

**Normiska Corporation**  
**Consolidated Financial Statements**  
**April 30, 2000**

## **Auditors' Report**

To the Directors of  
Normiska Corporation

We have audited the consolidated balance sheets of Normiska Corporation as at April 30, 2000 and October 31, 1999, 1998 and 1997 and the consolidated statements of operations and deficit and cash flows for the six months ended April 30, 2000, the years ended October 31, 1999 and 1998, and the eleven months ended October 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2000 and October 31, 1999, 1998 and 1997 and the results of its operations and its cash flows for the six months ended April 30, 2000, the years ended October 31, 1999 and 1998, and the eleven months ended October 31, 1997 in accordance with generally accepted accounting principles.

**Signed: *Moore Stephens Cooper Molyneux LLP***

**Chartered Accountants**

Toronto, Ontario  
June 7, 2000, except as to  
Note 18 which is as of June 15, 2000

# Normiska Corporation

## Consolidated Balance Sheets

	April 30 2000	April 30 1999	October 31 1999	October 31 1998	October 31 1997
		(unaudited)			
<b>Assets</b>					
<b>Current assets</b>					
Cash	\$ -	\$ -	\$ -	\$ 208,944	\$ 50,489
Accounts receivable	1,750,264	112,666	265,171	68,681	5,484
Inventory	909,702	129,006	436,140	10,200	-
Prepaid expenses	20,479	20,146	70,000	-	-
	<b>2,680,445</b>	261,818	771,311	287,825	55,973
Capital assets (note 5)	4,929,087	1,260,779	1,801,935	1,115,042	-
Deferred costs (note 6)	1,154,648	1,153,843	1,201,306	1,264,936	1,143,966
Future income tax assets (note 7)	235,000	225,000	299,000	200,000	-
	<b>\$ 8,999,180</b>	\$ 2,901,440	\$ 4,073,552	\$ 2,867,803	\$ 1,199,939
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank indebtedness (note 8)	\$ 461,111	\$ 48,722	\$ 149,710	\$ -	\$ -
Accounts payable	1,877,533	123,024	452,027	159,736	63,862
Demand loans (note 9)	250,000	-	-	-	-
Due to shareholders	-	-	-	-	12,000
Current portion of long-term debt (note 10)	560,189	99,722	185,277	71,114	-
	<b>3,148,833</b>	271,468	787,014	230,850	75,862
Long-term debt (note 10)	2,052,691	331,085	599,732	250,519	-
Convertible debt (note 11)	350,000	-	350,000	-	149,900
Convertible debenture (note 12)	500,000	500,000	500,000	500,000	-
	<b>6,051,524</b>	1,102,553	2,236,746	981,369	225,762
<b>Shareholders' equity</b>					
Share capital (note 13)	3,226,257	2,184,859	2,224,859	2,184,859	1,000,252
Deficit	(278,601)	(385,972)	(388,053)	(298,425)	(26,075)
	<b>2,947,656</b>	1,798,887	1,836,806	1,886,434	974,177
	<b>\$ 8,999,180</b>	\$ 2,901,440	\$ 4,073,552	\$ 2,867,803	\$ 1,199,939

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board

Signed: "John M. Arnold"

Director

Signed: "David B. Graham"

Director

# Normiska Corporation

## Consolidated Statements of Operations and Deficit

	Six Months Ended		Year Ended		Eleven months
	April 30 2000	April 30 1999	October 31 1999	October 31 1998	October 31 1997
		(unaudited)			
<b>Sales</b>	\$ 1,877,684	\$ 133,439	\$ 484,827	\$ 8,616	\$ -
<b>Tipping fees</b>	<b>639,709</b>	323,592	714,761	341,053	-
	<b>2,517,393</b>	457,031	1,199,588	349,669	-
<b>Cost of goods manufactured</b>					
Opening inventory	<b>436,140</b>	10,200	10,200	-	-
Transportation	<b>401,747</b>	143,297	359,677	170,953	-
Site and processing costs	<b>1,465,147</b>	81,893	215,363	26,890	-
Labour	<b>204,992</b>	33,991	229,923	31,143	-
	<b>2,508,026</b>	269,381	815,163	228,986	-
Closing inventory	<b>(909,702)</b>	(129,006)	(436,140)	(10,200)	-
	<b>1,598,324</b>	140,375	379,023	218,786	-
Gross profit	<b>919,069</b>	316,656	820,565	130,883	-
<b>Administrative expenses</b>					
Financing costs	-	-	-	41,716	-
Office	<b>120,126</b>	80,948	157,072	78,472	-
Salaries and benefits	<b>110,584</b>	39,818	156,266	215,534	-
Marketing and product development	<b>85,947</b>	61,797	173,954	69,723	-
Selling and administrative	<b>59,384</b>	65,963	119,106	90,157	-
Professional fees	<b>43,588</b>	53,416	32,906	29,845	5,000
Interest on long-term debt	<b>114,069</b>	30,313	105,610	39,376	-
Amortization of capital assets	<b>165,601</b>	75,759	171,643	24,594	-
Amortization of deferred costs	<b>46,318</b>	21,189	92,636	13,816	-
	<b>745,617</b>	429,203	1,009,193	603,233	5,000
<b>Income (loss) before provision for income taxes</b>	<b>173,452</b>	(112,547)	(188,628)	(472,350)	(5,000)
Provision for (recovery of) future income taxes	<b>64,000</b>	(25,000)	(99,000)	(200,000)	-
<b>Net income (loss) for the period</b>	109,452	(87,547)	(89,628)	(272,350)	(5,000)
<b>Deficit, beginning of period</b>	(388,053)	(298,425)	(298,425)	(26,075)	(21,075)
<b>Deficit, end of period</b>	\$ (278,601)	\$ (385,972)	\$ (388,053)	\$ (298,425)	\$ (26,075)
<b>Basic income (loss) per share</b>	\$ 0.02	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ -

The accompanying notes are an integral part of these financial statements.

# Normiska Corporation

## Consolidated Statements of Cash Flows

	Six Months Ended		Year Ended		Eleven months
	April 30 2000	April 30 1999	October 31 1999	October 31 1998	October 31 1997
		(unaudited)			
<b>Cash flow from operating activities</b>					
Cash receipts from customers	\$ 1,032,300	\$ 413,046	\$ 1,003,098	\$ 286,472	\$ (3,853)
Cash paid to suppliers and employees	(1,016,488)	(631,132)	(1,161,665)	(665,244)	(5,000)
Interest paid	(114,069)	(17,162)	(95,922)	(32,691)	49,474
	<b>(98,257)</b>	<b>(235,248)</b>	<b>(254,489)</b>	<b>(411,463)</b>	<b>40,621</b>
<b>Cash flow from investing activities</b>					
Capital asset additions	(3,292,413)	(131,592)	(857,856)	(1,140,003)	-
Expenditures on deferred costs	-	-	(29,685)	(134,419)	(888,796)
Deposits	-	-	(70,000)	-	-
	<b>(3,292,413)</b>	<b>(131,592)</b>	<b>(957,541)</b>	<b>(1,274,422)</b>	<b>(888,796)</b>
<b>Cash flow from financing activities</b>					
Bank indebtedness	311,401	48,722	149,710	-	149,900
Demand loan	250,000	-	-	-	-
Due to shareholders	-	-	-	(12,000)	(254,380)
Long-term debt	1,827,871	109,174	463,376	321,633	-
Issue of convertible debt	-	-	350,000	(149,900)	-
Issue of convertible debenture	-	-	-	500,000	-
Issue of common shares	1,001,398	-	40,000	1,184,607	1,000,242
	<b>3,390,670</b>	<b>157,896</b>	<b>1,003,086</b>	<b>1,844,340</b>	<b>895,762</b>
<b>Increase (decrease) in cash in cash</b>	-	<b>(208,944)</b>	<b>(208,944)</b>	<b>158,455</b>	<b>47,587</b>
<b>Cash and short-term deposits, beginning of period</b>	-	<b>208,944</b>	<b>208,944</b>	<b>50,489</b>	<b>2,902</b>
<b>Cash and short-term deposits, end of period</b>	\$ -	\$ -	\$ -	\$ 208,944	\$ 50,489

*The accompanying notes are an integral part of these financial statements.*

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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## **1. Business of the Company**

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Normiska Corporation ("the Company") was incorporated on January 17, 1997 under the laws of Ontario. The Company is in the business of developing and exploiting sphagnum peat moss as well as processing pine bark into compost and mulch in Fort Frances, Ontario. In addition, the Company manufactures vermiculite and perlite at its plant in Lachine, Quebec. All of the above products are sold to the horticultural industry for use in soil-less growing mediums, soil conditioning and landscaping products.

The Company has, to date, financed its activities to a significant degree from the proceeds of share issues and loans. The recoverability of the deferred development costs incurred to date and any future costs will be dependent upon the ability to obtain additional financing and to maintain a level of profitable operations.

## **2. Significant Accounting Policies**

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### **Basis of presentation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Normiska Peat Inc. ("Peat").

### **Use of estimates**

The preparation of 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Deferred development costs**

These costs (*note 6*) consist of the direct costs of opening, draining and grooming of the first 300 acre portion of the bog. Also included are costs related to the acquisition and maintenance of the site and the lease such as royalties, land taxes, insurance and legal fees. Initial costs related to the development of the bark by-product/peat processing facility and the research and development of the products to be produced have been deferred. These costs are being amortized on a straight-line basis over twenty years following completion of the development phase in June 1998.

### **Deferred marketing costs**

These costs (*note 6*) consist of acquiring marketing data, communicating with potential product users and investigating product delivery costs. These costs are being amortized on a straight-line basis over three years following completion of the development phase in June 1998.

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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**2. Significant Accounting Policies - Continued**

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**Capital assets**

Capital assets are recorded at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Building	-	20	years straight line
Bark pad	-	20	years straight line
Office improvements	-	3	years straight line
Equipment	-	10	years straight line
Automobile	-	3	years straight line
Computer equipment	-	3	years straight line
Furniture and fixtures	-	5	years straight line

**Income per share**

The basic income per share has been calculated based upon the weighted average number of common shares outstanding during the year. Fully diluted earnings per share, calculated as though the convertible debenture and debt were converted to common shares from the issue date of the debenture, results in a lower income (loss) per share than the basic income (loss) per share.

**Foreign exchange**

Monetary assets and liabilities in U.S. dollars are translated into Canadian dollars at the year end rate of exchange and non-monetary assets and liabilities in U.S. dollars are translated into Canadian dollars at their respective historical exchange rates. Any gains or losses are reflected in income. Revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction.

**Comparative figures**

The comparative figures for the six month period ended April 30, 1999, have not been audited, and in combination with the related notes, are provided for information purposes only.

**Reclassifications**

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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**3. Interim Financial Information (Unaudited)**

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The interim consolidated financial statements of the Company for the six months ended April 30, 1999, included herein, have been prepared by the Company, without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of the Company's operations and its cash flows for the six months ended April 30, 1999. The accompanying unaudited interim consolidated financial statements are not necessarily indicative of full year results.

**4. Change in Accounting Policies**

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**Cash flows**

In June 1998, the Canadian Institute of Chartered Accountants issued Section 1540, *Cash Flow Statements*, which is required to be adopted for fiscal years beginning on or after August 1, 1998. This section establishes new standards for the presentation of cash flows and related information. The company has adopted Section 1540 during the year ended October 31, 1999 and has restated comparative figures to reflect the new standard.

**Income taxes**

In December 1997, the Canadian Institute of Chartered Accountants issued Handbook Section 3465, *Income Taxes*, which requires a change from the deferral method of accounting for income taxes under Handbook Section 3470, Corporate Income Taxes, to the asset and liability method of accounting for income taxes. Under the asset and liability method of section 3465, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

The Company has adopted Section 3465 retroactively with restatement of the comparative figures. The deficit as at November 1, 1999 has been reduced by \$299,000 as a result of this change.

# Normiska Corporation

## Notes to Consolidated Financial Statements

April 30, 2000

### 5. Capital Assets

	<b>April 30 2000</b>			October 31 1999	October 31 1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Land	\$ 40,067	\$ -	\$ 40,067	\$ 40,067	\$ 31,275
Building	406,584	34,696	371,888	377,173	359,230
Bark Pad	294,245	21,366	272,879	258,725	49,375
Office improvements	9,664	5,637	4,027	5,638	8,859
Equipment	4,501,650	281,008	4,220,642	1,095,693	633,697
Automobile	13,000	7,583	5,417	7,584	11,917
Computer equipment	9,348	5,166	4,182	5,535	6,278
Furniture and fixtures	15,347	5,362	9,985	11,520	14,411
	<b>\$ 5,289,905</b>	<b>\$ 360,818</b>	<b>\$ 4,929,087</b>	<b>\$ 1,801,935</b>	<b>\$ 1,115,042</b>

In February 2000, the Company acquired the capital assets of V.I.L. Vermiculite Inc. for \$3,000,000. Financing and legal costs of \$266,000 associated with the asset purchase were capitalized and are being amortized over the assets' estimated useful lives.

### 6. Deferred Costs

	<b>April 30 2000</b>			October 31 1999	October 31 1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Development	\$ 1,208,963	\$ 95,814	\$ 1,113,149	\$ 1,143,398	\$ 1,174,210
Marketing	98,455	56,956	41,499	57,908	90,726
	<b>\$ 1,307,418</b>	<b>\$ 152,770</b>	<b>\$ 1,154,648</b>	<b>\$ 1,201,306</b>	<b>\$ 1,264,936</b>

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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**7. Future Income Tax Assets**

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The tax effects of temporary differences that give rise to significant portions of the future income tax assets at April 30, 2000 and October 31, 1999 and 1998 are presented below:

	<b>April 30 2000</b>	October 31 1999	October 31 1998
<b>Long-Term</b>			
Capital assets-difference between book value and tax value	\$ (156,374)	\$ (63,400)	\$ (2,539)
Non-capital loss carryforwards	354,215	333,475	179,367
Deferred costs-difference between book value and tax value	21,036	14,791	-
Other	16,123	14,134	23,172
<b>Total Future Income Tax Assets</b>	<b>\$ 235,000</b>	<b>\$ 299,000</b>	<b>\$ 200,000</b>

**8. Bank Indebtedness**

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The Company has available an operating loan to a maximum of \$750,000, secured by a general security agreement.

**9. Demand Loans**

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Loans in the amount of \$150,000 and \$100,000 are repayable on demand and bear interest at 9%. The \$150,000 loan is payable to a party related to an officer of the Company.

**Notes to Consolidated Financial Statements**

April 30, 2000

**10. Long-Term Debt**

	<b>April 30 2000</b>	October 31 1999	October 31 1998
The term loan is repayable at interest of prime plus 1.75% plus monthly principal payments of \$48,000 due on February 18, 2004, secured by a general security agreement.	<b>\$ 2,000,000</b>	\$ -	\$ -
The term loan is repayable at interest of prime plus 1.85% plus monthly principle payments of \$2,056, secured by a general security agreement.	\$ -	\$ 89,711	\$ -
Equipment loans are repayable at interest rates ranging from 8.5% to 9.75%, requiring monthly payments of \$9,388 per month. Specific capital assets have been pledged as security.	<b>264,478</b>	307,654	280,531
Lease obligations are repayable over terms of 48 to 60 months requiring monthly payments of \$9,241.	<b>348,402</b>	387,644	41,102
	<b>2,612,880</b>	785,009	321,633
Less: Current portion	<b>560,189</b>	185,277	71,114
	<b>\$ 2,052,691</b>	\$ 599,732	\$ 250,519
Payments required on long-term debt are as follows:			
2001	\$ 782,192		
2002	924,612		
2003	830,688		
2004	553,791		
2005	7,285		
	3,098,568		
Less: Interest	485,688		
	<b>\$ 2,612,880</b>		

**11. Convertible Debt**

Convertible debt has no fixed terms of principal repayment. Interest is calculated at prime plus 2%. The debt is convertible into common shares of the Company at the lenders option at any time the Company issues a prospectus at the maximum discount allowed by the Ontario Securities Commission.

**Notes to Consolidated Financial Statements**

April 30, 2000

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**12. Convertible Debenture**

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On December 22, 1997, the Company issued a \$500,000 convertible and redeemable debenture pursuant to an agreement dated December 1, 1997 with a five year term at 8% interest compounded semi-annually, payable quarterly and due December 1, 2002. The debenture is redeemable by the Company in whole or in part, prior to maturity, after 18 months following the issue of the debenture provided the weighted average of the closing trading price of the Company's shares over a twenty day contiguous trading period exceeds \$1.50 per share. The holder of the debenture has the option to convert it in whole or in part in multiples of \$1,000 into units at a price of \$1 per unit. Each unit consists of one fully paid and non-assessable common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.00 for twelve months from the date of exercise. As security, the Company granted a floating charge on all of the Company's present and future assets. The Company is required to deposit into a segregated bank account one third of any annual positive cash flow.

**13. Share Capital**

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**Authorized**

Unlimited Common shares

**Issued**

	<b>Issued</b>	<b>Amount</b>
On incorporation	2	\$ 10
To Normiska Peat Inc. (i)	2,099,224	297,288
For cash (ii)	231,506	100
To Normiska Limited Partnership (iii)	1,405,708	702,854
<b>Balance at October 31, 1997</b>	<b>3,736,440</b>	<b>1,000,252</b>
Initial public offering (iv)	1,200,000	1,034,707
On conversion of loan (v)	149,900	149,900
<b>Balance at October 31, 1998</b>	<b>5,086,340</b>	<b>2,184,859</b>
Deposit on acquisition (vi)	40,000	40,000
<b>Balance at October 31, 1999</b>	<b>5,126,340</b>	<b>2,224,859</b>
Acquisition (vi)	524,204	500,000
Special Warrants (viii)	584,210	501,398
<b>Balance at April 30, 2000</b>	<b>6,234,754</b>	<b>\$ 3,226,257</b>

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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**13. Share Capital - continued**

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- (i) On August 31, 1997, the Company issued 2,099,224 common shares in return for 100% of the issued and outstanding shares of Normiska Peat Inc. and in satisfaction of advances of \$297,288 which Normiska Peat Inc. owed to its former shareholders.
- (ii) On August 31, 1997, the Company issued 231,506 common shares to a third party for a total consideration of \$100.
- (iii) On October 31, 1997, the company issued 1,405,708 common shares to the limited partners of the Normiska Limited Partnership in satisfaction of \$702,854 of loans payable by Normiska Peat Inc. to the Normiska Limited Partnership.
- (iv) On January 28, 1998, the Company filed a preliminary prospectus with the Ontario Securities Commission and subsequently qualified for distribution 1,200,000 units of the Company to be issued at \$1.00 per unit by way of a public underwriting to provide additional financing for projects. Each unit consisted of one common share and one half share purchase warrant. The total proceeds from the issue of shares were \$1,200,000 with net proceeds to the Company of \$1,034,707 after deduction of issue expenses and underwriting discount. Each share purchase warrant entitled the holder to purchase one common share at \$1.25 for a period of eighteen months following closing of the offering.
- (v) On April 21, 1998, the terms of a \$149,900 loan payable were amended to provide for mandatory conversion of the loan at \$1 per common share into a total of 149,900 common shares upon closing of the offering referred to in (iv) for a total consideration of \$149,900.
- (vi) On September 15, 1999, the Company issued 40,000 common shares valued at \$40,000 as consideration for a deposit on the acquisition of the assets of V.I.L. Vermiculite Inc.
- (vii) On February 9, 2000, the Company issued 524,204 common shares valued at \$500,000 as consideration for the acquisition of the assets of V.I.L. Vermiculite Inc.
- (viii) On March 14, 2000, the Company issued 584,210 Special Warrants at \$0.95 per unit by way of a private placement to be used for the acquisition of capital assets, to finance receivables and inventory and for general corporate purposes. Each special warrant will entitle the holder thereof to acquire, without payment of any additional consideration, one common share in the capital of the Company at any time between the date on which a receipt has been issued by the Ontario Securities Commission for a final prospectus and the date that is eighteen months following the closing of this offering. The total proceeds from the issue of shares were \$555,000 with net proceeds to the Company of 501,398 after deduction of issue expenses and underwriting discount.

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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## **14. Stock Options**

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The Company has in effect a Stock Option Plan ("the Plan") that provides for the potential grant of options to directors, officers, employees and service providers. The terms of the awards under the Plan are determined by the Board of Directors. As at April 30, 2000, options to purchase up to 1,100,000 Common shares, exercisable at prices equal to the market price of Normiska's shares as at the grant date, were outstanding as follows:

250,000 options granted January 14, 1998, exercisable at \$1.00, expiring January 14, 2003

25,000 options granted April 22, 1999, exercisable at \$0.70, expiring April 22, 2004

20,000 options granted July 30, 1999, exercisable at \$0.80, expiring July 30, 2004

80,000 options granted September 29, 1999, exercisable at \$0.75, expiring September 29, 2004

75,000 options granted March 13, 2000, exercisable at \$1.00, expiring March 13, 2005

130,000 options granted March 13, 2000, exercisable at \$0.90, expiring March 13, 2005

130,000 options granted March 13, 2000, exercisable at \$0.95, expiring March 13, 2005

250,000 options granted March 13, 2000, exercisable at \$1.15, expiring March 13, 2005

At April 30, 2000 an aggregate of 375,000 stock options had been granted to the directors, officers and employees of the Company. The options are exercisable at prices ranging from \$0.75 to \$1.00 and expire between January 14, 2003 and September 29, 2004.

## **15. Financial Instruments**

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### **Risk management activities**

The Company has negotiate bank lines of credit at interest rates which are variable to bank prime. Management monitors future interest rate changes.

### **Fair value**

The carrying amount of accounts receivable, deposits, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt equals its carrying value as it bears interest at a floating rate. The fair values of the obligations under capital leases approximate their carrying values as the interest rate in effect when the instruments were issued is similar to the year end rate.

**Notes to Consolidated Financial Statements**

April 30, 2000

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**16. Commitments and Contingencies**

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(i) **Royalties on the transfer of the crown lease on the peat bog land**

On November 15, 1991, with governmental approval, Peat acquired the crown lease from Frederick J. Atkinson. As consideration for this transfer, Peat, during the years 1992, 1993 and 1994, paid Mr. Atkinson a total of \$50,000. In fiscal 1995, and thereafter, the Company is committed to make annual payments of the greater of \$5,000 or a sum equal to 5% of net profits derived from the peat operations.

(ii) **Crown lease on the peat bog land**

Under a crown lease which was legally transferred to Peat in March 1992, Peat is committed to annual lease payments of \$1,130. This lease extends to December 2024. In addition to this annual rental, Peat is required to pay royalties of \$0.20 per cubic metre of peat removed from the premises.

(iii) **Use of peripheral lands**

Under two agreements with owners of lands bordering on the peat bog land, Peat is committed to annual lease payments of \$200 plus \$0.20 per cubic metre of peat removed from the premises. Should there be no production in any given year, an advance royalty of \$500 must be paid, to be deducted from future royalties. One agreement, dated November 23, 1993, relates to the area of the peat bog located on the south half of Lot 1, concession 3, Township of Burris, Ontario. The other agreement, dated October 29, 1993, relates to the area of the peat bog located on the north half of Lot 1, Concession 3, Township of Burris, Ontario.

(iv) **Operating leases**

At April 30, 2000, the Company was committed to rental lease payments in the following amounts:

2000	\$	81,000
2001		101,000
2002		98,000
2003		110,000
Thereafter		138,000
	\$	528,000

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(v) **Bark supply agreement**

In September 1997, the Company signed a twenty year "Surplus Bark Supply Agreement" with Abitibi-Consolidated Inc. (Abitibi) whereby Abitibi will, for the initial three years, pay a fee to Normiska of \$3.75 per cubic yard of bark waste to be removed from its Fort Francis mill site with a minimum of 100,000 cubic yards and a maximum of 225,000 cubic yards per annum. During years four to twenty the Company and Abitibi will negotiate a new market price for the bark waste supply.

**Notes to Consolidated Financial Statements**

*April 30, 2000*

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**17. Uncertainty due to the year 2000 issue**

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The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

**18. Subsequent Events**

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The Company is preparing a Preliminary Prospectus to qualify for distribution the common shares referred to in note (13) *(viii)*.