

Normiska Corporation
Consolidated Financial Statements
October 31, 2005 and 2004

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Auditors' Report

To the Shareholders of
Normiska Corporation

We have audited the consolidated balance sheets of Normiska Corporation as at October 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 October 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: "Moore Stephens Cooper Molyneux LLP"

Chartered Accountants

Toronto, Ontario
December 15, 2005 except as to note 22(ii)
which is as of January 16, 2006

Normiska Corporation

Consolidated Balance Sheets

October 31, 2005 and 2004

	2005	2004
Assets		
Current assets		
Accounts receivable	\$ 904,127	\$ 1,025,762
Inventory	1,127,877	1,269,184
Prepaid expenses	128,771	129,435
Prepaid acquisition costs (note 5)	323,685	-
	2,484,460	2,424,381
Bog development costs (note 6)	1,010,632	990,194
Property, plant and equipment (note 7)	4,833,457	5,070,409
	\$ 8,328,549	\$ 8,484,984
Liabilities		
Current liabilities		
Bank indebtedness	\$ 48,766	\$ 34,007
Accounts payable and accrued liabilities (note 8)	1,650,141	1,281,388
Term loans (note 9)	-	125,000
Demand loans (note 10)	125,000	3,149,256
Current portion of due to related parties (note 8)	105,000	534,560
Current portion of long-term debt (note 11)	209,879	492,114
	2,138,786	5,616,325
Due to related parties (note 8)	209,160	-
Long-term debt (note 11)	3,448,252	573,275
Convertible debt (note 12)	350,000	350,000
Convertible debenture (note 13)	150,000	150,000
	6,296,198	6,689,600
Shareholders' equity		
Share capital (note 14)	6,060,490	5,431,838
Deficit	(4,028,139)	(3,636,454)
	2,032,351	1,795,384
	\$ 8,328,549	\$ 8,484,984

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

Approved on behalf of the Board

Signed: "Peter J. Goodwin"

Signed: "William E. Bateman"

Normiska Corporation

Consolidated Statements of Operations and Deficit for the years ended October 31, 2005 and 2004

	2005	2004
Sales	\$ 6,452,025	\$ 5,914,186
Management fees (note 8)	214,750	-
	6,666,775	5,914,186
Cost of goods manufactured		
Raw materials, site and processing costs	3,387,640	3,387,973
Labour	865,614	779,306
	4,253,254	4,167,279
Distribution and selling costs	1,439,087	1,396,291
	5,692,341	5,563,570
Gross profit	974,434	350,616
Administrative expenses		
Salaries and benefits	310,959	406,600
Office	151,716	341,417
Stock based compensation (note 14(iii))	78,080	-
Professional fees	53,710	53,182
Marketing and product development	7,806	24,758
	602,271	825,957
Income (loss) before the undernoted	372,163	(475,341)
Interest - long-term debt	281,384	262,899
Interest - other	57,144	50,250
Amortization of plant and equipment	350,147	359,001
Amortization of bog development costs	71,350	74,114
Loss on disposal of equipment	3,823	38,484
Write-off of bog development costs	-	87,158
Restructuring costs (note 16)	-	1,240,505
	763,848	2,112,411
Net loss for the year	(391,685)	(2,587,752)
Deficit, beginning of year	(3,636,454)	(1,048,702)
Deficit, end of year	\$ (4,028,139)	\$ (3,636,454)
Loss per share (note 17)		
Basic loss per share	\$ (0.03)	\$ (0.25)
Diluted loss per share	\$ (0.03)	\$ (0.25)

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

Normiska Corporation

Consolidated Statements of Cash Flows for the years ended October 31, 2005 and 2004

	2005	2004
Cash flow from operating activities		
Net loss for the year	\$ (391,685)	\$ (2,587,752)
Items not affecting cash		
Amortization	421,497	433,115
Stock compensation	78,080	-
Loss on disposal of equipment	3,823	38,484
Write-off of deferred costs	-	133,878
Write-off of bog development costs	-	87,158
Expenses accrued as due to related parties	-	152,100
	111,715	(1,743,017)
Net change in non-cash working capital balances <i>(note 19)</i>	798,782	959,428
	910,497	(783,589)
Cash flow from investing activities		
Additions to plant and equipment	(124,333)	(108,414)
Expenditures on deferred bog development costs	(92,469)	-
Proceeds on disposal of equipment	7,991	21,100
	(208,811)	(87,314)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	14,759	(2,159,048)
Financing fees	(23,890)	-
Proceeds from related party loans	11,700	382,460
Repayment of related party loans	(80,000)	-
Proceeds from long-term debt	-	929,150
Repayment of long-term debt	(300,570)	(297,164)
Repayment of term loan	-	(1,200,000)
Proceeds from demand loan	-	3,024,255
Issue of common shares	-	191,250
Increase in prepaid acquisition costs	(323,685)	-
	(701,686)	870,903
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

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

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

1. Nature of Operations and Going Concern

Normiska Corporation ("the Company") was incorporated on January 17, 1997 under the laws of Ontario. The Company expands vermiculite and perlite at its plant in Lachine, Quebec. The Company is also developing and harvesting sphagnum peat moss at its bogs in the Fort Frances area, as well as processing pine bark into compost and mulch in Fort Frances, Ontario. 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 incurred a net loss of \$391,685 for the year ending October 31, 2005 and has an accumulated deficit of \$4,028,139 as at October 31, 2005. Working capital is not sufficient to meet current obligations. Accordingly, the Company's ability to continue as a going concern depends on its ability to achieve profitability, maintain current financing and obtain new sources of financing. Management is actively pursuing additional sources of financing and business opportunities for the Company (*note 22*).

The consolidated financial statements have been prepared assuming the Company will be able to realize its assets and discharge its liabilities in the normal course of business as a going concern. These consolidated financial statements do not include any adjustments to the carrying values of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Principles of consolidation

On August 31, 1997, the Company acquired 100% of the issued and outstanding shares of Normiska Peat Inc. ("Peat"), a company which was previously controlled by the shareholders of the Company. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Peat. All significant intercompany accounts and transactions have been eliminated.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management judgement include estimating the useful lives of property, plant and equipment and bog development costs, as well as assessing the recoverability of inventories, long-lived assets and future income tax assets. The reported amounts and note disclosures are determined to reflect the most probable set of economic conditions and planned course of action. Actual results could differ from these estimates.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

2. Significant Accounting Policies - continued

Measurement uncertainty - continued

The Black Scholes option valuation model used by the Company to determine fair values, was developed for use in estimating the fair value of freely traded options. In addition, this model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Because the Company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of its stock options.

Inventory

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

Bog development costs

These costs consist of the direct costs of opening, draining and grooming portions of the bog. These costs are being amortized on a straight-line basis over twenty years following completion of the development phase of each portion of the bog. Any costs related to the research on the products to be produced are written off in the year these costs are incurred.

Property, plant and equipment

Property, plant and equipment 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
Perlite plant equipment	-	10	years straight line
Bark and peat facility equipment	-	20	years straight line
Equipment under capital lease	-	10 - 20	years straight line
Automobile	-	3	years straight line
Computer equipment	-	3	years straight line
Furniture and fixtures	-	5	years straight line

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

2. Significant Accounting Policies - continued

Impairment of long-lived assets

The Company's long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that its carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Revenue recognition

Revenue is recognized when goods are shipped, all significant risks and rewards of ownership have passed to the customer and collection is reasonably assured.

Earnings (loss) per share

The basic earnings (loss) per share has been calculated based upon the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share and assumes any option proceeds would be used to purchase common shares at the average market price during the year. Stock options and warrants outstanding are not included in the computation of diluted earnings per share if their inclusion would be anti-dilutive.

Stock-based compensation

The Company has in effect a stock option plan as described in note 15. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black Scholes model. Consideration paid on the exercise of stock options is credited to share capital together with any accumulated contributed surplus.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated 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. 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.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

3. Future Changes in Accounting Policies

Financial Instruments - recognition and measurement

In January 2005, the CICA released new Handbook Section 3855, "Financial Instruments - Recognition and Measurement", effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts.

The Company has not yet determined the impact of the adoption of this standard on its consolidated results of operations or financial position.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. This section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530.

The Company has not yet determined the impact of the adoption of these standards on the presentation of its consolidated results of operations or financial position.

Non-Monetary Transactions

In June 2005, the CICA released new Handbook Section 3831, "Non-Monetary Transactions", effective for fiscal periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity.

The Company has not yet determined the impact of the adoption of this standard on its consolidated results of operations or financial position.

4. Results by Business Segments

The Company manufactures and markets products used in the manufacture of soil-less growing mediums and soil augmentation products. The Company evaluates the performance of its products based on geographic markets: Canada and United States.

The management of the Company evaluates the performance of each geographic segment based on income (loss) from operations before interest, amortization and incomes taxes.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

4. Results by Business Segments - continued

	Canada	United States	2005 Total
Sales	\$ 4,091,076	\$ 2,575,699	\$ 6,666,775
Cost of goods manufactured	(2,610,016)	(1,643,238)	(4,253,254)
Distribution and selling costs	(397,181)	(1,041,906)	(1,439,087)
Gross profit	1,083,879	(109,445)	974,434
Administrative expenses	(370,836)	(231,435)	(602,271)
Income (loss) before the undernoted	713,043	(340,880)	372,163
Interest	(207,738)	(130,790)	(338,528)
Amortization	(73,438)	(348,059)	(421,497)
Loss on disposal of equipment	(3,823)	-	(3,823)
Net loss for the year	\$ 428,044	\$ (819,729)	\$ (391,685)

	Canada	United States	2004 Total
Sales	\$ 3,781,474	\$ 2,132,712	\$ 5,914,186
Cost of goods manufactured	(2,672,119)	(1,495,160)	(4,167,279)
Distribution and selling costs	(463,370)	(932,921)	(1,396,291)
Gross profit	645,985	(295,369)	350,616
Administrative expenses	(529,084)	(296,873)	(825,957)
Income (loss) before the undernoted	116,901	(592,242)	(475,341)
Interest	(200,224)	(112,925)	(313,149)
Amortization	(224,584)	(208,531)	(433,115)
Loss on disposal of equipment	(38,484)	-	(38,484)
Write-off of bog development costs	(8,080)	(79,078)	(87,158)
Restructuring costs	(114,999)	(1,125,506)	(1,240,505)
Net loss of the year	\$ (469,470)	\$ (2,118,282)	\$ (2,587,752)

5. Prepaid Acquisition Costs

During the year, the Company incurred costs associated with the acquisition of Normiska U.S.A. Inc., effective November 17, 2005, as described in note 22. The costs incurred were incremental in respect to the acquisition and would not have been incurred otherwise. As such, these are considered direct costs of the acquisition and will be included in the purchase price of Normiska U.S.A. Inc. in the fiscal year ending October 31, 2006.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

6. Bog Development Costs

			2005
	Cost	Accumulated Amortization	Net Book Value
Development	\$ 1,482,091	\$ 471,459	\$ 1,010,632
			2004
	Cost	Accumulated Amortization	Net Book Value
Development	\$ 1,390,303	\$ 400,109	\$ 990,194

In 2005, the Company wrote-off bog development costs with a net book value of \$NIL (2004-\$87,158).

7. Property, Plant and Equipment

			2005
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 558,478	\$ -	\$ 558,478
Building	512,526	152,551	359,975
Bark Pad	438,283	131,195	307,088
Office improvements	20,407	20,407	-
Equipment	4,911,814	1,797,862	3,113,952
Equipment under capital lease	564,438	96,524	467,914
Automobile	2,749	2,749	-
Computer equipment	123,112	99,296	23,816
Furniture and fixtures	18,349	16,115	2,234
	\$ 7,150,156	\$ 2,316,699	\$ 4,833,457
			2004
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 558,478	\$ -	\$ 558,478
Building	484,016	128,027	355,989
Bark Pad	438,283	109,281	329,002
Office improvements	20,407	18,915	1,492
Equipment	4,859,778	1,511,535	3,348,243
Equipment under capital lease	564,438	96,524	467,914
Automobile	15,749	15,749	-
Computer equipment	94,330	88,280	6,050
Furniture and fixtures	18,349	15,108	3,241
	\$ 7,053,828	\$ 1,983,419	\$ 5,070,409

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

8. Due to Related Parties and Related Party Transactions

The Company has entered into loan and other agreements with officers and shareholders of the Company. The loans are unsecured. The terms of the agreements are as follows:

	2005	2004
Promissory note bearing interest at 8% per annum, with no specific terms of repayment, unsecured (i)	\$ 105,000	\$ 105,000
Loans bearing no interest with no specific terms of repayment, unsecured (i)	-	80,000
Loans bearing interest at 8% per annum, due November, 2006, unsecured (i)	197,460	197,460
Restructuring fee payable (ii)	-	83,700
Financing fee payable (iii)	-	68,400
Advance from Normiska U.S.A. Inc. bearing no interest and no specific terms of repayment. (iv)	11,700	-
	314,160	534,560
Less: Current portion	105,000	534,560
	\$ 209,160	\$ -

- (i) The unsecured loans are subordinated to the security agreements covering the \$2,893,311 loans (note 11). The Company is in arrears in the payment of interest on these loans. Accordingly, a technical default exists. The Company has obtained interest waivers as of October 31, 2005 which will remain continuous for the term of the loans including any extension of future due dates. The non-interest bearing note was settled during the year by cash payments of \$80,000.
- (ii) A restructuring fee payable to a shareholder of the Company for corporate reorganization services that were provided in fiscal 2004. The Company settled the outstanding balance via the issuance of 1,240,000 common shares in the current year.
- (iii) A 7% financing fee payable to the lenders of the loans totaling \$120,000 and a 15% financing fee payable to the lenders of the loans totaling \$397,460 were charged to the Company in fiscal 2004. The Company settled the outstanding balance via the issuance of 684,000 common shares in the current year.
- (iv) Advance from Normiska U.S.A. Inc., a company related by common management, in the amount of US \$10,000.

In addition, the Company had the following related party transactions in fiscal 2005:

- a) During the year, the Company entered into the following transactions with Normiska U.S.A. Inc:
 The Company charged management fees to Normiska U.S.A. Inc. in the amount of US \$162,500. This transaction was conducted in the normal course of business and is measured at the exchange value, which is the amount of consideration established and agreed to by the parties. Included in accounts payable is an amount due to Normiska U.S.A. as an invoice was paid on behalf of the Company in the amount of US \$16,588.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

8. Due to Related Parties and Related Party Transactions - continued

- b) During the year, the Company entered into the following transactions with The Schundler Company ("Schundler"), a company related by virtue of common management:

The Company charged management fees to Schundler in the amount of US \$11,000 and made purchases in the amount of US \$29,340. These transactions were conducted in the normal course of business and are measured at the exchange value, which is the amount of consideration established and agreed to by the parties.

Included in accounts payable is an amount due to Schundler in the amount of US \$57,857 which relates to the purchases noted above and acquisition costs which were paid on behalf on the Company in the amount of \$28,517 (note 22).

- (c) During the year, the Company paid consulting fees of \$NIL (2004 - \$37,823) to officers of the Company. These transactions were conducted in the normal course of business and are measured at the exchange value, which is the amount of consideration established and agreed to by the parties.
- d) Total interest paid and accrued on all related party advances and loans from related parties totaled to \$147,129 (2004 - \$112,949).

9. Term Loans

	2005	2004
Rainy River Future Development Corporation demand term loan bearing interest at prime rate plus 3.0%, requiring minimum payments of \$3,054 per month. The loan is secured by a charge on specific inventory. (i)	\$ -	\$ 125,000

- (i) During the year the Company settled the outstanding debt with Rainy River Future Development Corporation via the issuance of 666,667 common shares.

10. Demand Loans

	2005	2004
Loans repayable on demand bearing interest at 8% per annum secured by a general security agreement. (i)	\$ -	\$ 3,024,256
Loans repayable, unsecured, due on demand bearing interest at 9% per annum. (ii)	125,000	125,000
	\$ 125,000	\$ 3,149,256

- (i) The Company has negotiated extended terms with respect to the demand loans extending the amounts due at year end to December 15, 2006. The amount outstanding at year end, \$2,893,311, has been classified as long-term debt.
- (ii) Included in the demand loans is a loan for \$50,000 payable to a party related to an officer of the Company.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

11. Long-Term Debt

	2005	2004
Loan payable bearing interest at 8% per annum, due on December 15, 2006. The loan is payable to three shareholders of the Company, secured by a first security interest in accounts receivable, inventory and personal property of the Company (ii)	\$ 2,893,311	\$ -
Promissory note of US \$450,000 bearing no interest, repayable at US \$25,000 quarterly, due June 2009, unsecured (i) (ii)	422,225	557,179
Term loan bearing interest at 8% per annum, due November 2006, unsecured (i) (ii)	200,000	200,000
Term loan bearing interest at 10% per annum, with no specific terms of repayment, unsecured (i)	-	40,000
Equipment loans repayable at interest rates ranging from 8.5% to 10.67% per annum, requiring monthly payments of \$9,107. Specific equipment has been pledged as security.	-	10,310
Promissory note bearing no interest, with no specific terms of repayment, unsecured (i)	6,500	34,100
Capital lease obligations repayable at interest rates ranging from 5% to 6.65% per annum, over terms of 36 to 60 months and requiring monthly payments of \$8,027, unsecured (i)	136,095	223,800
	3,658,131	1,065,389
Less: Current portion	209,879	492,114
	\$ 3,448,252	\$ 573,275

Principal payments required on long-term debt are as follows:

2006	\$ 209,879
2007	3,262,267
2008	118,120
2009	67,865
	\$ 3,658,131

- (i) The unsecured loans are subordinated to the security agreement covering the \$2,893,311 loans as noted above.
- (ii) The Company is in arrears in the payment of interest on these loans. Accordingly, a technical default exists. The Company has obtained interest waivers as of October 31, 2005 which will remain continuous for the term of the loans including any extension of future due dates.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

12. Convertible Debt

Convertible debt has no fixed terms of principal repayment. Interest is calculated at 9% per annum. The debt is convertible into common shares of the Company at the lender's option at any time the Company issues a prospectus at the maximum discount allowed by the Ontario Securities Commission.

13. Convertible Debenture

On September 5, 2003, the Company issued a convertible debenture due on September 5, 2008 for \$150,000 to a shareholder. Interest at the rate of 8% per annum, calculated semi-annually, is payable quarterly in arrears on the last day of November, February, May and August until 2006. From then, the Company is required to make quarterly installments of \$20,476 including principal and interest.

The holder of the debenture has the option to convert it in whole or in part in multiples of \$1,000 into common shares of the Company at a price of \$0.22 per share.

14. Share Capital

Authorized
 Unlimited Common shares
Issued

	Shares	Amount
Balance at October 31, 2003	9,209,344	\$ 5,240,588
Issued on reduction of loan (i)	1,500,000	191,250
Balance at October 31, 2004	10,709,344	5,431,838
Issued for repayment of loans (ii)	3,462,440	383,412
Issued for employee bonuses (ii)	66,000	6,600
Issued for financing fee payable (ii)	684,000	68,400
Issued for accrued interest (ii)	1,547,327	116,050
Issued for employee compensation (iii)	1,220,000	78,080
Less: financing costs related to shares issued	-	(23,890)
Balance at October 31, 2005	17,689,111	\$ 6,060,490

- (i) On March 12, 2004, the Company issued 1,500,000 common shares valued at \$191,250 in consideration for the reduction of the Bank of Montreal loan as part of the corporate restructuring.
- (ii) In 2004 the Company entered into agreements with certain lenders, suppliers and employees to convert amounts owing into common shares of the Company. The share issuances were approved by the TSX-V in the current year.
- (iii) The President of the Company has been granted remuneration of 60,000 common shares per month for twelve months and a bonus of 500,000 shares at the end of twelve months of employment valued at \$0.064 per share. As at October 31, 2005 all of the shares had been issued.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

15. Stock-Based Compensation

The Company has in effect a Stock Option Plan ("the Plan") that provides for the potential grant of up to 2,250,000 options to directors, officers, employees and service providers. The terms of the awards under the Plan are determined by the Board of Directors. A summary of the status of the Company's stock option plan as of October 31, 2005 and 2004 and changes during the years ending on those dates is presented below.

	2005		2004	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning of year	1,110,000	\$ 0.52	1,990,000	\$ 0.39
Granted	-	\$ -	50,000	\$ 0.17
Expired	(430,000)	\$ 1.07	(330,000)	\$ 0.29
Cancelled	-	\$ -	(600,000)	\$ 0.17
Outstanding, end of year	680,000	\$ 0.17	1,110,000	\$ 0.52

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at October 31, 2005 are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
\$ 0.17	680,000	\$ 0.17	2.92	680,000	\$ 0.17

The fair value of stock options was calculated using the Black Scholes model for pricing options. The following weighted-average assumptions were used for options granted in fiscal year 2004:

Risk free interest rate	3.80 %
Dividend yield	NIL
Expected stock volatility	53 %
Expected life	5 years

16. Restructuring Costs

In fiscal 2004, the Company incurred \$1,240,505 in restructuring costs related to the corporate reorganization that occurred during that year. These restructuring costs are as follows:

Write-down of inventory	\$ 914,203
Write-off of current year financing costs	110,269
Write-off of deferred financing costs	88,424
Restructuring fees	83,700
Write-off of Thamesville deferred costs	45,454
Write-off of current year Thamesville expenditures	35,124
Reduction of accounts payable on restructuring	(36,669)
	<u>\$ 1,240,505</u>

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

17. Loss Per Share

The following table sets forth the computation of basic and diluted loss per common share:

	2005	2004
Numerator:		
Net loss attributable to common shareholders		
- basic and diluted	\$ (391,685)	\$ (2,587,752)
Denominator:		
Weighted average common shares outstanding		
- basic and diluted	14,042,810	10,170,988
Basic loss per common share	\$ (0.03)	\$ (0.25)
Diluted loss per common share	\$ (0.03)	\$ (0.25)

As a result of the net losses for the years ended October 31, 2005 and 2004, the potential effect of the exercise of stock options, the conversion of the debenture and the conversion of the convertible debt was anti-dilutive. Therefore, approximately 680,000 options were excluded from the computation of weighted-average number of diluted common shares outstanding because their impact was anti-dilutive.

18. Income Taxes

a) Provision for Income Taxes

The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax provision, using a statutory tax rate of 36.12% (2004 - 34.44%) at October 31, 2005 and 2004, are as follows:

	2005	2004
Income tax recoverable at statutory rate	\$ (141,476)	\$ (891,143)
Increase (decrease) resulting from:		
Change in valuation allowance	47,016	-
Amortization in excess of CCA	91,622	150,924
Non-deductible expenses	2,838	237,927
Non-capital loss carryforward (utilized)	-	502,292
Provision for income taxes - current and future	\$ -	\$ -

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

18. Income Taxes - continued

b) Future Income Taxes

Significant components of the Company's future tax assets were as follows as at October 31, 2005 and 2004:

	2005	2004
Long-Term		
Plant and equipment - difference between book value and tax value	\$ 429,870	\$ 288,204
Non-capital loss carryforwards	1,058,604	947,560
Deferred costs - difference between book value and tax value	28,050	26,963
Other	61,039	75,914
Future Income Tax Assets, before valuation allowance	1,577,563	1,338,641
Valuation allowance	(1,577,563)	(1,338,641)
Net Future Income Tax Assets	\$ -	\$ -

The timing of the utilization of the future income tax assets is undeterminable. Consequently, a full valuation allowance has been provided against future value of the assets.

c) Tax Loss Carry-Forwards

The Company has approximately \$2,330,000 of non-capital losses carried forward available to reduce future taxable income. The non-capital losses expire as follows:

2006	\$ 174,000
2007	322,000
2009	196,000
2014	1,507,000
2015	131,000
	\$ 2,330,000

19. Supplementary Cash Flow Information

	2005	2004
Net change in non-cash working capital items:		
Accounts receivable	\$ 121,635	\$ 146,589
Inventory	141,307	1,271,954
Prepaid expenses	664	3,731
Accounts payable and accrued liabilities (i)	535,176	(462,846)
Net change in non cash working capital	\$ 798,782	\$ 959,428

(i) During the year \$166,423 of accounts payable and accrued liabilities was settled via the issuance of common shares. This has been added to the net change in accounts payable and accrued liabilities.

Notes to Consolidated Financial Statements

October 31, 2005 and 2004

19 Supplementary Cash Flow Information - continued

Other information:

Interest paid	\$ 92,473	\$ 225,030
Income and capital taxes paid	<u>\$ 78,826</u>	<u>\$ 8,980</u>

20. Commitments and Contingencies

(i) Crown lease and royalties 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 \$5,800. This lease extends to December 2024. In addition to this annual rental, Peat is required to pay royalties of \$0.30 per cubic metre of peat removed from the premises. 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) 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.

(iii) Lease and royalty on peat bog land

Peat entered into an agreement with Abitibi Consolidated Inc. ("ACI") on September 1, 1999 where Peat had an exclusive right and privilege to remove, process and sell any peat within upon or under the premise known as "Muskeg Bog" located on lands owned by ACI in the District of Thunder Bay subject to an agreed rent and royalty. This lease was terminated in January 2005 when the Muskeg Bog was deemed to be uneconomic. The Company has no further obligations under this lease.

(iv) Operating leases

At October 31, 2005, the Company was committed to rental lease payments for its premises and equipment lease payments in the following amounts:

	Rental	Equipment	Total
2006	\$ 209,368	\$ 112,026	\$ 321,394
2007	206,007	57,136	263,143
2008	189,204	19,221	208,425
2009	189,204	5,019	194,223
2010	47,301	-	47,301
	<u>\$ 841,084</u>	<u>\$ 193,402</u>	<u>\$ 1,034,486</u>

Notes to Consolidated Financial Statements

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21. Financial Instruments

Credit risk

The Company is exposed to credit risk on the accounts receivable from customers. In order to reduce its credit risk, the Company has adopted credit policies which include the regular review of outstanding accounts receivable. The Company does not have a significant exposure to any individual customers or counterparty.

Fair value

The carrying amount of accounts receivable, bank loans, accounts payable and accrued liabilities approximates their fair value because of the short-term maturities of these items. The carrying value of loans payable approximate fair value based on current rates at which the Company could borrow funds with similar remaining maturities. The fair value of loans payable to related parties cannot be reasonably determined due to their related party nature, the absence of secondary markets and the significant cost of obtaining appraisals.

Interest rate risk

The Company has debts which bear interest at floating rates. These financial instruments constitute a risk to which the Company is exposed in the event of a fluctuation of the prime rate. The Company does not enter into any interest rate hedging transactions to counter exposures to increases in interest rates.

22. Subsequent Event

- (i) The Company negotiated the acquisition of Normiska U.S.A. Inc., a holding company which owns all of the issued and outstanding shares of Schundler. Schundler is a New Jersey based producer of expanded vermiculite and perlite minerals. The Company will issue 7,500,000 common shares in exchange for all the issued and outstanding shares of Normiska U.S.A Inc. and will issue to the holders of \$6,000,000 of promissory notes payable by Normiska U.S.A. Inc. convertible debentures in the same amount payable by the Company. The acquisition was approved by the Company's shareholder's at its annual meeting held on November 17, 2005, and is effective as at that date.
- (ii) On January 16, 2006 articles of amendment were filed to give effect to the share consolidation approved at the Company's November 17, 2005 annual meeting. Terms of the articles of amendment provide for a consolidation of the Company's common shares currently issued and outstanding on the basis of a 1 post-consolidated common share for every 5 common shares presently issued and outstanding. Trading of the Company's common shares recommenced on January 18, 2006 with a new trading symbol "NNC".