

# Normiska Corporation

## First Quarter Report

### **Management's Discussion and Analysis of Financial Conditions and Results of Operations for the First Quarter Ended January 31, 2006**

The following discussions and analysis explains the variations in the consolidated operating results and financial position and cash flows of Normiska Corporation (the "Company") for the quarters ended January 31, 2006 and 2005. The analysis should be read in conjunction with the consolidated financial statements and related notes contained therein, together with the Annual Report for the fiscal year ended October 31, 2005.

#### **OVERVIEW**

Normiska Corporation produces, expands and markets minerals and organic materials. In Lachine, Quebec, the Company expands vermiculite and perlite ores into high quality mineral products for sale to the horticultural and industrial markets throughout Canada and the Eastern United States. At its production center in Fort Frances, Ontario, the Company harvests sphagnum peat moss and processes bark waste into a line of compost and mulch products primarily for export to American horticultural markets.

The majority of sales and sales growth are to horticultural markets. The Company supplies the market place with the four main constituents of soil-less growing media that are desired by professional growers, landscapers and golf course constructors.

The Company also sells into industrial markets such as construction and materials processing. Excellent growth opportunities exist in all current markets and in new market regions and products. This growth will be substantially enhanced through the acquisition of Normiska U.S.A., Inc. (Normiska U.S.A.") and its operating subsidiary, The Schundler Company ("Schundler"). Schundler is a major perlite and vermiculite expander located in Edison, New Jersey, serving markets ranging from Florida to Montreal. Schundler's strength in the pool industry and in industrial applications will augment the Company's overall marketing thrust.

## SUMMARY OF CAPITAL AND FINANCING

Convertible debenture, 8% payable quarterly, due Nov. 17, 2009	\$6,000,000
Convertible debt, prime plus 2%, no fixed term	\$350,000
Convertible debenture, 8% payable quarterly, due Sept. 8, 2008	\$150,000
Demand loans	\$255,985
Due to related parties	\$105,000
Long term debt	\$3,503,862
Shareholders' Equity	\$1,606,259
Common Shares Outstanding at January 31, 2006	5,037,830

## RESULTS OF OPERATON

Net sales were \$1,368,180 higher than the same period last year principally due to including the sales at Schundler of \$1,504,148 which were flat period to period and lower sales of \$142,612 for the Lachine and Fort Frances operations. The first quarter of the fiscal year is traditionally the weakest sales period due to seasonality factors impacting the horticulture industry. Orders and shipments for February were strong and March and April are expected to be better than budget and last year. Current weather conditions appear to be favorable for a robust and early peat harvest. Demand for quality sphagnum peat exceeds supplies on hand. The Company continues to be impacted by the strengthening Canadian dollar versus the U.S. dollar. Due to changes in exchange rates, current sales in U.S. dollars are worth approximately 5% to 6% less than the fourth quarter of last year.

Gross profit was down \$186,765 from the same quarter last year. Most of the decrease or \$112,242 came from Schundler operations and \$74,523 from other Normiska operations. Schundler production facilities operated below break even during each month of the current quarter. Management was not surprised by this development, as this is typical of the seasonality in the U.S. horticulture and industrial and pool markets. All of the Company's operations continue to be impacted by quarter over quarter increases in energy and transportation costs. Fuel surcharge and energy driven price increases in the range of 5% have been communicated to customers with most becoming effective for shipments after January 1, 2006.

Administrative costs and expenses increased by \$264,678 compared to the same period last year. Schundler accounted for \$224,672 of this increase with the balance of \$40,006 coming from ongoing operations. Costs for senior corporate executive and financial management in the current period but not in the prior period were approximately \$50,000. The Company also experienced higher legal, accounting and auditing costs related to the requirement for a certified audit of Normiska U.S.A. and Schundler and also for the increased filings and related documents necessitated and imposed by the TSX Ventures Exchange (TSX-V). While these are continuing costs, management has adopted an internal cost containment program to handle more of the technical matters, including but not limited to filing all of the U.S. tax returns, in house.

Interest expense was \$171,657 higher than the comparable quarter last year principally due to interest at 8% on \$6,000,000 of convertible debentures or \$120,000. Debt service expense at Schundler was approximately \$50,000 for the quarter.

Amortization expense was \$86,955 more than the same period last year. Of that amount, \$71,955 relates to Schundler and the balance of \$15,000 reflected slightly higher amortization on property, plant and equipment of the other Normiska operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

For the quarter ended January 31, 2006, the Company had negative cash flow from operations of \$612,441 principally due to a net cash loss from operations of \$676,126 partially offset by positive non-cash working capital items. The Company had negative working capital of \$842,910 compared to positive working capital of \$345,674 at October 31, 2005 and negative working capital of \$3,236,784 at January 31, 2005. The Company's debt to equity ratio at January 31, 2006 was 6.5 to 1 versus 2.3 to 1 at October 31, 2005 and 3.3 to 1 at January 31, 2005. Management believes that the foregoing liquidity conditions have been severely impacted by the seasonality factors as discussed above. Cash flow from operations is expected to become progressively more positive during the months of the second and third fiscal quarters.

The Company is heavily dependent on the continuing support from long-term debt and other support provided by its principal shareholder lenders. If there is a change in these conditions, the Company may not be able to meet its obligations in a timely manner.

The acquisition of Normiska, U.S.A. was approved by the Company's shareholders at the annual meeting held on November 17, 2005 and became effective as of that date. Normiska U.S.A. is a holding company which owns all of the issued and outstanding shares of The Schundler Company ("Schundler"), a New Jersey based producer of expanded vermiculite and perlite minerals. The Company has issued 1,500,000 common shares valued at \$0.40 per share in exchange for all of the common stock of Normiska U.S.A., and has issued \$6,000,000 of its convertible debentures bearing interest at 8% per annum and becoming due on November 17, 2009 in exchange for \$6,000,000 of promissory notes held by the note holders of Normiska U.S.A.

Pursuant to actions approved at the annual meeting on November 17, 2005, the Company filed articles of amendment to give effect to a consolidation of its common stock on the basis of 1:5. Trading of the Company's common shares commenced on January 18, 2006 under a new trading symbol "NNC". Prior to the consolidation, the Company had 25,189,111 issued and outstanding common shares. After the consolidation, the issued and outstanding shares were, and are as of the date of this document, 5,037,830 shares.

## COMPARATIVE OPERATING RESULTS

The tables below reflect comparative operating results by quarter on a year over year basis. Only the current quarter includes the results of Schundler. The current quarter ended January 31, 2006 had the poorest operating results of the last four quarters principally due to the negative seasonality-based performance of Schundler as discussed in detail in Results of Operations above. Management feels comfortable with the Schundler operations in the current circumstances and expects major improvements in the second and third quarters of this fiscal year.

Quarterly comparisons	2006	2005	2005	2005
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter
Sales	2,512,383	1,269,361	1,978,939	2,059,522
Management Fees	0	91,000	93,250	30,500
Cost of Goods Manufactured	2,562,119	888,921	1,261,646	1,299,360
Gross Manufacturing Margin	(49,736)	471,440	810,543	790,662
Distribution & Selling costs	0	450,113	489,418	290,032
Gross Operating Profit	(49,736)	21,327	321,125	500,630
General & Administrative	376,609	169,782	153,265	172,971
Operating Profit	(426,345)	(148,455)	167,860	327,659
Exchange variance	217,825	0	0	0
Amortization	191,955	106,497	105,000	105,000
Interest	249,111	83,108	93,716	84,250
Loss on disposal of equipment	0	3,823	0	0
	658,891	193,428	198,716	189,250
Net Profit (Loss) Before Taxes	(1,085,236)	(341,883)	(30,856)	138,409
Provision (Recovery) for Taxes	670	0	0	0
Net profit (Loss)	(1,085,906)	(341,883)	(30,856)	138,409
<b>Retained earnings (Deficit) beginning of period</b>	<b>(4,572,556)</b>	<b>(3,686,257)</b>	<b>(3,655,401)</b>	<b>(3,793,810)</b>
<b>Retained earnings (Deficit)- end of period</b>	<b>(5,658,462)</b>	<b>(4,028,140)</b>	<b>(3,686,257)</b>	<b>(3,655,401)</b>
Basic Income (loss) per share	(\$0.22)	(\$0.10)	(\$0.01)	\$0.06

Quarterly Comparisons	2,005	2,004	2,004	2,004
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter
Sales	1,144,203	1,329,744	1,660,707	1,797,292
Management Fees				
Cost of Goods Manufactured	803,327	959,747	980,237	1,211,155
Gross Manufacturing Margin	340,876	369,997	680,470	586,137
Distribution & Selling costs	209,524	438,472	527,189	222,653
Gross Operating Profit	131,352	(63,475)	153,281	358,484
General & Administrative	106,254	321,522	181,571	179,529
Operating Profit	25,098	(384,996)	(28,290)	178,955
Amortization	105,000	28,115	135,000	135,000
Interest	77,454	189,426	19,535	38,385

Loss on disposal of equipment	38,484	0	0
Write-off of bog development costs	87,158	0	0
	<u>182,454</u>	<u>343,183</u>	<u>154,535</u>
Net Profit (Loss) Before Taxes and Restructuring Costs	(157,356)	(728,179)	(182,825)
Restructuring Costs	(135,279)	(7,636)	(1,097,590)
Provision (Recovery) for Taxes	0	0	0
Net profit (Loss)	<u>(157,356)</u>	<u>(863,458)</u>	<u>(190,461)</u>
<b>Retained earnings (Deficit) beginning of period</b>	<b>(3,636,454)</b>	<b>(2,772,996)</b>	<b>(2,582,535)</b>
<b>Retained earnings (Deficit)- end of period</b>	<b>(3,793,810)</b>	<b>(3,636,454)</b>	<b>(2,582,535)</b>
Basic Income (loss) per share	<u>(\$0.07)</u>	<u>(\$0.40)</u>	<u>(\$0.09)</u>

The quarter to quarter results are interesting but not particularly helpful in understanding what has happened to the underlying business. Management believes that looking at individual quarters might be misleading and would suggest that looking at the totals of the four most recent quarters versus those of a year ago provides a better barometer and insight into the business. Thus, a comparison of total net sales for the last four quarters being \$7,820,205 less the effect of Schundler included therein at \$1,504,148 or \$6,316,057 should be viewed against the same four quarters of a year ago, having net sales of \$3,954,466, resulting in an increase in net sales of \$2,361,591 or 60%. The same analysis as applied to operating profit shows the most current four quarters with a loss of \$79,281 versus a loss of \$209,238 for the prior year four quarters, for an improvement of \$129,957 or slightly more than 60%. Management believes that the business is moving in the right direction.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are fully described in Note 8 to the Consolidated Financial Statements as at October 31, 2005. The Company has entered into these transactions in order to assist the Company in its restructuring efforts and because alternative sources of funding were unavailable to the Company. Additionally, certain transactions with Schundler were necessitated by the delay in completing the acquisition transaction.

## DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so appropriate decisions can be made regarding public disclosure. As at January 31, 2006, the CEO and the CFO have evaluated the effectiveness of Normiska's disclosure controls and procedures as defined in *Multilateral Instrument 52-109* of the Canadian Securities Administrators and have concluded that such disclosure controls and procedures are effective.

## **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying consolidated financial statements and the notes thereto of Normiska Corporation and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors (the “Board”).

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that other financial information presented in the Annual Report is consistent with the financial statements. The annual financial statements have been audited by Moore Stephens Cooper Molyneux, LLP on behalf of the shareholders.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these responsibilities through its Audit Committee (the “Committee”).

The Committee is appointed by the Board. The Committee meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors’ report. The Committee reports its findings quarterly to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the voting shareholders, the engagement or re-appointment of the external auditors. Moore Stephens Cooper Molyneux, LLP has full and free, independent access to the Committee with respect to their findings concerning the fairness of the financial reporting and the adequacy of internal controls.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at the date hereof, the issued and outstanding shares of common stock of the Company are 5,037,830. The Company has no issued or outstanding common stock purchase warrants.

## **RISKS AND UNCERTAINTIES**

Various risks and uncertainties could affect the Company’s operations. The most significant factors would be the disruption of unprocessed ore supplies and the inability to harvest peat moss due to climactic conditions.

With respect to supplies of unprocessed ore: (i) there are two major sources of vermiculite ore, China and South Africa; and (ii) there are a number of producers of perlite ore, but the Company purchases principally all of its requirements from a Greek company believed to be the world’s

largest producer of perlite. In addition, the acquisition of Schundler provides the Company with additional emergency short-term back up supplies of both vermiculite and perlite ore.

With respect to the harvesting of peat moss, the Company has completed the development of an additional 100-acre bog at Fort Frances. The constraint on peat production is surface area of developed bog acreage in addition to weather. The additional developed bog area will facilitate more production during favorable climactic conditions. The Fort Frances facilities raw bark supply is presently sourced by one local paper mill. A disruption in this supply would cause uncertainty in Fort Frances' ability to make mulch products.

*Forward Looking Statements: The above disclosure may contain statements that are forward-looking in nature. Statements preceded by the words believe, expect, anticipate, plan, intend, continue, estimate, may, will and similar expressions are forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties and other factors referenced in the corporation's continuous disclosure filings. Therefore, the corporation's actual results may be materially different from those expressed or implied by such forward-looking statements.*

*"Peter J. Goodwin"*  
President and CEO

*"John L. Dentzer"*  
Vice President and CFO

March 24, 2006  
Guelph, Ontario, Canada