario Inc.	Ontario
Stake Tech LP	Delaware
3060385 Nova Scotia Company	Nova Scotia
Stake Technology LLC	Delaware
Stake Technology (USA) Inc.	Delaware
SunRich Food Group, Inc.	Minnesota
Northern Food & Dairy, Inc.	Minnesota
Nordic Aseptic, Inc.	Minnesota
Sunrich, Inc.	Minnesota
Virginia Materials, Inc.	Virginia
International Materials & Supplies, Inc.	New York

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned Director and/or Officer of STAKE TECHNOLOGY LTD., a Canada corporation, (the "Corporation"), hereby appoints Steven Bromley and/or Jeremy N. Kendall and Robert T. Lincoln and each of them, his attorneys and agents to execute on his behalf and in his name and in capacity set forth below, an Annual Report of the Corporation for the fiscal year ended December 31, 2001 on Form 10K and any amendment thereto, for filing with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), and to do or cause to be done such other acts and to execute such other documents which said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Act and any rules, regulations or requirements of the Securities and Exchange Commission in respect thereof.

Dated as of March 26, 2001

"Dennis Anderson"

Dennis Anderson - Director

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Larry Anderson"

Larry (Andy) Anderson - Director

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Tim Bergqvist"

Tim Bergqvist - Director

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Michael Boyd"

Michael Boyd - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Stephen Bronfman"

Stephen Bronfman - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Rob Fetherstonhaugh"

Rob Fetherstonhaugh - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Katrina Houde"

Katrina Houde - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Cyril Ing"

Cyril Ing - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Jeremy Kendall"

Jeremy Kendall - Director

EXHIBIT 24

POWER OF ATTORNEY

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Act of 1933, as amended (the "Act"), and to do or cause to be done such other acts and to execute such other documents which said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Act and any rules, regulations or requirements of the Securities and Exchange Commission in respect thereof.

Dated as of March 26, 2001

"Camillo Lisio"

Camillo Lisio - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Jim Rifenbergh"

Jim Rifenbergh - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"Joe Riz"

Joe Riz - Director

EXHIBIT 24

POWER OF ATTORNEY

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in respect thereof.

Dated as of March 26, 2001

"Allan Routh"

Allan Routh - Director

EXHIBIT 24

POWER OF ATTORNEY

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Dated as of March 26, 2001

"John Taylor"

John Taylor - Director