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STAKE TECHNOLOGY LTD
Form 10-Q/A
July 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 2

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

For the quarterly period ended March 31, 2003
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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes No

At April 30, 2003 registrant had 42,616,999 common shares outstanding, 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 \$147,661,410. The Company's common shares are traded on the Nasdaq Smallcap Market tier of the Nasdaq Stock Market under the symbol STKL and The Toronto Stock Exchange under the symbol SOY.

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There are 35 pages in the March 31, 2003 10-Q and the index follows the cover page.

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STAKE TECHNOLOGY LTD.

FORM 10-QA
March 31, 2003

EXPLANATORY NOTE

This Amendment No. 2 to Form 10-Q filed on Form 10Q/A for the year quarter ended March 31, 2003 is being filed to clarify and expand various disclosures in "Item 1. Consolidated Financial Statements" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations". All information contained herein is as of April 30, 2003, and does not reflect any events or changes in information that may have occurred subsequent to April 30, 2003.

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets as at March 31, 2003 and December 31, 2002.

Consolidated Statements of Retained Earnings for the three months ended March 31, 2003 and 2002, and the year ended December 31, 2002.

Consolidated Statements of Earnings for the three months ended March 31, 2003 and 2002.

Consolidated Statements of Cash Flow for the three months ended March 31, 2003 and 2002.

Condensed Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Item 4. Controls and Procedures

PART II - OTHER INFORMATION

All financial information is expressed in United States Dollars

The closing rate of exchange on April 30, 2003 was CDN \$1 = U.S. \$0.6976

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PART I - FINANCIAL INFORMATION

Item 1 -

Consolidated Financial Statements

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(Expressed in thousands of U.S. dollars)

Stake Technology Ltd.

For the Three Months Ended March 31, 2003

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Stake Technology Ltd.
 Consolidated Balance Sheets
 As at March 31, 2003 and December 31, 2002
 Unaudited
 (Expressed in thousands of U.S. dollars)

	March 31, 2003 \$	December 31, 2002 \$

Assets		
Current assets		
Cash and cash equivalents	1,782	7,012
Short-term investments	--	2,038
Accounts receivable - trade	17,698	18,144
Note receivable	697	1,034
Inventories (note 4)	23,642	22,989
Prepaid expenses and other current assets	1,736	958
Future income taxes	--	115
	-----	-----
	45,555	52,290
Property, plant and equipment	37,741	37,033
Goodwill and intangibles, net	15,245	14,992
Future income taxes	9,956	9,892
Other assets (note 5)	988	1,080
	-----	-----
	109,485	115,287
	=====	=====
Liabilities		
Current liabilities		
Bank indebtedness	9,191	3,963
Accounts payable and accrued liabilities	17,073	19,664
Customer deposits	1,334	421
Current portion of long-term debt (note 6)	2,626	11,650
Current portion of long-term payables (note7)	1,190	3,458
	-----	-----
	31,414	39,156
Long-term debt (note 6)	24,125	25,099
Long-term payables (note 7)	1,447	1,505
	-----	-----
	56,986	65,760

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Shareholders' Equity	-----	
Capital stock (note 8)	39,150	38,020
Authorized		
Unlimited common shares without par value		
Issued		
42,547,199 (December 31, 2002 - 41,984,118) common shares		
Contributed surplus	2,914	2,914
Retained earnings	8,534	7,470
Currency translation adjustment	1,901	1,123

	52,499	49,527

	109,485	115,287
	=====	

Commitments and contingencies (note 11)

(See accompanying notes to consolidated financial statements)

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Stake Technology Ltd.
Consolidated Statements of Retained Earnings
For the three months ended March 31, 2003 and 2002, and the year ended December 31, 2002 Unaudited
(Expressed in thousands of U.S. dollars)

	Three months ended	
	March 31, 2003 \$	March 31, 2002

Retained Earnings - Beginning of the period	7,470	3,700
Net earnings for the period	1,064	2,000

Retained Earnings - End of the period	8,534	3,730
	=====	

(See accompanying notes to consolidated financial statements)

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Stake Technology Ltd.
Consolidated Statements of Earnings
For the three months ended March 31, 2003 and 2002
Unaudited

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

	March 31, 2003 \$

Revenues	41,411
Cost of good sold	34,293

Gross profit	7,118
Selling, general and administrative expenses	5,485

Earnings before the following	1,633
Interest expense	(491)
Interest and other income	37
Foreign exchange gain (loss)	341

	(113)

Earnings before income taxes	1,520
Provision for (recovery of) income taxes	456

Net earnings for the period	1,064
	=====
Net earnings per share for the period	
- Basic	0.03
	=====
- Diluted	0.02
	=====

(See accompanying notes to consolidated financial statements)

Stake Technology Ltd.
 Consolidated Statements of Cash Flow
 For the three months ended March 31, 2003 and 2002
 Unaudited
 (Expressed in thousands of U.S. dollars)

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\$

Cash provided by (used in)	
Operating activities	
Net earnings for the period	1,064
Items not affecting cash	
Amortization	1,178
Future income taxes	51
Other	45

	2,338
Changes in non-cash working capital (note 10)	(2,729)

	(391)
Investing activities	
Decrease in short term investments	2,038
Acquisition of companies, net of cash acquired	(1,871)
Acquisition of property, plant and equipment	(1,229)
Proceeds from note receivable	358
Other	(147)

	(851)
Financing activities	
Increase in bank indebtedness	5,228
Borrowings under term debt facilities	7,800
Repayment of term debt and tender facilities	(17,819)
Repayment of deferred purchase consideration	(227)
Proceeds from the issuance of common shares, net of issuance costs	1,130
Financing costs	(70)
Decrease in restricted cash	-
Purchase and redemption of Preference Shares of subsidiary companies	(130)

	(4,088)
Foreign exchange gain (loss) on cash held in a foreign currency	100

(Decrease) Increase in cash and cash equivalents during the period	(5,230)
Cash and cash equivalents - Beginning of the period	7,012

Cash and cash equivalents - End of the period	1,782
	=====

See note 10 for supplemental cash flow information

(See accompanying notes to consolidated financial statements)

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

1. Interim financial statements

The interim consolidated financial statements of Stake Technology Ltd. (the Company) have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and in accordance with accounting principles generally accepted in Canada which conform, in all material respects (except as indicated in Note 12, with accounting principles generally accepted in the U.S.). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2003. For further information, see the Company's consolidated financial statements, and notes thereto, included in the Annual Report on Form 10K for the year ended December 31, 2002.

2. Description of business and significant accounting policies

The Company was incorporated under the laws of Canada on November 13, 1973 and operates in three principal businesses. The Food Group processes, packages, markets and distributes a wide range of natural and organic food products and ingredients via its vertically integrated operations with a focus on soy, oat and corn based products. The Environmental Industrial Group processes, distributes and recycles industrial minerals. The Steam Explosion Technology Group markets proprietary steam explosion technology systems for the pulp and food processing industries. The Company's assets, operations and employees at March 31, 2003 are located in the United States and Canada.

The Company's significant accounting policies are outlined below. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. Differences arising from the application of accounting principles generally accepted in the United States are described in note 12.

Basis of presentation

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

Cash and cash equivalents

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

Short-term investments

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

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Inventories

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

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

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

Property, plant and equipment

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

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

Goodwill and intangibles

The Company adopted the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002. This new standard eliminated the need for amortization of goodwill and indefinite life intangible assets. Goodwill represents the excess of the purchase price over the assigned value of net assets acquired. Under the transitional provisions of the standard, a goodwill impairment test was carried out and no impairment was identified on January 1, 2002.

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

Other assets

i) Pre-operating costs

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

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During 2001, the Company initiated the start-up of an organic dairy business based in Canada. Certain pre-operating costs totaling \$308 were deferred up to June 30, 2002 (2001 - \$32). Amortization of these costs on a straight-line basis commenced in July 2002 and will result in these costs being fully amortized by December 31, 2003.

During 2000, the Company acquired Nordic Aseptic, Inc., which was considered a start-up business from the date of acquisition to December 31, 2000. Certain operating costs, net of income earned during the pre-operating period totaling \$482 were deferred. Amortization of these costs on a straight-line basis commenced in January, 2001 and will result in these costs being fully amortized by December 31, 2003.

ii) Deferred financing costs

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

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

iii) Investments

The Company has a 32% (2002 - 32%) investment in Easton Minerals Limited ("Easton"). This investment is considered impaired and the carrying value at March 31, 2003 is nil (2002 - \$nil). The investment was accounted for using the equity method of accounting. The Company does not have any guaranteed obligations with respect to Easton or any commitment to provide further financial support, thus it is not anticipated that further losses will be recorded on this investment.

All other subsidiaries are 100% owned at March 31, 2003. On November 1, 2002, the Company acquired the remaining 49% minority interest in International Materials & Supplies, Inc. Investments in these subsidiaries are recorded using the consolidation method, whereby revenues and expenses are consolidated with the results of the Company.

Revenue recognition

i) Food Group

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

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estimate is available.

ii) Environmental Industrial Group

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

iii) Steam Explosion Technology Group

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

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

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

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

Foreign currency translation

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

Customer deposits

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

Income taxes

The Company follows the asset and liability method of accounting for

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

Employee stock compensation

Employee/director stock options granted by the Company contain exercise prices which are equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock. No compensation expense is recorded upon issuance of stock options to employees. Stock options granted have a maximum life of six years and usually vest over a four year period.

Derivative instruments

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

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

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

Earnings per share

Basic earnings per share are computed by dividing the income available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is

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increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Use of estimates

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

3. Business acquisitions

On April 11, 2003 Stake announced that it has reached an agreement to acquire 100% of the outstanding shares of Kettle Valley Dried Fruit Ltd. (Kettle Valley) and its related companies, subject to completion of required documentation and definitive agreements, for total consideration of \$2,668, consisting of cash, common shares and notes payable.

Kettle Valley produces natural and organic fruit bars and fruit leathers with an apple base and markets these products under the Kettle Valley Real Fruit Snack and Frunola brands. Kettle Valley operates two production facilities in Summerland, British Columbia, the heart of the B.C. apple growing district, and is currently constructing a third plant in the State of Washington, the center of the apple growing district of the Western U.S. In addition, Kettle Valley produces a number of private label products for customers in the U.S., Canada and the United Kingdom. Kettle Valley's products are sold through agents and distributors to the health food and mass markets as well as to various school districts who are leading the trend in improving the dietary content of student lunches.

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

4. Inventories

	March 31, 2003 \$
Raw materials	7,928
Finished goods	12,225
Grain	3,489

	23,642 =====

Grain inventories consist of the following:

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	March 31, 2003 \$
Company owned grain	3,550
Unrealized gain (loss) on Sales and purchase contracts	(150)
Futures contracts	89

	3,489
	=====
5. Other assets	
	March 31, 2003 \$
Pre-operating costs, net of accumulated amortization of \$520 (2002 - \$432)	268
Deferred financing costs, net of accumulated amortization of \$272 (2002 - \$201)	618
Other	102

	988
	=====
6. Long-term debt and banking facilities	
	March 31, 2003 \$
Term loan (a)	21,275
Tender facility (b)	--
Convertible debenture	4,733
Other long-term debt (c)	743

	26,751
Less: current portion	(2,626)

	24,125
	=====

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Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

6. Long-term debt and banking facilities, continued

- (a) In March 2003, the Company amended its financing arrangement with its current lenders and entered into a syndication agreement. As part of the amendment, the term loan increased by \$7,800. On March 31, 2003 the Company made a regularly scheduled repayment on the term loan of \$425.
- (b) During the first quarter of 2003, the Company repaid the tender facility with proceeds from the amended term loan of \$7,800, \$3,500 from an increase in a line of credit facility (noted in (d) below) and the utilization of \$3,886 in cash.
- (c) During the first quarter the Company repaid certain other long-term debt of \$2,097, in addition to making regularly scheduled repayments of \$111.
- (d) As part of the amended financing arrangement noted above in (a), the Company also increased a line of credit facility by \$4,000.

7. Long-term payables

	March 31, 2003 \$
Product rebate payable	1,361
Deferred purchase consideration	440
Preference shares of subsidiary companies	161
Payable to former shareholders of acquired companies (a)	675
	2,637
Less: Current portion	(1,190)
	1,447

- (a) During the first quarter \$1,871 was paid to the former shareholders of Opta in respect of untendered shares converted to a right to receive \$2.50 per share in cash as a result of the amalgamation of Stake Acquisition Corp. with Opta.

Stake Technology Ltd.
 Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars, except per share amounts)

8. Capital stock

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	March 31, 2003 \$
(a) Issued and fully paid -	
42,547,199 common shares (December 31, 2002 - 41,984,118)	36,449
4,101,244 warrants (December 31, 2002 - 4,224,600)	2,701

	39,150

(b) During the quarter ended March 31, 2003, employees and directors exercised 223,725 (March 31, 2002 - 48,100) common share options and an equal number of common shares were issued for net proceeds of \$405 (March 31, 2002 - \$98). Subsequent to March 31, 2003, employees exercised 19,800 common share options and an equal number of common shares were issued for net proceeds of \$26.

(c) During the quarter ended March 31, 2003, 123,356 warrants were exercised and an equal number of common shares were issued for net proceeds of \$207. In addition, 216,000 compensation warrants were exercised during the quarter for net proceeds of \$518. Subsequent to March 31, 2003, 50,000 warrants were exercised and an equal number of common shares were issued for net proceeds of \$88.

(d) During the quarter 398,750 options were granted to employees at a price range of \$3.06 to \$3.72.

(e) As at March 31, 2003 there were options vested to employees and directors to acquire 1,491,930 common shares at exercise prices of \$1.06 to \$3.72. In addition, at March 31, 2003, options to acquire an additional 881,480 common shares at \$1.06 to \$3.72 have been granted to employees and directors but have not yet vested.

(f) Employee stock options granted by the Company in 2003 and 2002 were granted at prices which approximated the value of stock on the grant date. These options vest at various dates ranging from the date of the grants to March 20, 2007 and expire two to six years subsequent to the grant date.

The fair value of the options granted during the first quarter of 2003 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% (2002 - 0%), an expected volatility of 60% (2002 - 60%), a risk-free interest rate of 3% (2002 - 3%), and an expected life of one to six years.

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Pro-forma net earnings (loss) reflecting stock compensation for the first quarter in 2003 and 2002 are as follows:

	March 31, 2003
Number of options granted	398,750
	\$
Total fair value	791
Net earnings for the period as reported	1,064
Stock compensation expense:	
Options vested in current year from current year grants	40
Options vested in current year from prior years grants	60
	100
Pro-forma net earnings (loss) for the period	964
Pro-forma net earnings (loss) per common share	
- Basic	0.02
- Diluted	0.02

9. Earnings per share

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

	March 31, 2003
Weighted average number of shares used in basic earnings per share	42,290,847
Dilutive potential of the following	
Employee/director stock options	915,514
Warrants	1,343,550
	44,549,911

Warrants to purchase nil common shares (2002 - \$1,250,000) and options to

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purchase 388,750 common shares (2002 - nil) and the convertible debenture, convertible into 1,666,667 common shares (2002 - nil) have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect.

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Stake Technology Ltd.
 Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

10. Supplemental cash flow information

	Three ----- March 31, 2003 \$
Changes in non-cash working capital, net of businesses acquired:	
Accounts receivable - trade	346
Inventories	(725)
Prepaid expenses and other current assets	(785)
Accounts payable and accrued liabilities	(2,478)
Customer deposits	913

	(2,729)
	=====
Cash paid for:	
Interest	304
	=====
Income taxes	418
	=====

11. Commitments and contingencies

- (a) Various claims or potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company. Legal counsel has concluded the outcome of these claims or potential claims is not determinable.
- (b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the

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Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.

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

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Stake Technology Ltd.
 Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

- (d) Letters of credit:
- i) An irrevocable letter of credit for \$510 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - ii) An irrevocable letter of credit for \$195 has been placed with the Commonwealth of Virginia Department of Environmental Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.
 - iii) Additional letters of credit totalling \$28 have been placed with third parties as security on transactions occurring in the ordinary course of operations.
- (e) Commitments under operating leases, principally for distribution centres, warehouse and equipment, are as follows:

	\$
2003	1,254
2004	1,595
2005	1,514
2006	1,474
2007	1,339
2008 and thereafter	1,430

	8,606
	=====

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Stake Technology Ltd.
 Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

12. Segmented information

Industry segments

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

	Food Group \$	Environmental Industrial Group \$	Steam Explosion Technology Group and Corporate \$
External revenues by market			
U.S.	29,824	1,994	225
Canada	4,507	3,382	-
Other	1,452	24	3
Total revenues to external customers	35,783	5,400	228
Interest expense	386	90	15
Provision for (recovery of) income taxes	397	121	(62)
Segment net earnings (loss)	927	284	(147)
Identifiable assets	82,025	22,685	4,775
Amortization	876	209	93
Expenditures on property, plant and equipment	1,111	110	8

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Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

12. Segmented information continued

	Food Group \$	Environmental Industrial Group \$	Steam Explosion Technology Group and Corporate \$
External revenues by market			
U.S.	17,344	2,287	75
Canada	75	2,821	--
Other	648	33	--
Total revenues to external customers	18,067	5,141	75
Interest expense	369	53	--
Provision for (recovery of) income taxes	2	176	(195)
Segment net earnings (loss)	2	265	(244)
Identifiable assets	52,651	18,251	11,121
Amortization	712	203	19
Expenditures on property, plant and equipment	699	397	71

Geographic segments

	March 31, 2003				
	U.S. \$	Canada \$	Total \$	U.S. \$	Ca
Property, plant and equipment	29,713	8,028	37,741	29,568	7
Goodwill and intangibles	11,666	3,579	15,245	11,655	3
Total assets	78,445	31,040	109,485	87,399	27

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Customer concentration

The Company has one customer in the Food Group whose purchases were 12% of the Company's total revenue in the first quarter of 2003 (2002 - 10.3%).

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Stake Technology Ltd.

Condensed Notes to Consolidated Financial Statements

For the three months ended March 31, 2003

Unaudited

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

13. United States generally accepted accounting principles differences

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

Under U.S. GAAP, certain pre-operating costs of \$nil incurred in the quarter ended March 31, 2003, (2002 - \$87), deferred in these financial statements would be expensed. Amortization of \$50 in the quarter ended March 31, 2003, (2002 - \$40) related to pre-operating costs would not have been expensed.

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

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

	Three mo
	March 31,
	2003
	\$
Net earnings for the period - as reported	1,064
Pre-operating costs amortized	90
Pre-operating costs capitalized	--
Stock option compensation expense	--
Tax effect of above items	(27)

Net earnings (loss) for the period - U.S. GAAP	1,127
	=====
Net earnings (loss) per common share - U.S. GAAP	
- Basic	0.03

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- Diluted	0.03
Weighted average number of common shares outstanding	42,290,857
Shareholders' equity - as reported	52,499
Cumulative pre-operating costs, net of amortization, net of tax	(152)
Cumulative stock compensation expense	(416)
Shareholders' equity - U.S. GAAP	51,931

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Stake Technology Ltd.
 Condensed Notes to Consolidated Financial Statements
 For the three months ended March 31, 2003
 Unaudited
 (Expressed in thousands of U.S. dollars)

13. United States generally accepted accounting principles differences, continued

Comprehensive income

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

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

	Three months ended	
	March 31, 2003 \$	March 31, 2002 \$
Net earnings (loss) for the period - U.S. GAAP	1,127	(5)
Currency translation adjustment	778	(80)
Comprehensive income (loss) for the period	1,905	(85)

Other U.S. GAAP disclosures

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Changes in Reserves	Three months ended	
	March 31, 2003 \$	March 31, 2002
Allowance for Doubtful Accounts		
Balance, beginning of period	709	36
Additions charged to profit and loss, including effects of foreign exchange rate differences	70	1
Accounts receivable charged off, net of recoveries	(48)	-
Balance, end of period	731	38
Deferred Tax Valuation Allowance		
Balance, beginning of period	4,107	47
Additions to valuation allowance	--	-
Adjustments to valuation allowance, including effects of foreign exchange rate differences	--	-
Balance, end of period	4,107	47
Accrued payroll	1,600	1,23

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Stake Technology Ltd.
Condensed Notes to Consolidated Financial Statements
For the three months ended March 31, 2003
Unaudited
(Expressed in thousands of U.S. dollars)

14. Recent accounting developments

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which imposes new disclosure and liability-recognition requirements for financial guarantees, performance guarantees, indemnifications and indirect guarantees of the indebtedness of others. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for interim and annual periods ending after December 15, 2002. As the Company did not have any material guarantees outstanding, the issuance of FIN 45 did not have an effect on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest

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entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not have any ownership in any variable interest entities. The Company believes that the adoption of FIN 46 will not have a material impact on the Company's consolidated financial position or on its results of operations.

15. Comparative balances

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

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PART I - FINANCIAL INFORMATION

Item 2 -

Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Developments

On April 11, 2003, Stake announced that it has reached an agreement to acquire 100% of the outstanding shares of Kettle Valley Dried Fruit Ltd. (Kettle Valley) and its related companies, subject to completion of required documentation and definitive agreements, for total consideration of \$2,634, consisting of cash, common shares and notes payable.

Kettle Valley produces natural and organic fruit bars and fruit leathers with an apple base and markets these products under the Kettle Valley Real Fruit Snack and Frunola brands. Kettle Valley operates two production facilities in Summerland, British Columbia, the heart of the B.C. apple growing district, and is currently constructing a third plant in the State of Washington, the center of the apple growing district of the Western U.S. In addition, Kettle Valley produces a number of private label products for customers in the U.S., Canada and the United Kingdom. Kettle Valley's products are sold through agents and distributors to the health food and mass markets as well as to various school districts who are leading the trend in improving the dietary content of student lunches.

In March 2003, Stake amended its financing arrangements. The amendment syndicated the financing arrangement to a group of banks which includes existing lenders and increased the term loan by \$7,800 to \$21,700 (\$21,275 as at March 31, 2003). In addition, the U.S. line of credit facility was increased by \$4,000 to \$9,000. The Company used the incremental proceeds on the term loan, drew on the U.S. line of credit facility to the extent of \$3,500 and utilized \$3,886 of cash on hand to repay the tender facility which had been obtained to finance the acquisition of Opta Food Ingredients, Inc. The term loan is repayable quarterly and is intended to amortize over seven years. The term loan has a two year maturity at which point the facility is renewable at the option of the lender and Stake. Stake fully expects to renew this facility.

Operations For the Three Months ended March 31, 2003 Compared With the Three Months Ended March 31, 2002

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Consolidated

Revenues in the first three months of 2003 increased by 77.9% to \$41,411 from \$23,283 in the first three months of 2002 and the Company's net earnings for the first three months in 2003 were \$1,064 or \$0.03 per common share compared to \$23 or \$0.00 per common share for the first three months of 2001. The increase in the Company's revenues of \$18,128 is due in most part to increased sales of aseptic packaged soymilk products of \$2,939, increased sales of bulk grains and specialty beans of \$4,485, the combined impact of the acquisitions of Organic Kitchen, Wild West, Simply Organic and Opta and the start-up of the Company's organic dairy operation, Sunrich Valley totalling \$11,273.

Net earnings increased significantly over the same period in 2002 due in most part to the turn around at the Company's aseptic packaging operations of \$796 after tax, improved market/economic conditions that impacted the Environmental Industrial Group of \$11, earnings from acquisitions noted above of \$106 after tax, and a foreign exchange gain as a result of the appreciation of the Canadian dollar of \$239 after tax.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the earnings for the three months ended March 31, 2003 under U.S. GAAP are \$1,127 or \$0.03 per common share versus a loss of \$5 or \$0.00 per common share in the same period in 2002. Note 13 to the consolidated financial statements itemizes these differences.

Cost of goods sold increased by 71.6% to \$34,293 for the three months ended March 31, 2003 compared to \$19,979 for the three months ended March 31, 2002. Consistent with the revenue analysis above, the increase in cost of goods sold is related to the revenue increase resulting from increased sales of certain food based products and the acquisitions completed in 2002.

The Company's consolidated gross margin increased to 17.2% for the three months ended March 31, 2003 versus 14.2% in the three months ended March 31, 2002. The improvement in gross margin is attributable to improvements

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in efficiencies at the Company's aseptic packaging operation and other Food Group operations, as well as the impact of higher gross margins in the acquired businesses.

Selling, general and administrative expenses increased to \$5,485 or 13.2% of revenues in the three months ended March 31, 2003 compared to \$2,983 or 12.8% of revenues for the three months ended March 31, 2002. The increase in administrative costs is mainly due to the acquisitions completed in 2002 of \$2,352 and incremental legal costs of \$95 related to the Company's legal proceeding against a former supplier for failure to adhere to the terms of a supply contact, as detailed in Part II - Other Information.

Interest expense increased to \$491 in the three months ended March 31, 2003 from \$422 in the three months ended March 31, 2002. The increase in borrowing costs reflects the increase in borrowings to support the acquisition of Opta in December of 2002.

Interest and other income decreased to \$37 in the three months ended March 31, 2003 from \$111 in the three months ended March 31, 2002, primarily due to lower cash/investment balances versus the prior year.

Foreign exchange gain increased to \$341 from a loss of \$4 in the same period in

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2002 as a result of the significant appreciation of the Canadian dollar.

The provision for income taxes in the first three months of 2003 reflects the Company's estimated effective tax rate in 2003 of 30%.

Segmented Operations Information

(Note: Certain prior year figures have been adjusted to conform with the current year presentation which eliminates all intercompany charges for segmented reporting purposes)

Food Group

The Company currently treats the Food Group as one reporting segment. With the continued expansion of the Food Group, the Company is in the process of transitioning its management structure and related reporting systems in support of its vertically integrated food model. The Company intends to expand segmented reporting once this transition is complete and information is compiled and reviewed accordingly and intends to provide expanded segments no later than December 31, 2003.

The Food Group contributed \$35,783 or 86.4% of total Company consolidated revenues in the first three months of 2002 versus \$18,067 or 77.6% in the same period in 2002. The increase of \$17,716 or 98.0% in Food Group revenues was due primarily to increased sales of aseptic packaged soymilk of \$2,939, an increase in sales of bulk grains and specialty beans of \$4,485 and the combined impact of the acquisitions and start-up completed in 2002 of \$11,273. The increase in food revenues as a percentage of consolidated revenues reflects the Company's continued growth via acquisitions in the natural and organic food industry and the inherently higher internal growth rates associated with these businesses.

Gross margin in the Food Group increased by \$3,825 in the three months ended March 31, 2003 to \$5,825 or 16.3% compared to \$2,000 or 11.1%, in the same period in 2002. The increase in gross margin reflects the turnaround at the Nordic Aseptic packaging operation and the acquisitions completed in 2002.

Selling, general and administrative expenses increased to \$4,116 in the three months ended March 31, 2003 versus \$1,679 in the three months ended March 31, 2002. The increase of \$2,437 is due primarily to acquisitions completed in 2002 of \$2,352 and legal costs of \$95 associated with an action against a former supplier for failure to adhere to the terms of a supply contract, as detailed in Part II - Other Information.

Interest expense increased to \$386 in the three months ended March 31, 2003 versus \$369 in the three months ended March 31, 2002. The increase was due to the acquisitions completed in 2002.

Net earnings in the Food Group were \$927 in the three months ended March 31, 2003 compared to earnings of \$2 in the three months ended March 31, 2002 due to the factors noted above.

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Environmental Industrial Group

The Environmental Industrial Group contributed \$5,400 or 13.0% of the total Company consolidated revenues in the first three months of 2003, versus \$5,141 or 22.1% in 2002. Revenues were favourably impacted by the improvement in the market and economic conditions in the steel and foundry businesses and a resurgence in demand for abrasives totalling \$260.

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Gross margin in the Environmental Industrial Group was \$1,066 in the three months ended March 31, 2003 versus \$1,229 in the three months ended March 31, 2002. As a percentage of revenues, gross margin decreased to 19.7% in the first three months of 2003 from 23.9% in the first three months of 2002. The decrease in margin is due primarily to a relocation of certain plant operating costs from selling, general and administrative expenses to cost of goods sold in 2003 of approximately \$200 (after adjustment for the reallocation, 2002 gross margin was 20.0%).

Selling, general and administrative expenses decreased to \$536 in the three months ended March 31, 2003 versus \$729 in the three months ended March 31, 2002. The decrease is mainly due to the reallocation noted above.

Interest expense increased to \$90 in the first three months of 2003 versus \$53 in the first three months of 2002. The increase was mainly due to cash utilization due to payments made as part of the acquisition of Virginia Materials in 2001.

Net earnings were \$284 in the three months ended March 31, 2003 versus \$265 in the three months ended March 31, 2002.

Steam Explosion Technology Group

Revenues of \$228 for the three months ended March 31, 2003 were primarily derived from licence fees earned in the quarter in addition to licence fees of \$150 relating to 2002 recorded in 2003 as collection has become reasonably assured.

Selling, general and administrative expenses were \$66 for the first three months of 2003 compared to \$57 for the same period in 2002. These costs reflect payroll and related expenses required to manage and maintain the business.

Net earnings were \$113 versus net earnings of \$11 in the same period in 2002.

Corporate Activities

Selling, general and administration expenses were \$767 in the three months ended March 31, 2003 versus \$518 in the three months ended March 31, 2002. The increase was due to an increase in the costs of administering a growing public company of approximately \$175 and an increase in the amortization of financing fees of \$71.

Liquidity and Capital Resources at March 31, 2003

Current assets

Cash and cash equivalents decreased to \$1,782 at March 31, 2003 (December 31, 2002 - \$7,012), primarily due to the repayment of the tender facility in March 2003.

The short term investments held at December 31, 2002 consisted of short-term money market investments with maturity dates greater than 90 days from acquisition, obtained in the acquisition of Opta. These short term investments matured prior to March 31, 2003.

Trade accounts receivable decreased to \$17,698 at March 31, 2003 from \$18,144 at December 31, 2002. Trade receivables at March 31, 2003 attributable to the Food Group were \$14,026 (December 31, 2002 - \$14,889). The decrease was primarily due to the collection of a contract cancellation fee subsequent to year-end, offset by the impact of increased sales in the quarter. Trade receivables in the Environmental Industrial Group were \$3,447 (December 31, 2002 - \$3,255). The

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Steam Explosion Technology Group has a receivable of \$225 related to the license fee revenue recorded in the quarter (December 31, 2002 - \$nil).

The note receivable of \$697 (December 31, 2002- \$1,034) and the product rebate payable in long-term payables of \$1,361 (December 31, 2002 - \$1,330) are related to an agreement with a major European based company to supply

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product. This agreement required the Food Group to expand a food processing plant to the customer's specifications, which was completed in 2001. In accordance with the terms of the agreement, the customer pays 36 monthly instalments of \$119. The agreement also requires the Company to provide the customer with a product rebate beginning October 2003 until \$1,720 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 \$653 to \$23,642 at March 31, 2003 versus December 31, 2002. The Food Group accounts for \$19,125 of the consolidated balance (December 31, 2002 - \$18,492) and the Environmental Industrial Group \$4,517 (December 31, 2002 - \$4,497). The Steam Explosion Technology Group is not required to carry significant inventories. The higher balances in the Food Group are primarily due to increased inventory of finished aseptic packaged goods, raw materials and ingredients to support the increase in production and sales and higher grain inventories.

Prepaid expenses and other current assets increased \$778 to \$1,736 at March 31, 2003 from \$958 at December 31, 2002. The increase is mainly due to an increase in prepaid insurance as a result of policy renewals in the first quarter and timing of a prepaid inventory in the Food Group.

Property, plant and equipment

In the first quarter of 2003, the Company expended \$1,229 (March 31, 2002 - \$1,167) on property, plant and equipment, of which, the Food Group comprised of \$1,111. Key projects in the quarter included the micro filter sweetener project at the Group's operation in Alexandria, MN and the expansion of the grain cleaning and transfer system in Hope, MN. During the first quarter of 2003, \$110 was expended by the Environmental Industrial Group on general additions and replacements and \$8 was spent by the Steam Explosion Technology Group and the Corporate Office on computer equipment.

Goodwill and intangibles

Goodwill and intangibles increased to \$15,245 at March 31, 2003 from \$14,992 at December 31, 2002. The increase is due primarily to foreign exchange valuation of Canadian goodwill and intangibles.

Future income taxes

The future income tax asset relates primarily to loss carry-forwards recorded on the acquisition of Opta Food Ingredients, Inc. and scientific research and development credits available in Canada.

Other assets

Other assets decreased by \$92 to \$988, primarily due to amortization of pre-operating costs and financing fees, offset by the capitalization of \$70 in financing fees.

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Current liabilities

Bank indebtedness

Bank indebtedness at March 31, 2003 was \$9,191 (December 31, 2002 - \$3,963). The increase relates primarily to the utilization of the line of credit facilities to repay the tender facility which occurred in March 2003.

Accounts payable and accrued liabilities decreased to \$17,073 at March 31, 2003 from \$19,664 at December 31, 2002. The decrease is primarily due to deferred payments to grain suppliers at December 31, 2002, the payment of bonuses related to 2002 and the disbursement of acquisition based accruals.

Customer deposits of \$1,334 at March 31, 2003 (December 31, 2002 - \$421) relate to cash deposits made by Food Group customers for purchases made throughout the growing season in 2003. No recognition of revenue or accrual of costs is booked on these transactions until the goods are shipped.

Long term debt

At March 31, 2003, the Company's long-term debt, including current portion, is \$26,751, a net decrease of \$9,998 from December 31, 2002. The decrease relates to the repayment of the tender facility and certain other debt

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instruments, offset by the increase in the term debt facility of \$7,800 as a result of the refinancing completed in March 2003.

Long-term payables

The Company had deferred purchase consideration of \$440 at March 31, 2003 (December 31, 2002 - \$667) related to the acquisition of Virginia Materials. The deferred purchase consideration is paid on the purchase of the vendor's inventory as acquired by the Company. It is expected that it will take approximately 4 to 6 months from March 31, 2003 to satisfy this liability.

The Preference Shares of subsidiary companies were reduced to \$161 from \$291 as a result of regularly scheduled repurchases in the quarter and an additional repurchase of preferred shares related to a settlement with a former director relating to certain actions taken while he was the president of an operating division.

Payables to former shareholders of acquired companies decreased by \$2,000 to \$675 at March 31, 2003. The reduction is due primarily to the payment for the untendered shares of the former shareholders of Opta, in addition to payments related to the acquisition of Virginia Materials.

Cash flow

For the quarter ended March 31, 2003, cash flow provided by operations before working capital changes was \$2,338, an increase of 156% versus 2002 (March 31, 2002 - \$912). The increase is due primarily to improvements in earnings and higher amortization charges in the first quarter of 2003 versus 2002.

Cash flow used in operations after working capital changes was (\$391) for the three months ended March 31, 2003 (March 31, 2002 - (\$1,978)), reflecting the utilization of funds for non-cash working capital of (\$2,729) (March 31, 2002 - (\$2,890)). This utilization consists principally of an increase in inventory of (\$725), a decrease in accounts payable and accrued liabilities of (\$2,478) and

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an increase in prepaids and other current assets of (\$785), offset by a decrease in accounts receivable of \$346 and an increase in customer deposits of \$913. The working capital deficiencies in the first quarter are comparable to the same period in the prior year, which reflects the impact of seasonality of the business on working capital, including the purchase and payment method with grain suppliers in the Food Group and the economic market seasonality in the Environmental Industrial Group.

Cash used in investing activities was (\$851). The Company sold its short term investments for proceeds of \$2,038 (March 31, 2002 - \$6,307) and received payments on a note receivable of \$358 (March 31, 2002 - \$358), partially offset by acquisitions of property, plant and equipment of (\$1,229) (March 31, 2002 - (\$1,167)), and payment for the acquisition of companies, in this case to the former shareholders of Opta, of (\$1,871) (March 31, 2002 - (\$214)).

Cash used in financing activities was (\$4,088) in the quarter (March 31, 2002 - \$1,852), which consists primarily of an increase in bank indebtedness of \$5,228 (March 31, 2002 - \$2,695), proceeds from the issuance of common shares of \$1,130 (March 31, 2002 - \$98), offset by net debt repayments of (\$10,019) (March 31, 2002 - (\$470)), deferred purchase consideration payments of (\$227) (March 31, 2002 - (\$147)) and financing costs of (\$70) (March 31, 2002 - (\$486)).

Item 3 -Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk

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

Debt in both fixed rate and floating rate interest carry varying degrees of interest rate risk. Fixed rate debt may have their fair market value adversely affected by a decline in interest rates. In general, longer date debts are subject to greater interest rate risk than shorter dated securities. Floating rate term debt gives less predictability to cash flows as interest rates change. As of March 31, 2003, the weighted average interest rate of the fixed rate term debt including the convertible debenture was 9.10% and \$5,476 of the Company's outstanding term debt is at fixed interest rates. Variable rate term debt of \$21,275 at an interest rate of 3.78% is outstanding at March 31, 2003. The Company looks at varying factors to determine the percentage of debt to hold at fixed rates including the interest rate spread between variable and

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fixed (swap rates), the Company's view on interest rate trends, the percent of offset to variable rate debt through holding variable rate investments and the Company's ability to manage with interest rate volatility and uncertainty. For every 1% increase (decrease) in interest rates, the Company's after-tax earnings would decrease (increase) by approximately \$150,000. Given the short duration of fixed rate debt, changes in interest rates would have a negligible affect on fixed rate debt valuations.

Foreign currency risk

All U.S. subsidiaries use the U.S. dollar as their functional currency, and since January 1, 2002, the United States dollar has been the Company's reporting currency. Canadian subsidiaries and corporate office use the Canadian dollar as

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their functional currency. The subsidiaries are subject to risks typical of multi-jurisdiction businesses, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely affected by changes in these or other factors. The Company is exposed to foreign exchange rate fluctuations as the financial results of the Company and its Canadian subsidiaries are translated into U.S. dollars on consolidation. During the first quarter, the Canadian dollar has appreciated significantly against the U.S. dollar with closing rates moving from CDN \$1.5776 at December 31, 2002 to CDN \$1.4678 at March 31, 2003 for each U.S. dollar. The net effect of this appreciation has been a \$341 exchange gain and a \$1,119 increase in net assets. A 10% movement in the levels of foreign currency exchange rates in favour of (against) the Canadian dollar with all other variables held constant would result in an increase (decrease) in the fair value of the Company's net assets by \$1,886. These changes would flow through the Company's cumulative translation adjustment account in shareholders' equity.

The Food Group and the Environmental Group Canadian operations have U.S. based receivables and payables that on a net basis provide limited exchange exposure. The Food Group U.S. operations have no exposure to other currencies since all sales are made in U.S. dollars. 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 U.S. dollars.

Commodity risk

The Food Group enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Exchange purchase and sales contracts may expose the Company to risk in the event that a 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. At March 31, 2003, the Company owned 135,405 bushels of corn with a weighted average price of \$2.16 and 285,396 bushels of soy beans with a weighted average price of \$7.42. The Company has at March 31, 2003 net long positions on corn and soy beans of 12,162 bushels and 16,250 bushels, respectively. Therefore, a change in the commodity prices would not have a material impact on the Company. There are no futures contracts in the Environmental Industrial Group or the Steam Explosion Technology Group or related to Corporate activities.

Item 4. Controls and Procedures

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

PART II - OTHER INFORMATION.

Item 1. Legal proceedings

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

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

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

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

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

Item 2. Changes in securities and use of proceeds - Not applicable

Item 3. Defaults on senior securities - Not applicable

Item 4. Submission of matters to a vote of security holders - Not applicable

Item 5. Other - Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

99.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K -

i) Form 8-K filed February 5, 2003 resignation of John D. Taylor, President & C.O.O.

ii) Form 8-K amendment filed February 14, 2003 relating to the Agreement and Plan of Merger among Opta Food Ingredients, Inc., Stake Technology and Stake Acquisition Corp.

SIGNATURES

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

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undersigned hereunto duly authorized.

STAKE TECHNOLOGY LTD.

/s/ Steven R. Bromley

Date July 14, 2003

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

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Certification

I, Jeremy N. Kendall, Chairman of the Board and Chief Executive Officer of Stake Technology Ltd., certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Stake Technology Ltd. for the quarter ended March 31, 2003,
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation to the registrant's auditors and

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the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Jeremy N. Kendall

Chairman & Chief Executive Officer
Stake Technology Ltd.
July 14, 2003

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Certification

I, Steven R. Bromley, Executive Vice President and Chief Financial Officer of Stake Technology Ltd., certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Stake Technology Ltd. for the quarter ended March 31, 2003,
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant including its consolidated subsidiaries, is made known to us by others within those entities,

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- particularly during the period in which this quarterly report is being prepared;
- b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Steven R. Bromley

Executive Vice President & Chief Financial Officer
Stake Technology Ltd.
July 14, 2003

EXHIBIT INDEX

Exhibit No.

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

