

# First Quarter Report

## Management's Discussion and Analysis of Financial Conditions and Results of Operation for the Three Months Ended January 31, 2002.

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The following discussion and analysis of the operating results and financial position of the Corporation for the three months ended January 31, 2002 and the three months ended January 31, 2001, should be read in conjunction with the financial statements of the Corporation enclosed herein and the Annual Report as at October 31, 2001.

### Overview

The Corporation manufactures high quality vermiculite and perlite in Lachine, Quebec, which is distributed throughout Canada and the Eastern United States.

The Corporation processes Jack Pine bark into a line of compost and mulch products and harvests horticultural grade peat moss from its sphagnum peat bog in Fort Frances, Ontario primarily for distribution into the Central United States.

We supply our customers with the four main ingredients of soil-less growing media, namely sphagnum peat moss, composted Jack Pine bark for horticultural use and vermiculite and perlite for both horticultural and industrial uses.

### Summary of Capital and Financing as at January 31, 2002

Term loan, prime plus 1.75% plus principal payments of \$48,000 monthly	\$ 1,232,000
8% Debenture due December 1, 2002, payable in monthly blended payments of \$15,829	\$ 267,661
Convertible debt, prime plus 2%, no fixed term	\$ 350,000
Demand loans	\$ 125,000
Non-interest bearing loan, no fixed term	\$ 29,000
Shareholders' Equity	\$ 5,053,098
Common Shares Outstanding	9,209,344

### Results of Operations

Sales continue to increase, as the Fort Frances operation was able to pack and ship material throughout November, December and January due to the mild winter. Lachine operations reported higher production rates than the comparable quarter for the prior year. Tipping fees are no longer a contribution to the company's revenues.

Accounts receivable have increased reflecting the increase in sales over 2001. Inventories have increased to \$3,487,987 as a result of the arrival of a large ore shipment late in December 2001.

The Corporation increased its bank indebtedness by \$255,978 over the year ended 2001 to assist in financing its receivables and inventories. Accounts payable were increased by \$1,133,730 as a result of the receipt of the ore shipment during the quarter.

The Corporation repaid \$278,220 in debt in the quarter. This rate of debt repayment continues to severely strain the Corporation's working capital leaving it little room to expand the operations. The Corporation is continuing to negotiate more favourable repayment terms.

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Sales for the first quarter of 2002 increased 39% over the comparable period in 2001 to \$2,356,536 which exceeded the Corporation's internal expectations.

The Corporation's long term supply contracts with a major Canadian natural gas producer at a fixed contract price has begun to show modest reductions to our costs of energy. These energy contracts continue to be constantly reviewed.

Negotiations to move bulk quantities of product from our Fort Frances location into our American markets using alternative forms of transport are continuing which should substantially reduce our costs of transportation.

Selling and distribution cost have been segregated and disclosed as a line item as they comprised such a significant portion of our overall costs.

The change in amortization rates to more correctly match the useful life of our assets against revenues reduced the quarterly charge, year over year.

### Liquidity and Capital Resources

Management anticipates that cash flow from its current operations will continue to grow and that credit facilities granted to it by its bank, funds lent to the Corporation and additional equity from the private placement of common shares will provide adequate working capital for the foreseeable future.

### Risks and Uncertainties

Various risks and uncertainties can affect Normiska's operations. The most significant factors are the disruption of supply of unprocessed vermiculite from South Africa, the inability to harvest peat moss due to climatic conditions and the interruption of bark supply due to factors affecting the Abitibi-Consolidated Inc. mill.

The Corporation has sought to mitigate its risks by determining that, should the delivery of vermiculite from South Africa be curtailed, there are other sources of supply from which raw vermiculite could be obtained.

The Corporation has acquired an additional source of sphagnum peat moss in a different climatic region and is continuing to investigate the acquisition of further sources of supply.

The Corporation continues to negotiate with several significant bark generators and is currently continuing tests with two companies.

The Fort Frances peat bog will be able to produce sufficient peat moss to ensure the viability of the dual purpose processing plant and baling line, which has been installed. The ability to seamlessly switch between product streams will mitigate any effect of an interruption to any source of supply.

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**Normiska Corporation**

Consolidated Balance Sheet

3 Months Ended January 31, 2002.

(Unaudited)

Assets	January 31 2002	January 31 2001	October 31 2001
<b>Current assets</b>			
Accounts Receivable	\$ 2,010,319	\$ 1,094,933	\$ 1,713,848
Inventory	3,487,987	1,842,405	2,731,989
Prepaid expenses	122,867	67,526	106,467
	<u>\$ 5,621,173</u>	<u>\$ 3,004,864</u>	<u>\$ 4,552,304</u>
<b>Capital assets</b>			
Investment in mineral rights	\$ 56,507	\$ -	\$ 39,795
Deferred Marketing & Financing costs	61,173	68,921	69,361
Bog Development costs	1,292,734	1,186,594	1,232,845
Capital assets	5,037,502	5,029,878	4,964,071
	<u>6,447,916</u>	<u>6,285,393</u>	<u>6,306,072</u>
Future Income Taxes	375,000	299,000	375,000
	<u>\$ 12,444,089</u>	<u>\$ 9,589,257</u>	<u>\$ 11,233,376</u>
<b>Current liabilities</b>			
Bank indebtedness	\$ 2,047,085	\$ 1,028,501	\$ 1,791,638
Accounts payable and accrued liabilities	2,597,504	2,041,079	1,486,623
Demand loans	125,000	200,000	175,000
Current portion of long-term debt	948,547	769,780	921,222
	<u>\$ 5,718,136</u>	<u>\$ 4,039,360</u>	<u>\$ 4,374,483</u>
Long-term debt	\$ 1,055,194	\$ 1,697,735	\$ 1,154,837
Convertible debt	\$ 350,000	\$ 350,000	350,000
Convertible debenture	\$ 267,661	\$ 500,000	309,241
	<u>\$ 7,390,991</u>	<u>\$ 6,587,095</u>	<u>\$ 6,188,561</u>
<b>Shareholders' Equity</b>			
Share capital	\$ 5,240,589	\$ 3,320,869	\$ 5,240,588
Deficit	(187,491)	(318,707)	(195,773)
	5,053,098	3,002,162	5,044,815
	<u>\$ 12,444,089</u>	<u>\$ 9,589,257</u>	<u>\$ 11,233,376</u>

**Normiska Corporation**

Interim Statement Of Consolidated Profit & Loss

3 Months Ended January 31, 2002.

(Unaudited)

	<b>2002</b>	<b>2001</b>
Sales	\$ <u>2,356,536</u>	\$ <u>1,698,993</u>
Cost of Goods Manufactured	\$ <u>1,398,862</u>	\$ <u>998,997</u>
Gross Margin	\$ <u>957,674</u>	\$ <u>699,996</u>
Distribution and Selling Costs	\$ <u>564,354</u>	\$ <u>275,493</u>
General and Administration Costs		
Office	\$ 84,932	\$ 64,902
Salaries & Benefits	\$ 130,594	\$ 123,020
Marketing	\$ 11,685	\$ 58,399
	\$ <u>227,211</u>	\$ <u>246,321</u>
Operating Profit	\$ <u>166,109</u>	\$ <u>178,182</u>
Amortization	\$ 92,124	\$ 150,561
Interest	\$ 65,703	\$ 98,923
	\$ <u>157,827</u>	\$ <u>249,484</u>
Net profit (Loss)	\$ <u><u>8,282</u></u>	\$ <u><u>(71,302)</u></u>
Retained earnings (deficit) beginning of period	\$ <u>(195,773)</u>	\$ <u>(247,405)</u>
Retained earnings (deficit) end of period	\$ <u>(187,491)</u>	\$ <u>(318,707)</u>
Earnings (loss) per share	\$ <u>0.00</u>	\$ <u>(0.01)</u>

**Normiska Corporation**

Interim Statement Of Consolidated Cash Flow

3 Months Ended January 31, 2002.

(Unaudited)

	<b>2002</b>	<b>2001</b>
<b>Cash Flow from Operating Activities</b>		
Net earnings (loss) for the period	\$ 8,282	\$ (71,302)
Adjustment for amortization	\$ 92,124	\$ 150,561
	<u>\$ 100,406</u>	<u>\$ 79,259</u>
<b>Change in non-cash working capital</b>		
(Increase) Decrease in accounts receivable	\$ (296,471)	\$ 121,388
(Increase) Decrease in inventory	\$ (755,998)	\$ 342,419
(Increase) in prepaid expenses	\$ (16,400)	\$ (24,602)
Increase (Decrease) in accounts payable	\$ 1,137,665	\$ (364,731)
	<u>\$ 68,796</u>	<u>\$ 74,474</u>
<b>Cash Flow from Investing Activities</b>		
Deferred costs	\$ (18,724)	
Capital asset additions	\$ (198,521)	\$ (177,373)
Government grant		\$ 89,400
Mineral rights	\$ (16,712)	
	<u>\$ (233,957)</u>	<u>\$ (87,973)</u>
<b>Cash Flow from Financing Activities</b>		
Repayment of demand loan	\$ (50,000)	
Increase in bank loan	\$ 255,978	\$ 49,756
Repayment of long-term debt	\$ (228,220)	\$ (193,022)
Increase in long-term debt	\$ 128,577	\$ 151,980
Repayment of convertible debenture	\$ (41,580)	
	<u>\$ 64,755</u>	<u>\$ 8,714</u>
<b>Increase (Decrease) in Cash</b>	<u>\$ 0</u>	<u>\$ 0</u>

**Normiska Corporation**

Notes to the Three Months Ended January 31, 2002

**Unaudited Financial Statement****1. Basis of Presentation**

The accounting policies used are the same as described in the summary of significant accounting policies in the Corporation's Annual Report. The unaudited financial statements for the three months ended January 31, 2002 should be read in conjunction with the Annual Report as at October 31, 2001.

**2. Results by Business Segment**

The Corporation manufactures and markets products used in the manufacture of soil-less growing mediums and soil augmentation products. The management of the Corporation evaluates the performance of its products based on geographic markets and income from operations before interest, amortization and income taxes.

The following chart is expressed in Canadian dollars.

	3 months ended January 31, 2002	3 months ended January 31, 2001
<b>Net Sales</b>		
Sales to Canadian customers	\$ 1,933,961	\$ 1,213,894
Tipping fees	0	74,971
Sales to United States customers	422,575	410,128
<b>Total sales</b>	<u>\$ 2,356,536</u>	<u>\$ 1,698,993</u>
Capital assets and deferred costs in Canada (net of amortization)	<u>\$ 6,391,409</u>	<u>\$ 6,285,393</u>

**3. Investment in Mineral Rights**

The Corporation has signed a definitive mineral exploration agreement with Abitibi-Consolidated Inc. ("Abitibi"). The Corporation will have the right to earn a 100% interest in certain mineral rights subject to a royalty of 2.5%. The term of the agreement is ten years with a provision to renew for a further three years. Abitibi has a right to acquire a 30% interest under certain terms and conditions. Abitibi has granted a deferral of any further payments until March 31, 2002 and the company is currently negotiating with Abitibi for a further deferral of payments.