

NORMISKA corporation



ANNUAL REPORT
1999

www.normiska.com

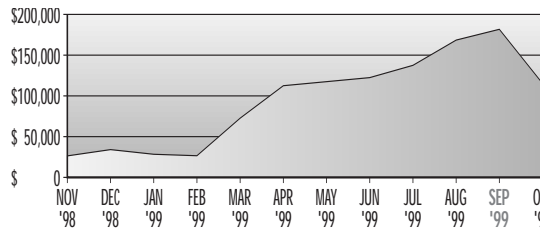
CORPORATE PROFILE

Normiska Corporation is a Canadian owned horticultural company manufacturing and marketing sphagnum peat moss, pine bark mulch and compost, vermiculite and perlite. The Company has operations in Fort Frances, Ontario and Lachine, Quebec with sales and administrative offices in Mississauga, Ontario. The Company supplies markets in the upper midwest United States and eastern North America.

FINANCIAL HIGHLIGHTS		FINANCIAL POSITION	
<u>Operations</u>		<u>Ratios</u>	
Sales	\$1,199,588	Current assets to current liabilities	0.98:1.0
Loss for the year	\$ (188,628)	Long term debt to	
Basic loss per share	\$ (0.04)	shareholders' equity	0.94:1.0
		Weighted average number of	
Operating cash flow	\$ (254,489)	outstanding common shares	5,089,673
Per share cash flow	\$ (0.05)	Fully diluted weighted average number	
		of outstanding common shares	6,351,340
		Outstanding common shares as at	
		October 31, 1999	5,126,340

Index	Page
Message to the Shareholders	1
Overview	2 - 4
Auditors' Report	5
Balance Sheets	6
Statements of Operations and Deficit	7
Cash Flow Statements	8
Notes to Financial Statements	9 - 14

MESSAGE TO THE SHAREHOLDERS



The fiscal year ending 1999 was your company's first commercial production year. The company accomplished many important marketing and operational objectives. In contrast to the year ending 1998 which was highlighted by plant construction and market development, the year ending 1999 was highlighted by sales, operations and processing achievements.

Revenue from product sales was \$484,827 up substantially from 1998 revenue over the same period of \$8,616. Gross revenue from operations (including bark tipping fees) increased by \$849,919 over the previous year to a total of \$1,199,588. This resulted in earnings before amortization, interest and taxes of \$181,261 and a net loss of \$188,628.

Gross revenues showed a steady increase throughout the year. The accompanying graph of total revenue demonstrates this trend. Normiska has distinguished itself as a quality product supplier even in early stage development. Virtually all of our customers have reordered for this year and most have indicated substantially larger consumption of our products in the coming year. Normiska Materials is

now a recognized name as a supplier of quality sphagnum peat moss, composted pine bark and bark mulch products to horticultural markets. Our customers include professional greenhouse and nursery operators, landscapers and large blenders of national brand name horticultural mixes.

The positive response to our product is a tribute to the Normiska team. The operational team has made great strides in providing quality products even in light of abnormally wet weather conditions in the mid-western region last summer. They continue to make advances in the important areas of productivity and total quality assurance. In the mid western U.S. market place our sales team is succeeding in penetrating our target markets.

Your Company continues to expand the Fort Frances Peat Bog. By the end of the year 2000 the bog should total approximately 250 acres under harvest. Additional harvesters will be required for this new acreage. The productivity of the peat harvesting team is expected to rise dramatically this year.

On July 1, 1999 Normiska Corporation and Abitibi Consolidated Inc. entered into a production lease/royalty agreement on a 3,600 acre peat bog on Abitibi freehold lands in the Thunder Bay region. A survey and feasibility study is planned for this summer. The proximity of this peat resource to the Port of Thunder Bay will provide Normiska with a great opportunity for competitive cost transport of materials to wider ranging market regions. Your company continues to investigate other related opportunities in the Thunder Bay region and elsewhere in Canada and the United States.

During the third quarter of 1999, Normiska Management became aware of an opportunity to acquire the operating assets of V.I.L. Vermiculite Inc., a horticultural grade vermiculite and perlite processing plant located in Lachine, Quebec. In late February, 2000, your Company completed this transaction.

The acquisition of the V.I.L. product line and manufacturing facility for perlite and vermiculite will complement Normiska's existing line of processed sphagnum peat, composted bark and bark mulches. Vermiculite and perlite are mineral feed stocks that are combined with peat moss and bark materials in value added blended horticultural soil-less growing media. The V.I.L. products are currently sold to customers in Eastern Canada and the Northeastern United States. The details of the acquisition are outlined in management's discussion and analysis later in this report.

The immediate significance of the V.I.L. plant purchase is an increase of combined projected revenue to in excess of \$7.0 million in the year 2000. V.I.L. marketing and operational expertise will provide Normiska with the opportunity to penetrate new product sectors and geographic regions. This step is crucial in keeping pace with the present rate of growth and consolidation found within our industry.

On behalf of all the employees, management and shareholders of Normiska Corporation, I would like to welcome the incoming personnel of V.I.L. Vermiculite, a new division of Normiska Corporation.

The past year was one of growth and confirmation. We confirmed that we could compete in our market place and provide the kind of products and service that would bring the customers back for more. We also realized an important part of our corporate vision of growth through the acquisition of businesses that complement our existing resources. The challenge of the year 2000 will be to grow with the realization of our vision. I am confident in speaking for the whole company when I say WATCH US GROW!

NORMISKA
corporation

David B. Graham President & CEO, March 15, 2000

Overview

Normiska Corporation is committed to the production of high-grade horticultural products with particular emphasis on products for export. The Company's emphasis is on products which are non-polluting, non-toxic, and where possible, reusable and renewable.

Its activities are directed toward the development and harvesting of horticultural grade sphagnum peat moss, the manufacturing of pine bark composts and mulches, and subsequent to the year-end, the manufacturing of vermiculite and perlite. All of the above ingredients form the basic materials in soil-less growing mediums. The Company has focused primarily on the markets in the upper Mid - West United States, which have been growing at approximately 10 % per year for the last decade and are projected to continue this growth pattern for the foreseeable future.

In addition to its peat harvesting area and bark processing operation in Fort Frances, Ontario, the Company has acquired a long term lease on a 1460 hectare (3,600 acre) sphagnum peat moss bog 90 kilometres north of Thunder Bay, Ontario.

Subsequent to the year-end, the Company acquired the production assets of V.I.L. Vermiculite Inc. in Lachine, Quebec and Mississauga, Ontario. These assets produce in excess of \$6,000,000 in sales of vermiculite and perlite per year, products which directly complement the current product lines.

Fort Frances Operations

Fine-tuning of the Company's processing facilities has continued throughout 1999. Bark delivery from Abitibi reached standard levels by January and production and stockpiling of pine bark mulch and material for compost began in earnest. A bagging line was installed to enable smaller quantities of material to be packaged for sale to distributors to the retail market.

Virtually all of the available material not required for inventory was shipped to customers in the United States. During the year, the Company was able to build its inventories to a level capable of supplying the orders for delivery in early 2000. The operation continued to reaffirm the Company's opinion that there is a viable, profitable market for its mulch and compost products with a modest profit before amortization, interest and taxes of \$181,261.

Additional equipment was acquired to prepare and harvest peat moss from the Company's Fort Frances bog. Due to the extremely wet season, the 1999 harvest was severely curtailed. Even so, the market enthusiastically received the product that we could obtain. The Company anticipates a significant improvement in its peat harvesting and delivery for the 2000 season.

An additional 100 acres is being prepared for harvest and the company anticipates that it will continue to develop harvestable areas as the ability to harvest increases and market penetration grows.

Capital Stock

We issued a total of 564,204 common shares in connection with the acquisition of the production assets of V.I.L. Vermiculite Inc. with an ascribed value of \$540,000 as part of the consideration. This transaction was completed subsequent to the yearend

The Company also issued \$350,000 of convertible debt with no fixed terms of repayment which can be converted 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.

NORMISKA CORPORATION



Summary of Capital and Financing

8% Sinking Fund Debenture due 12/1/2002	\$	500,000
Convertible debt, prime + 2%, no fixed term	\$	350,000
Common Shares Capital	\$	2,224,859
Common Shares Outstanding (October 31, 1999)		5,126,340

Working capital at the end of the year was negative \$15,703 as a result of the rapid growth of inventories and receivable as well as the requirement for deposits to effect the acquisition of the production assets of V.I.L. Vermiculite Inc

Results of Operations

The Company began its fiscal year with no inventory due to the prolonged strike at Abitibi Consolidated, which curtailed the flow of bark until January of 1999. On settlement of the labour dispute, bark delivery commenced and the Company began processing and stockpiling inventory. Tipping fees rose by 110% from \$341,053 in 1998 to \$714,761 in 1999. Sales of processed material were \$484,827 and inventories increased from \$10,200 in 1998 to \$436,140 in 1999.

During 1999, the Company focused on reducing its manufacturing and transportation costs as a percentage of cost of goods manufactured. At the same time management elected to increase its investment in marketing to expand into new market areas.

The Company has accumulated tax loss carry-forward of \$686,000, which can be applied against future taxable income. Management cannot reasonably determine when these losses will be utilized.

The Company acquired \$857,856 of capital assets and spent \$29,685 in deferred expenses for bog development.

Financing for the acquisition of the fixed assets and inventory was provided by long term debt and bank lines of credit.

The Company amortized \$264,279 of capital assets during the year and paid \$95,922 in interest. Earnings before amortization, interest and taxes was \$181,261 for the year ended October 31, 1999.

Liquidity and Capital Resources

The Company had a short term bank loan of \$149,710 at October 31, 1999. At the same point a year earlier, the Company had cash on hand of \$208,944. Due to the rapid growth of the Company and the necessity to stockpile inventory to service its growing customer base, substantial investment was required in excess of funds generated from operations. Accounts receivable rose from \$68,681 to \$265,171 and inventory increased from \$10,200 to \$436,140.

Operating cash inflow in 1999 was \$1,003,098 and outflow was \$1,272,306. The excess of cash out over cash in was funded by an increase in accounts payable over 1998 from \$159,736 to \$452,027.

Capital assets totalling \$857,856 were purchased during 1999 compared to expenditures of \$1,140,003 in 1998. These expenditures were incurred to continue the development of the processing facilities at the Fort Frances site and were financed through increases in borrowed funds of \$963,086.

NORMISKA CORPORATION

Subsequent Events

The Company negotiated the purchase of the production assets of V.I.L. Vermiculite Inc. for \$3,000,000 in September 1999. The transaction to acquire these assets closed February 22, 2000. As part of the agreement for the purchase of these assets, a deposit of \$10,000 and 40,000 common shares valued at \$40,000 was made to the vendor. Additional deposits of \$30,000 were made to various agents and professional groups in connection with the transaction. These deposits, totaling \$70,000, are shown as "Deposits" in the October 31, 1999 financial statements.

The Company arranged a term loan for \$2,000,000 and a revolving line of credit for \$750,000 with the Laurentian Bank of Canada to assist in the purchase of these assets. The balance of the purchase price was satisfied by the issue of \$540,000 in common shares of the Company valued at the 10 day average trading price of shares and \$460,000 cash from company funds.

The assets acquired have been reported by the vendor in unaudited financial statements to earn a pre-tax yearly cash flow of approximately \$1,000,000.

The 600,000 outstanding share purchase warrants expired unexercised on January 17, 2000.

The Company has an Offering Memorandum in issue to raise a minimum of \$503,500 and a maximum of \$1,900,000 by way of the issuance of Special Warrants which allow the purchaser to convert the Special Warrant to Common Shares of the Company on acceptance of a Final Prospectus qualifying the distribution of the shares upon exercise of the Special Warrants.

Management anticipates that the cash flow from its current operations and from the V.I.L. assets will continue and that the credit facilities arranged through the Laurentian Bank, funds lent to the Company and proceeds from this offering will provide adequate working capital for the foreseeable future.

Risks and Uncertainties

Various risks and uncertainties can affect Normiska. The most significant factors are the disruption of the bark supply due to factors affecting the Abitibi-Consolidated mill and the inability to harvest peat moss due to climatic conditions. The Company has sought to mitigate these risks by commencing negotiations with other bark producers and acquiring sphagnum peat bogs in different climatic areas. Abitibi has signed a 6-year labour contract, which will help ensure a steady supply of bark. The Company has commenced negotiations with Abitibi as called for under the terms of its contract to establish a price for the bark for the future. Should the Company not come to a satisfactory arrangement with Abitibi, the supply of bark could be curtailed or cancelled, an event that could have a material affect on the cash flow of the Company until the plant capacity was replaced with peat moss for processing.

In addition, with the acquisition of the assets of V.I.L., the company can be subjected to supply disruptions due to transportation difficulties and political unrest in South Africa and Greece, the countries from which the raw materials are obtained. To date, there has been no disruption in supply from these sources

On behalf of the Board of Directors



J. M. Arnold, Chairman



D. B. Graham, President and CEO

AUDITORS' REPORT

To the Shareholders of Normiska Corporation

We have audited the consolidated balance sheets of Normiska Corporation as at October 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 October 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Moore Stephens Cooper Molyneux LLP
Chartered Accountants
Toronto, Ontario
December 22, 1999, except as to
Note 14 (iii) which is as of January 27, 2000



**CONSOLIDATED
BALANCE SHEETS**
October 31, 1999 and 1998

	1999	1998
Assets		
Current assets		
Cash and short-term deposits	\$ -	\$ 208,944
Accounts receivable	265,171	68,681
Deposits (note 14(i))	70,000	-
Inventory	436,140	10,200
	771,311	287,825
Capital assets (note 3)	1,801,935	1,115,042
Deferred costs (note 4)	1,201,306	1,264,936
	\$ 3,774,552	\$ 2,667,803
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	\$ 149,710	\$ -
Accounts payable and accrued liabilities	452,027	159,736
Current portion of long term debt (note 6)	185,277	71,114
	787,014	230,850
Long term debt (note 6)	599,732	250,519
Convertible debt (note 7)	350,000	-
Convertible debenture (note 8)	500,000	500,000
	2,236,746	981,369
Shareholders' equity		
Share capital (note 9)	2,224,859	2,184,859
Deficit	(687,053)	(498,425)
	1,537,806	1,686,434
	\$ 3,774,552	\$ 2,667,803

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

On behalf of the Board of Directors



J. M. Arnold, Chairman



D. B. Graham, President and CEO

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

for the years ended October 31, 1999
and 1998

	1999	1998
Sales	\$ 484,827	\$ 8,616
Tipping fees	714,761	341,053
	<u>1,199,588</u>	<u>349,669</u>
Cost of goods manufactured		
Opening inventory	10,200	-
Transportation	359,677	170,953
Site and processing costs	215,363	26,890
Labour	229,923	31,143
Amortization	247,923	35,193
	<u>1,063,086</u>	<u>264,179</u>
Closing inventory	(436,140)	(10,200)
	<u>626,946</u>	<u>253,979</u>
Gross profit	<u>572,642</u>	<u>95,690</u>
Administrative expenses		
Marketing and product development	173,954	69,723
Office	157,072	63,298
Salaries and benefits	156,266	215,534
Selling and administrative	119,106	90,157
Debt and debenture interest	49,688	34,301
Interest on long-term debt	55,922	5,075
Professional fees	32,906	29,845
Financing cost	-	41,716
Filing fees	-	15,174
Amortization	16,356	3,217
	<u>761,270</u>	<u>568,040</u>
Net loss for the year	(188,628)	(472,350)
Deficit, beginning of year	(498,425)	(26,075)
Deficit, end of year	<u>\$ (687,053)</u>	<u>\$ (498,425)</u>
Basic loss per share	<u>\$ (0.04)</u>	<u>\$ (0.10)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended October 31, 1999
and 1998

	1999	1998
Cash flow from operating activities		
Cash receipts from customers	\$ 1,003,098	\$ 286,472
Cash paid to suppliers and employees	(1,161,665)	(665,244)
Interest paid	(95,922)	(32,691)
	<u>(254,489)</u>	<u>(411,463)</u>
Cash flow from investing activities		
Capital asset additions	(857,856)	(1,140,003)
Expenditures on deferred costs	(29,685)	(134,419)
Deposits	(70,000)	-
	<u>(957,541)</u>	<u>(1,274,422)</u>
Cash flow from financing activities		
Bank indebtedness	149,710	-
Due to shareholders	-	(12,000)
Long term debt	463,376	321,633
Issue of convertible debt	350,000	(149,900)
Issue of convertible debenture	-	500,000
Issue of common shares	40,000	1,184,607
	<u>1,003,086</u>	<u>1,844,340</u>
(Decrease) increase in cash	(208,944)	158,455
Cash and short-term deposits, beginning of year	208,944	50,489
Cash and short-term deposits, end of year	\$ -	\$ 208,944
Represented by		
Cash	\$ -	\$ 10,944
Short-term deposits	-	198,000
	<u>\$ -</u>	<u>\$ 208,944</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1999 and 1998

1. Business of the Company

Normiska Corporation ("the Company") was incorporated on January 17, 1997 under the laws of Ontario. The Company is developing and exploiting a high quality sphagnum peat deposit in the district of Rainy River, Northwestern Ontario. In addition, the Company is operating a bark waste recycling and peat processing facility designed for the production of a range of products for sale to horticultural, landscape, golf and turf care industries.

The Company has, to date, financed its activities primarily 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 attain a level of profitable operations.

2. Significant Accounting Policies

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 4) 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 4) 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.

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

Loss per share

The basic loss 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 loss per share than the basic loss per share.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1999 and 1998

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.

Reclassifications

Certain amounts from prior years have been reclassified to conform to the current year's presentation. As a result, more detail has been provided on revenue and cost of goods manufactured components.

3. Capital Assets

			1999	1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 40,067	\$ -	\$ 40,067	\$ 31,275
Building	401,765	24,592	377,173	359,230
Bark Pad	273,000	14,275	258,725	49,375
Office improvements	9,664	4,026	5,638	8,859
Equipment	1,235,490	139,797	1,095,693	633,697
Automobile	13,000	5,416	7,584	11,917
Computer equipment	9,159	3,624	5,535	6,278
Furniture and fixtures	15,347	3,827	11,520	14,411
	\$ 1,997,492	\$ 195,557	\$ 1,801,935	\$ 1,115,042

During the year amortization of capital assets amounted to \$171,643, of which \$155,287 is included in cost of goods manufactured (1998 - \$21,377), and \$16,356 is included in administrative expenses (1998 - \$3,217).

The bark pad is used for processing and storing manufactured product. Costs to create the pad include transportation, materials handling and compaction.

4. Deferred Costs

			1999	1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Development	\$ 1,209,303	\$ 65,905	\$ 1,143,398	\$ 1,174,210
Marketing	98,455	40,547	57,908	90,726
	\$ 1,307,758	\$ 106,452	\$ 1,201,306	\$ 1,264,936

During the year amortization of deferred costs amounted to \$92,636 (1998 - \$13,816) and is included in cost of goods manufactured.

5. Bank Indebtedness

The Company has available an operating loan to a maximum of \$150,000, secured by a general security agreement.

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

October 31, 1999 and 1998

6. Long Term Debt

	1999	1998
The term demand loan is repayable at interest of prime plus 1.85% in monthly payments of \$2,056 due on March 1, 2004, 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.	307,654	280,531
Lease obligations are repayable over terms of 48 to 60 months requiring monthly payments of \$8,253.	387,644	41,102
	<u>785,009</u>	<u>321,633</u>
Less: Current portion	185,277	71,114
	<u>\$ 599,732</u>	<u>\$ 250,519</u>

Payments required on long-term debt are as follows:

2000	\$ 248,229
2001	248,229
2002	241,132
2003	152,939
2004	40,267
	<u>930,796</u>
Less: Interest	145,787
	<u>\$ 785,009</u>

7. 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 the Company at the lenders option at any time the Company issues a prospectus at the maximum discount allowed by the Ontario Securities Commission.

8. Convertible Debenture

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.

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

October 31, 1999 and 1998

9. Share Capital

Authorized
Unlimited Common shares
Issued

	Issued	Amount
Balance at October 31, 1997	3,736,440	\$ 1,000,252
Initial public offering (i)	1,200,000	1,034,707
On conversion of loan (ii)	149,900	149,900
Balance at October 31, 1998	5,086,340	2,184,859
Deposit on acquisition (iii)	40,000	40,000
Balance at October 31, 1999	5,126,340	\$ 2,224,859

- (i) 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.
- (ii) On April 21, 1998, the terms of a \$149,000 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 (i) for a total consideration of \$149,900.
- (iii) On September 15, 1999, the Company issued 40,000 common shares as consideration for a deposit on the acquisition of the assets of V.I.L. Vermiculite Inc. (note 14(i)).

10. Stock Options

At October 31, 1999 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.

11. Income Tax Losses Carryforward

The Company has consolidated losses available to reduce future taxable income. These losses expire as follows:

2004	\$	26,000
2005		472,000
2006		188,000
	\$	686,000

At this time, management cannot reasonably determine the timing of utilizing these losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1999 and 1998

12. 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, deposits, bank indebtedness, and accounts payable and accrued liabilities approximates their fair value because of the short-term maturities of these items. The carrying amount of long term debt, convertible debt and debentures approximate their fair value because they bear interest at current rates for similar instruments.

13. Commitments and Contingencies

(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 October 31, 1999 and 1998, the Company was committed to rental lease payments in the following amounts:

1999	\$	16,300
2000		17,500
2001		11,250
	\$	45,050

(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 Frances 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

October 31, 1999 and 1998

14. Subsequent Events

- (i) On December 16, 1999 the Company entered into an agreement to purchase the capital assets of V.I.L. Vermiculite Inc. ("the vendor") for \$3,000,000. Laurentian Bank of Canada has offered to provide \$2,000,000 of financing towards the asset purchase, subject to completing their due diligence. The vendor is to receive common shares valued at \$540,000 and \$2,460,000 in cash. In September 1999 the vendor received a deposit of \$10,000 cash and 40,000 common shares valued at \$40,000. In October 1999 the Company advanced \$20,000 to a law firm regarding bank borrowing documentation.
- (ii) On November 18, 1999 the Company arranged for a private loan of \$150,000, repayable on November 18, 2000 together with interest at prime plus 1.5%. The Company has agreed to undertake to repay the loan from any proceeds of any underwriting completed prior to November 18, 2000.
- (iii) In January, 2000, the Company entered into an agency agreement with Goepel McDermid Inc., under which the Company, through an offering memorandum, will offer to the public a minimum of 530,000 and a maximum of 2,000,000 special warrants at a price of \$0.95 each.

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.

15. Uncertainty due to the year 2000 issue

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. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000, and if not addressed the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTES



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NOTES

CORPORATE DIRECTORY DIRECTORS

John M. Arnold	Guelph, Ontario Mining Executive
David B. Graham	Toronto, Ontario Natural Resource Executive
William Bateman	Toronto, Ontario Barrister & Solicitor Nobbs, Woods, Kavanaugh & Bateman
Hugh Harbinson	Toronto, Ontario Mining Executive Chairman Queenston Mining Inc.
Clare A. Brunetta	Fort Frances, Ontario Barrister & Solicitor
Neil A. McKeown	Listowel, Ontario Management Consultant

OFFICERS

John M. Arnold	Chairman, Secretary & CFO
David B. Graham	President & CEO
Neil A. McKeown	Vice-President Marketing - Development and Technology

OFFICES

Marketing & Administration Sales	5580 Timberlea Blvd., Mississauga, Ontario 3883 Hwy. #7, Woodbridge, Ontario 4915 N. 103rd St., Milwaukee, Wisconsin
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PLANTS

951 McIrvine Road, Fort Frances, Ontario
1775 52nd Avenue, Lachine, Quebec

STOCK EXCHANGE

Canadian Dealing Network	Symbol: NORP
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BANKER

Laurentian Bank of Canada	Mississauga, Ontario
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AUDITORS

Moore Stephens Cooper Molyneux LLP	Toronto, Ontario
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TRANSFER AGENT

Equity Transfer Services Inc.	Toronto, Ontario
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