NORMISKA corporation

FOCUS ON PROFIT

ANNUAL REPORT 2001

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 and a sales office in Milwaukee, Wisconsin. The Company supplies markets in the upper midwest United States and eastern North America.

FINANCIAL HIGHLIGHTS

Operations

Sales	$	9,994,748
EBITDA	$	1,029,226
Net income for the year	$	51,631
Basic income per share	$	0.01

FINANCIAL POSITION

Ratios

Current assets to current liabilities	1.05:1.0
Long term debt to shareholders' equity	0.36:1.0
Weighted average number of outstanding common shares	6,614,816
Outstanding common shares as at October 31, 2001	9,209,344

NORMISKA corporation

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Pg. 9: J.M. Arnold, Normiska Corp.

Canadian Sphagnum Peat Moss Tourbe de Sphaigne Canadienne

MESSAGE TO THE SHAREHOLDERS

During the last quarter of 2001 world events were dominated by the international terrorist actions and the response by the United States and its allies. Management, staff and associates of Normiska Corporation extend their deepest condolences to those who were adversely affected and experienced loss as a result of these shocking events.

In fiscal 2001 Normiska Corporation experienced continued high growth in sales of our horticultural products. Year over year growth was 47% as revenue from sales advanced from $6,818,207 to $9,994,748. Earnings before interest depreciation and taxes were $1,029,226. We achieved a net profit of $51,631 that reflected the corporation's aggressive debt repayment, acquisition of market share and the attendant growth of operational infrastructure.

Having built the sales of Normiska's products from $484,827 to $9,821,278 over the last three years, it is time to focus on exploiting our market share. While we do anticipate a healthy increase in sales growth for the fiscal year ending 2002 our focus is to maximize profitability in the coming year.

It is absolutely necessary that a high growth company such as ours constantly reassess its approach in all areas. After an exhaustive analysis of our operational and corporate performance, Normiska management has implemented a profitability plan that spans the organization from the operations to the corporate and financial structure of our company. Our studies were carried out in the latter half of the year with execution commencing in the fourth quarter and scheduled to continue through fiscal 2002.

We are currently negotiating a new agreement with our term debt holder, The Laurentian Bank of Canada. The purpose of this negotiation is to improve the loan repayment schedule to reduce the impact on the company's cash flow. In fiscal 2001 we repaid $982,000 of our debt. In conjunction with a Federal Government grant of $120,000, Normiska entered into additional lease-purchase contracts to finance the acquisition of our compressed baling line.

In order to increase operational efficiency and improve sales margins we have increased the experience and qualifications of our administrative personnel and have completed accounting system upgrades. Our labour, transportation and energy costs as a percentage of sales revenue are projected to decrease due to modified transportation logistics, site improvements and forward purchase of energy for the current production year.

Pressure on the equity markets in 2001 continued as the economy slowed and was further exacerbated by the tragic events of September in the United States. The result was a general devaluation of financial markets including the CDNX and the price of Normiska shares. Nevertheless, each year the company is in a stronger position. In the past year we have substantially grown our audience at both the retail brokerage and institutional level. This is laying the groundwork for increased market value and liquidity. We remain certain in our belief that it is only a matter of time until company performance, our growth record and management vision is recognized so as to positively impact on Normiska's share value.

In Fort Frances, excellent weather optimized the peat harvest. Our compressed baling line was commissioned and our efficiency on this production line increased throughout the year. The summer of 2002 will see additional harvesting of new fields developed over the past year.

A detailed study of the Muskeg Bog, located outside of Thunder Bay, Ontario was carried out in the fall of 2001. The results were positive and a final feasibility study will be completed this year with a resulting production decision.

In October of 2001, Normiska signed the definitive agreement covering the option to acquire the mineral rights encompassed by 468,000 acres of freehold lands in Northwestern Ontario. This option is subject to certain rental, royalty and joint venture terms and conditions described more fully in a news release dated October 31, 2001.

Management believes the area to be in a high potential geological environment for the discovery of a number of base metal, precious metal and industrial mineral commodities. This acquisition was a result of management expertise and Normiska's strategic relationships. A subsidiary, Nearco Minerals Inc. has been formed for the purpose of financing and managing this project. It is not a part of Normiska's core business. If outside financing can be arranged, management believes it will enhance shareholder value.

In comparing the results of fiscal 2001 with our expectations for 2002 we find ourselves in a maturing stage. We have conquered many of our start up challenges in Fort Frances at our organic materials processing division where we achieved an operating profit. The goal for Fort Frances is a net profit in 2002. We have identified what we have done well and where we must improve our performance in all areas of the company.

We have digested our acquisition of the Lachine, Quebec mineral manufacturing center and ramped up market share and brand recognition of Normiska products. We are smarter and more able than we were a year ago and we have the confidence to make a solid move forward in operational and financial performance.

It was a year of growing up and we look ahead to a year of high performance.

WATCH US GROW!!!

On behalf of the Board of Directors and the
Management of Normiska Corporation,

David Graham, President & C.E.O.

NORMISKA corporation

NORMISKA CORPORATION

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2001.

The following discussions and analysis of the operating results and financial position of the company for the year ending October 31, 2001 should be read in conjunction with the financial statements enclosed herein and the Annual Report for the fiscal year ending October 31, 2001.

OVERVIEW

Normiska Corporation produces, refines and markets minerals and organic materials. In Lachine, Quebec the corporation refines vermiculite and perlite into high quality mineral feedstock for sale to horticultural and industrial markets throughout Canada and the Eastern United States. At its production center in Fort Frances, Ontario the company produces 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.

Normiska also sells into industrial markets such as construction and materials processing. The company sees growth opportunities in all of its existing markets and in new market regions and products.

SUMMARY OF CAPITAL AND FINANCING

Term loan at prime plus 1.75% plus monthly principal payments of $48,000 due February 18, 2004	$	1,376,000
8% Debenture due December 1, 2002	$	309,241
Convertible debt at prime plus 2%, no fixed term	$	350,000
Demand loans at prime plus 3%, no fixed term	$	125,000
Non Interest bearing loan, no fixed term	$	50,000
Shareholders Equity	$	5,044,815
Common Shares Outstanding		9,209,344

RESULTS OF OPERATIONS

Sales continued to increase during fiscal 2001. As a result of plant modifications and new market penetration, the Lachine, Quebec operations reported higher production rates and sales. The Fort Frances production center added new fields for sphagnum peat harvesting and a new compressed baling line. This accounted for increased sales of peat products and allowed for the creation of an inventory of peat products stockpiled for spring sales; a new market period for this location.

The Fort Frances division is currently completing the development of a further 100 acres of sphagnum peat harvesting fields. The costs of developing these fields are being deferred and are being depreciated over their expected productive life.

Accounts receivable at year-end increased by $515,328 over the previous year-end reflecting the increase in sales over fiscal year 2000. Inventories recorded at year-end increased by $547,165. This growth in inventory will help meet increased demand at both locations. Accounts payable were reduced by $900,000.

Tipping fees were reduced from $978,884 in 2000 to $173,470 in 2001. This reduction was anticipated in the bark supply agreement between Normiska and Abitibi Consolidated Inc. The net revenue from these tipping fees between September 1997 and December 31, 2000 was an integral part of the cash required in the start up of the Fort Frances operation. Currently, these fees pay for the transport of bark to the Fort Frances site. These fees are a very minor portion of total revenue and will be consolidated into gross sales revenue in future financial statements.

Transportation costs of Fort Frances products increased substantially due to rising fuel costs. The company has succeeded in increasing the volume of shipments to a level where management believes that logistical efficiencies, economies of scale and alternate means of transport will reduce the cost of transport as a percentage of cost of sales.

In Lachine the severe impact of rising natural gas prices resulted in an unrecoverable cost increase estimated to be in excess of $250,000 during fiscal 2001. The company has entered into a gas contract with a major Canadian gas distributor at a supply price that meets the operations budget requirements. Gas prices and plant requirements are under constant review.

Overall product sales for 2001 increased by 68% to $9,821,278 while selling, marketing and administrative costs rose 7% to $1,279,303. The corporation increased its bank indebtedness by $812,900 over the year ended 2000. This increase assisted in financing increased inventory and receivables.

NORMISKA CORPORATION

QUARTERLY COMPARISONS

	2001				2000			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Sales	$ 2,338,461	$ 2,769,780	$ 3,219,511	$ 1,698,993	$ 2,219,532	$ 2,254,923	$ 1,950,662	$ 393,090
Cost of Goods manufactured	1,984,665	2,112,616	2,419,219	1,201,679	1,685,706	1,615,270	1,323,922	100,761
Gross margin	353,762	657,164	800,292	497,314	533,826	639,653	626,740	292,329
Selling, Administrative and General Costs	352,049	315,524	292,601	319,132	505,953	370,382	186,812	129,845
Operating profit	1,713	341,640	507,691	178,182	27,873	269,271	439,928	162,484
Amortization	140,435	159,352	156,665	150,561	138,947	142,883	151,075	24,341
Interest	139,028	100,272	108,359	98,923	73,126	77,963	89,728	60,844
	279,463	259,624	265,024	249,484	212,073	220,846	240,803	85,185
NetProfit before taxes	(277,750)	82,016	242,667	(71,302)	(184,200)	48,425	199,125	77,299
Provision (Recovery) for Taxes	(181,000)	33,000	97,000	(25,000)	Note 1 Nil	Nil	Nil	Nil
Net Profit (Loss)	$ (137,475)	$ 49,016	$ 145,667	$ (96,302)	$ (184,200)	$ 48,425	$ 199,125	$ 77,299
Basic Income (Loss) per Share	$ (0.01)	$ 0.01	$ 0.02	$ (0.01)	$ (0.02)	$ 0.01	$ 0.02	$ 0.01

Note 1: See Notes 3 and 6, Financial Statements 2000 Annual Report

LIQUIDITY AND CAPITAL RESOURCES

Normiska raised an additional $2,000,000 (net $1,938,020) in equity through the issue of 2,857,142 common shares by way of a private placement to an individual.

The company repaid $982,000 in debt over the past fiscal year. This level of debt repayment limits the free working capital of the corporation and is under review to develop more favourable repayment terms.

Management anticipates that increasing cash flow from operations, credit facilities granted by the company's bank and funds lent to the corporation will provide adequate working capital for the foreseeable future. Additional funds could also be available by way of equity financing for future eventualities.

RISKS AND UNCERTAINTIES

Various risks and uncertainties can affect Normiska's operations. The most significant factors are the disruption of unprocessed ore supplies, the inability to harvest peat moss due to climatic conditions and the interruption of bark supply due to factors affecting the Abitibi Consolidated Inc. mill in Fort Frances, Ontario.

The Corporation has sought to mitigate these risks by determining that, should the delivery of raw ores be curtailed, a sufficient inventory be on hand to diminish the effect and that a secondary source of supply is readily available.

The company has acquired an additional bog as a source of horticultural grade sphagnum peat located in a different climatic region and investigates additional sources of supply on an ongoing basis. Management believes the Fort Frances peat bog has sufficient resources to ensure the viability of the company's multi purpose processing and packaging plant.

The company has been certified to receive additional bark supply from alternative locations to the Abitibi bark supply in Fort Frances. It has received and processed bark from alternative sources and continues to monitor the supply line of this material. Tests are ongoing with significant bark generators.

On behalf of the Board of Directors

J. M. Arnold, Chairman **D. B. Graham**, President and CEO

NORMISKA corporation

PRODUCT DEFINITIONS & APPLICATIONS

Perlite

Perlite is a naturally occurring siliceous volcanic rock which, when heated, expands from 4 to 20 times its original volume. It is a sterile, non-toxic, non-corrosive, non-combustible, environmentally friendly product.

Perlite is used in the horticultural industry in soil-less growing media, soil augmentation and as a carrier for fertilizers, insecticides and fungicides. It is used in construction as an insulator and filler. It is used as a non-flammable additive for the manufacture of ceiling tile and fireproof doors. Perlite is also as a high volume, low-density filler in the paint and plastics industries as well as a filter aid.

Vermiculite

Vermiculite is a hydrated laminar magnesium-aluminum-iron silicate resembling flaked mica in appearance which, when heated, exfoliates perpendicular to the cleavage plane. The volumetric expansion ranges from 10 to 20 times. It is a sterile, non-toxic, non-corrosive non-combustible environmentally friendly product. It has a waterholding capacity of 200-300% by weight.

Vermiculite is used in construction for fire protection, building product additives and insulation; in agriculture as a soil additive, bulking agent and carrier for fertilizers and the like; in horticulture for seed germination, soil-less growing media, root cuttings and hydroponics; in industrial products as a bulking agent for paints and plastics, as a fireproofing agent, high and low temperature insulation, absorbent packaging and filtration.

Peat

Sphagnum Peat Moss is a plant species found growing in bogs which, when accumulated in relatively thick unaltered deposits, can be commercially harvested primarily for horticultural purposes. It is an excellent soil conditioner allowing aeration and water retention. It can be used as a carrier for fertilizers and chemicals as well as a seed inoculant and for mushroom beds. The humified peaty soils left after harvesting are replanted with sphagnum moss and regenerated for future generations.

Composted Pine Bark

Composted Pine Bark is produced from screened Jack Pine bark. It is carefully monitored to control its physical properties. It is a source of micronutrients for growing plants and contains trachedermia which is a natural anti-fungal agent. It is used in soil-less growing media and as a soil additive.

Pine Bark Mulch

Pine Bark Mulch is a by-product from the forestry industry. The bark is screened for size and is used as a decorative weed suppression and moisture retention product when spread on the soil surface. As the mulch decomposes it adds organic matter and micro-nutrients to the soil.

AUDITORS' REPORT

To the Shareholders of Normiska Corporation

We have audited the consolidated balance sheets of Normiska Corporation as at October 31, 2001 and 2000 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 in Canada. 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Moore Stephens Cooper Molyneux LLP
Chartered Accountants
Toronto, Ontario
December 10, 2001

NORMISKA
corporation

CONSOLIDATED BALANCE SHEETS

October 31, 2001 and 2000

	2001	2000
Assets		
Current assets		
Accounts receivable	$ 1,713,848	$ 1,198,520
Inventory	2,731,989	2,184,824
Prepaid expenses	106,467	42,924
	4,552,304	3,426,268
Investment in mineral rights (note 5)	39,795	
Deferred costs (note 6)	1,302,206	1,238,731
Capital assets (note 7)	4,964,071	5,044,716
Future income taxes (note 8)	375,000	299,000
	$ 11,233,376	$10,008,715
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	$ 1,791,638	$978,745
Accounts payable and accrued liabilities	1,486,623	2,388,009
Demand Loans (note 10)	175,000	200,000
Current portion of long-term debt (note 11)	921,222	769,780
	4,374,483	4,336,534
Long-term debt (note 11)	1,154,837	1,748,716
Convertible debt (note 12)	350,000	350,000
Convertible debenture (note 13)	309,241	500,000
	6,188,561	6,935,250
Shareholders' equity		
Share capital (note 14)	5,240,588	3,320,869
Deficit	(195,773)	(247,404)
	5,044,815	3,073,465
	$ 11,233,376	$10,008,715

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

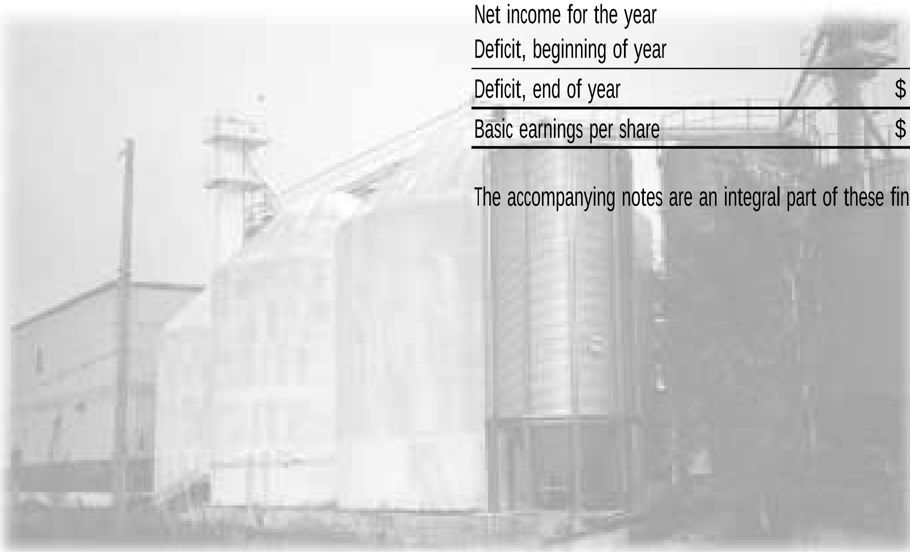
NORMISKA corporation

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

for the years ended October 31, 2001 and 2000

	2001	2000
Sales	$ 9,821,278	$ 5,839,323
Tipping fees	173,470	978,884
	9,994,748	6,818,207
Cost of goods manufactured		
Opening inventory	2,184,824	436,140
Transportation	2,103,566	1,510,489
Site and processing costs	4,931,521	4,387,144
Labour	1,198,297	576,710
	10,418,208	6,910,483
Closing inventory	(2,731,989)	(2,184,824)
	7,686,219	4,725,659
Gross profit	2,308,529	2,092,548
Administrative expenses		
Salaries and benefits	540,978	374,728
Office	301,661	336,224
Selling and administrative	217,415	137,057
Marketing and product development	160,563	253,183
Professional fees	58,686	91,800
	1,279,303	1,192,992
Income before interest and amortization	1,029,226	899,556
Interest on long-term debt	446,582	301,661
Amortization of capital assets	493,248	355,124
Amortization of deferred costs	113,765	102,122
	1,053,595	758,907
(Loss) income before provision for income taxes	(24,369)	140,649
Recovery of future income taxes	76,000	-
Net income for the year	51,631	140,649
Deficit, beginning of year	(247,404)	(388,053)
Deficit, end of year	$ (195,773)	$ (247,404)
Basic earnings per share	$ 0.01	$ 0.02

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



CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended October 31, 2001 and 2000

	2001	2000
Cash flow from operating activities		
Cash receipts from customers	$ 8,932,255	$4,118,371
Cash paid to suppliers and employees	(9,964,873)	(3,986,325)
Interest paid	(445,257)	(253,124)
	(1,477,875)	(121,078)
Cash flow from investing activities		
Capital asset additions	(411,923)	(3,597,226)
Expenditures on deferred costs	(177,920)	(140,229)
Mineral rights	(25,000)	-
	(614,843)	(3,737,455)
Cash flow from financing activities		
Increase in bank indebtedness	812,893	829,036
Repayment of convertible debenture	(190,759)	-
Proceeds from long-term debt	273,820	1,934,561
Repayment of long-term debt	(716,256)	(201,074)
Proceeds from demand loan	50,000	-
Repayment of demand loan	(75,000)	200,000
Issue of common shares	1,938,020	1,096,010
	2,092,718	3,858,533
Increase in cash	-	-
Cash and short-term deposits, beginning of year	-	-
Cash and short-term deposits, end of year	$ -	$ -

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

NORMISKA corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2001 and 2000

1. Business of the Company

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 has commenced 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.

2. Acquisition & Basis of Accounting

On August 31, 1997, the Company acquired 100% of the issued and outstanding shares of Normiska Peat Inc., a company which was previously controlled by the shareholders of Normiska Corporation. This acquisition has been accounted for using the continuity of interests method whereby (in both the current year's and comparative years' presentation) the assets, liabilities and changes in financial position of both Normiska Corporation and Normiska Peat Inc. ("Peat") have been included in the consolidated accounts of the Company. The shares issued by the Company were in settlement of amounts owing to the shareholders of Peat as described in note 7(a).

3. Significant Accounting Policies

Basis of presentation

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred development costs

These costs (note 6) consist of the direct costs of opening, draining and grooming portions 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 of each portion of the bog.

Deferred marketing costs

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

Deferred financing costs

These costs consist of charges related to debt financing. These costs are amortized on a straight-line basis over the term of the related debt.

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
Perlite plant equipment	10	years straight line
Bark and peat facility equipment	20	years straight line
Automobile	3	years straight line
Computer equipment	3	years straight line
Furniture and fixtures	5	years straight line

Income (loss) per share

Effective for 2001, the Company adopted the Canadian Institute of Chartered Accountants recommendations related to earnings per share on a retroactive basis. Under the new recommendations, 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. The basic income (loss) per share has been calculated based upon the weighted average number of common shares outstanding during the year. Diluted earnings per share, calculated as though the stock options are exercised and convertible debenture and debt were converted to common shares from the issue date of the options or debenture, results in a higher income (lower loss) per share than the basic income (loss) per share.

Foreign exchange

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

Cash equivalents

For the purpose of the statements of cash flows, the Company considers cash equivalents to be cash and short-term investments with original maturities of three months or less.

Reclassifications

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

Stock-based compensation plans

The Company has a stock-based compensation plan, which is described in note 15. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

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 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, 2001 and 2000

4. Results by Business Segments

The Company manufactures and markets products in four business segments, being: vermiculite, perlite, peat moss, and pine bark. The Company evaluated vermiculite and perlite as a distinct segment, and peat and bark as another segment.

The management of the Company evaluates the performance of each segment based on income 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.

	Vermiculite & Perlite	Bark & Peat	2001 Total
Sales and tipping fees	$ 7,891,632	$ 2,103,116	$ 9,994,748
Cost of goods manufactured	(5,781,833)	(1,904,386)	(7,686,219)
Gross profit	2,109,799	198,730	2,308,529
Administrative expenses	(959,477)	(319,826)	(1,279,303)
Income before interest and amortization	1,150,322	(121,096)	1,029,226
Interest on long-term debt	(241,142)	(205,440)	(446,582)
Amortization	(317,845)	(289,168)	(607,013)
Income (loss) before income taxes	$ 591,335	$ (615,704)	$ (24,369)

	Vermiculite & Perlite	Bark & Peat	2000 Total
Sales and tipping fees	$ 4,582,674	$ 2,235,533	$ 6,818,207
Cost of goods manufactured	(2,711,226)	(2,014,433)	(4,725,659)
Gross profit	1,871,448	221,100	2,092,548
Administrative expenses	(715,796)	(477,196)	(1,192,992)
Income before interest and amortization	1,155,652	(256,096)	899,556
Interest on long-term debt	(134,561)	(167,100)	(301,661)
Amortization	(182,671)	(274,575)	(457,246)
Income (loss) before income taxes	$ 838,420	$ (697,771)	$ 140,649

5. Investment in Mineral Rights

The Company has signed a definitive mineral exploration agreement with Abitibi-Consolidated Inc. ("Abitibi"). The Company will have the right to earn a 100% interest in certain mineral rights subject to a royalty of 2.5%. The term of the agreement is ten years with a provision to renew for a further three years. Abitibi has a right to acquire a 30% interest under certain terms and conditions.

6. Deferred Costs

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Development	$ 1,427,907	$ 195,062	$ 1,232,845	$ 1,161,315
Marketing	136,836	104,852	31,984	25,089
Financing	59,803	22,426	37,377	52,327
	$ 1,624,546	$ 322,340	$ 1,302,206	$ 1,238,731

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2001 and 2000

7. Capital Assets

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Land	$ 40,067	$ -	$ 40,067	$ 40,067
Building	409,176	65,163	344,013	361,783
Bark Pad	418,469	43,706	374,763	266,071
Office improvements	9,664	9,664	-	2,417
Equipment	5,047,925	873,129	4,174,796	4,329,400
Automobile	15,749	13,308	2,441	3,251
Computer equipment	48,356	27,322	21,034	32,885
Furniture and fixtures	17,169	10,212	6,957	8,842
	$ 6,006,575	$ 1,042,504	$ 4,964,071	$ 5,044,716

Effective in the last quarter of the fiscal year, management has estimated that certain plant and equipment has an useful life of 20 years instead of 10 years. It is a change in an estimate and is being applied prospectively.

8. Future Income Taxes

	2001	2000
Long-Term		
Capital assets - difference between book value and tax value	$ (68,429)	$ (63,400)
Non-capital loss carryforwards	345,187	333,475
Deferred costs - difference between book value and tax value	40,550	14,791
Other	57,692	14,134
Total Future Income Tax Assets	$ 375,000	$ 299,000

9. Bank Indebtedness

The Company has an operating loan from the Laurentian Bank of Canada, secured by a general security agreement. Management of the Company is in the process of renegotiating the terms of the loan.

10. Demand Loans

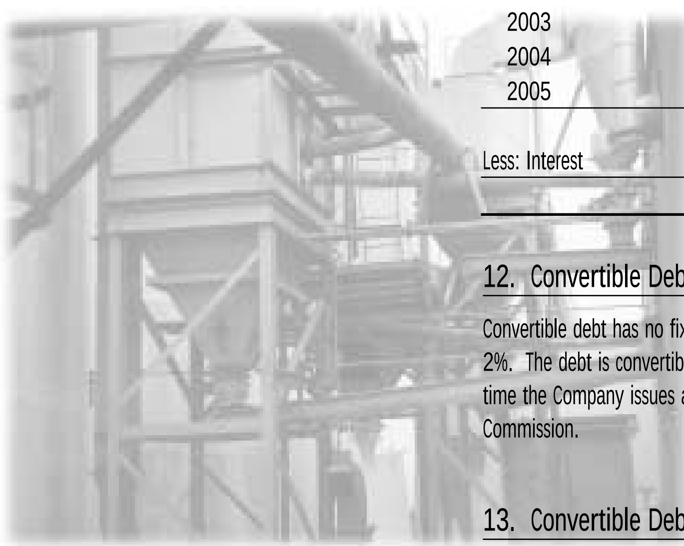
Loans in the amount of $125,000 and $50,000 are repayable on demand and bear interest at 9%. The $50,000 loan is payable to a party related to an officer of the Company.

11. Long-Term Debt

	2001	2000
Term loan repayable at interest of prime plus 1.75% plus monthly principal payments of $48,000 due on February 18, 2004, secured by a general security agreement.	$ 1,376,000	$ 1,952,000
Equipment loans repayable at interest rates ranging from 8.5% to 10.67%, requiring monthly payments of $10,505 per month. Specific capital assets have been pledged as security.	343,396	259,078
Inventory loan	136,755	-
Capital lease obligations repayable over terms of 48 to 60 months requiring monthly payments of $9,240.	219,908	307,418
	2,076,059	2,518,496
Less: Current portion	921,222	769,780
	$ 1,154,837	$ 1,748,716

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

2002	$ 1,030,449
2003	869,500
2004	330,191
2005	15,190
	2,245,330
Less: Interest	169,271
	$ 2,076,059



12. Convertible Debt

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

13. 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.

During the year, the Company has repaid $190,759 of principal.

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14. Share Capital

Authorized
Unlimited Common shares
Issued

	Shares	Amount
Balance at October 31, 1999	5,126,340	$ 2,224,859
Acquisition (i)	524,204	500,000
Special Warrants (ii)	663,158	558,360
Options exercised (iii)	30,000	30,000
Options exercised (iv)	8,500	7,650
Balance at October 31, 2000	6,352,202	3,320,869
Private placement (v)	2,857,142	1,919,719
Balance at October 31, 2001	9,209,344	$ 5,240,588

(i) On February 9, 2000, the Company issued 524,204 common shares valued at $500,000 as consideration for the acquisition of the assets of V.I.L. Vermiculite Inc.

(ii) On March 14, 2000, the Company issued 584,210 Special Warrants at $0.95 per unit by way of a private placement pursuant to an offering memorandum dated January 28, 2000. The funds were used for the acquisition of capital assets, to finance receivables and inventory and for general corporate purposes. Each special warrant entitled the holder 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 offer. The total proceeds from this issue were $555,000 with net proceeds to the Company of $501,398 after deduction of issue expenses and underwriting discount.

On July 10, 2000, the Company issued 78,948 Special Warrants at $0.95 per unit, pursuant to an Offering Memorandum dated January 28, 2000. The total proceeds from this issue were $75,000 with net proceeds to the Company of $56,962 after deduction of issue expenses and underwriting discount.

On July 11, 2000, the Ontario Securities Commission issued a receipt for a final prospectus resulting in the issue of 663,158 common shares.

(iii) On July 31, 2000, the Company issued 30,000 common shares at $1.00 per unit from the exercise of options.

(iv) On October 24, 2000, the Company issued 8,500 common shares at $0.90 per unit from the exercise of options.

(v) On July 27, 2001 the Company issued 1,428,571 common shares at $0.70 per share by way of a private placement. The total proceeds from this issue were $1,000,000 with net proceeds to the Company of $ 944,719 after deduction of issue expenses.

On October 10, 2001, the Company issued 1,428,571 common shares at $ 0.70 per share by way of a private placement. The total proceeds from this issue were $1,000,000 with net proceeds to the Company of $ 975,000 after deduction of issue expenses.

15. Stock Options

The Company has in effect a Stock Option Plan ("the Plan") that provides for the potential grant of up to 1,100,000 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, 2000 and 2001 and changes during the years ending on those dates is presented below.

	2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at October 31	950,000	$ 0.99	375,000	$ 0.92
Granted	-	-	575,000	1.03
Exercised	-	-	-	-
Cancelled	(75,000)	0.76	-	-
Outstanding at October 31	875,000	$ 1.00	950,000	$ 0.99

At October 31, 2001, of the 875,000 stock options granted and outstanding, an aggregate of 490,000 stock options had been granted to the directors, officers and employees of the Company. The options are exercisable at prices ranging from $0.70 to $1.15 and expire between January 14, 2003 and May 4, 2005.

In addition to the Stock Option Plan, specific options were granted on March 13, 2000 to two officers of the Company to acquire an aggregate of 500,000 common shares at $0.95 expiring March 13, 2002 in respect of the pledge by such officers of personal assets for security required by the Laurentian Bank in connection with the repayment of a portion of the Laurentian Bank loan.

A sales agent was issued options to buy 66,316 common shares, exercisable at $0.95, 58,421 expiring March 14, 2002, and 7,895 expiring July 10, 2002.

16. Earnings Per Share

	2001	2000
Income available to common shareholder	$ 51,631	$ 104,649
Weighted average common shares outstanding	$ 6,614,816	$ 5,910,315
Dilutive effect on the exercise of stock options	-	27,250
	$ 6,614,816	$ 5,937,565
Basic earnings per common share	$ 0.01	$ 0.02
Diluted earnings per common share	$ 0.01	$ 0.02

The conversion of the convertible debentures and certain of the stock options outstanding at December 31, 2001 and 2000 are anti-dilutive.

17. Financial Instruments

Risk management activities

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

Fair value

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

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18. 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 $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. 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) Operating leases

At October 31, 2001, the Company was committed to rental lease payments for their premises and equipment lease payments in the following amounts:

	Rental	Equipment	Total
2002	$ 135,000	$ 52,120	$ 187,120
2003	126,000	52,120	178,120
2004	110,212	54,030	164,242
2005	28,000	-	28,000
	$ 399,212	$ 158,270	$ 557,482

(iv) Bark supply agreement

In September 1997, the Company signed a twenty year "Surplus Bark Supply Agreement" with Abitibi-Consolidated Inc. (Abitibi) whereby Abitibi, for the initial three years, paid a fee to Normiska of $3.75 per cubic metre of bark waste removed from its Fort Frances mill site with a minimum of 100,000 cubic metres and a maximum of 225,000 cubic metres per annum. During the year the Company and Abitibi have negotiated a new fee equal to the Company's cost to transport the bark waste to its facilities.

(v) Mineral rights

The exploration agreement with Abitibi-Consolidated Inc. (note 5) calls for yearly rental payments as follows at the option of the Company. The failure to make any option payment will terminate the agreement with no penalty.

2002	$ 191,712
2003	200,000
2004	225,000
2005	275,000
2006	300,000
Thereafter	1,850,000
	$ 3,041,712

CORPORATE DIRECTORY

DIRECTORS

John M. Arnold	Guelph, Ontario Natural Resource Executive
David B. Graham	Brampton, 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 Marketing & Management Consultant
James R. Barta	Fremont, Nebraska U.S.A. President, SAV-RX Prescription Services

OFFICERS

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

OFFICES

Marketing & Administration	6465 Millcreek Dr., Mississauga, Ontario
Sales	4915 N. 103rd St., Milwaukee, Wisconsin

PLANTS

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

STOCK EXCHANGE

Canadian Venture Exchange (CDNX) — Symbol: NCO

AUDITORS

Moore Stephens Cooper Molyneux LLP — Toronto, Ontario

TRANSFER AGENT

Equity Transfer Services Inc. — Toronto, Ontario

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