Normiska Corporation

Annual Report 2002

www.normiska.com

Corporate Directory

Directors

John M. Arnold	Guelph, Ontario Natural Resource Executive
James R. Barta	Fremont, Nebraska President, SAV-RX Prescription Services
William E. Bateman	Toronto, Ontario Barrister & Solicitor Nobbs, Woods, Kavanaugh &Bateman
Clare A. Brunetta	Fort Frances, Ontario Barrister& Solicitor
David B. Graham	Brampton, Ontario Natural Resource Executive
Hugh D. Harbinson	Toronto, Ontario Mining Executive Chairman, Queenston Mining Inc.
Neil A. Mckeown	Listowel, Ontario Marketing & Management Consultant

Officers

John M. Arnold	Chairman and CFO
David B. Graham	President and CEO
William E. Bateman	Secretary
Neil A. McKeown	Vice President

Offices & Plants

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Guelph, Ontario
N1H 2H7
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Production
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Fort Frances, Ontario
Tel: 807 274 1721

1775 52nd Avenue,
Lachine Quebec
Tel: 514 631 4251

Stock Exchange

TSX Venture Exchange Symbol **NCO**

Auditors

Moore Stephans Cooper Molyneaux LLP
Toronto, Ontario

Transfer Agent

Equity Transfer Services Inc.
Toronto, Ontario

Normiska Corporation

Consolidated Financial Statements

October 31, 2002 and 2001

Normiska Corporation

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October 31, 2002 and 2001

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CHARTERED ACCOUNTANTS

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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, 2002 and 2001 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Signed: ***"Moore Stephens Cooper Molyneux LLP"***

Chartered Accountants

Toronto, Ontario
December 17, 2002

Consolidated Balance Sheets
October 31, 2002 and 2001

	2002	2001
Assets		
Current assets		
Accounts receivable	**$ 1,235,960**	$ 1,713,848
Inventory	**3,012,890**	2,731,989
Prepaid expenses	**106,071**	106,467
	4,354,921	4,552,304
Bog development costs *(note 5)*	**1,200,570**	1,232,846
Deferred costs *(note 6)*	**142,492**	69,361
Capital assets *(note 7)*	**4,940,820**	4,964,070
Investment in mineral rights *(note 8)*	**-**	39,795
Future income taxes *(note 9)*	**520,000**	375,000
	$ 11,158,803	$ 11,233,376
Liabilities		
Current liabilities		
Bank indebtedness *(note 10)*	**$ 2,049,190**	$ 1,791,638
Accounts payable and accrued liabilities	**1,774,443**	1,486,623
Demand Loans *(note 11)*	**125,000**	175,000
Current portion of long-term debt *(note 12)*	**604,708**	921,222
	4,553,341	4,374,483
Long-term debt *(note 12)*	**1,418,825**	1,154,837
Convertible debt *(note 13)*	**350,000**	350,000
Convertible debenture *(note 14)*	**137,831**	309,241
	6,459,997	6,188,561
Shareholders' equity		
Share capital *(note 15)*	**5,240,588**	5,240,588
Deficit	**(541,782)**	(195,773)
	4,698,806	5,044,815
	$ 11,158,803	$ 11,233,376

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

Approved on behalf of the Board

Signed: ***"John M. Arnold"*** **Signed:** ***"Wm. E. Bateman"***

Director Director

Consolidated Statements of Operations and Deficit
for the years ended October 31, 2002 and 2001

	2002	2001
Sales	**$ 9,316,321**	$ 9,821,278
Tipping fees	**-**	173,470
	9,316,321	9,994,748
Cost of goods manufactured		
Raw materials, site and processing costs	**4,230,385**	4,384,356
Labour	**1,235,708**	1,198,297
	5,466,093	5,582,653
Distribution and selling costs	**2,529,979**	2,320,981
	7,996,072	7,903,634
Gross profit	**1,320,249**	2,091,114
Administrative expenses		
Salaries and benefits	**410,939**	540,978
Office	**308,596**	301,661
Marketing and product development	**164,681**	160,563
Professional fees	**44,532**	58,686
	928,748	1,061,888
Income before interest, amortization, write offs and unusual items	**391,501**	1,029,226
Interest on long-term debt	**274,747**	446,582
Amortization of capital assets	**322,880**	493,248
Amortization of deferred costs	**63,709**	46,437
Amortization of bog development costs	**71,822**	67,328
Write off of mineral properties	**56,507**	-
	789,665	1,053,595
Loss before unusual items and provision for income taxes	**(398,164)**	(24,369)
Unusual items *(note 18)*	**(92,845)**	-
	(491,009)	(24,369)
Recovery of future income taxes	**145,000**	76,000
Net (loss) income for the year	**(346,009)**	51,631
Deficit, beginning of year	**(195,773)**	(247,404)
Deficit, end of year	**$ (541,782)**	$ (195,773)
Basic earnings per share *(note 17)*	**$ (0.04)**	$ 0.01

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

Consolidated Statements of Cash Flows
for the years ended October 31, 2002 and 2001

	2002	2001
Cash flow from operating activities		
Net (loss) income for the year	**$ (346,009)**	$ 51,631
Items not affecting cash		
Amortization	**458,411**	607,013
Write off of mineral properties	**56,507**	-
Recovery of future income taxes	**(145,000)**	(76,000)
Net change in non-cash working capital balances *(note 19)*	**499,998**	(2,060,519)
	523,907	(1,477,875)
Cash flow from investing activities		
Capital asset additions	**(299,630)**	(411,923)
Expenditures on deferred costs	**(176,387)**	(177,920)
Mineral rights	**(31,507)**	(25,000)
	(507,524)	(614,843)
Cash flow from financing activities		
Increase in bank indebtedness	**257,553**	812,893
Repayment of convertible debenture	**(171,410)**	(190,759)
Proceeds from long-term debt	**1,771,215**	273,820
Repayment of long-term debt	**(1,823,741)**	(716,256)
Proceeds from demand loan	**-**	50,000
Repayment of demand loan	**(50,000)**	(75,000)
Issue of common shares	**-**	1,938,020
	(16,383)	2,092,718
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.

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.

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.

Bog development costs

These costs *(note 5)* 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.

3. Significant Accounting Policies - continued

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.

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.

3. Significant Accounting Policies - continued

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 16*. Effective January 1, 2002, the Company adopted, on a prospective basis, the new recommendations issued by The Canadian Institute of Chartered Accountants relating to stock-based compensation and other stock-based payments. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages the use of fair value based method for all stock-based awards made to employees but only requires it for direct awards of stock, stock appreciation rights and awards that call for settlement in cash or other assets. As no compensation expense is recognized when stock options are granted to employees, the Company discloses pro forma net earnings, pro forma basic earnings per share and pro forma diluted earnings per share as if the fair value method had been used.

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.

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 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.

4. Results by Business Segments (continued)

	Canada	United States	2002 Total
Sales and tipping fees	$ 5,995,672	$ 3,320,649	**$ 9,316,321**
Cost of goods manufactured	(4,118,533)	(1,347,560)	**(5,466,093)**
Distribution and selling costs	(1,300,526)	(1,229,453)	**(2,529,979)**
Gross profit	576,613	743,636	**1,320,249**
Administrative expenses	(498,262)	(430,486)	**(928,748)**
Income before interest and amortization	78,351	313,150	**391,501**
Interest on long-term debt	(176,818)	(97,929)	**(274,747)**
Amortization	(228,062)	(230,349)	**(458,411)**
Write off of mineral properties	(56,507)	-	**(56,507)**
Income (loss) before unusual items and income taxes	$ (383,036)	$ (15,128)	**$ (398,164)**

	Canada	United States	2001 Total
Sales and tipping fees	$ 6,554,541	$ 3,440,207	**$ 9,994,748**
Cost of goods manufactured	(4,448,289)	(1,134,364)	**(5,582,653)**
Distribution and selling costs	(956,961)	(1,364,020)	**(2,320,981)**
Gross profit	1,149,291	941,823	**2,091,114**
Administrative expenses	(607,158)	(454,730)	**(1,061,888)**
Income before interest and amortization	542,133	487,093	**1,029,226**
Interest on long-term debt	(290,153)	(156,429)	**(446,582)**
Amortization	(301,532)	(305,481)	**(607,013)**
Income (loss) before income taxes	$ (49,552)	$ 25,183	**$ (24,369)**

5. Bog Development

			2002	2001
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Development	**$ 1,467,454**	**$ 266,884**	**$ 1,200,570**	$ 1,232,846

Notes to Consolidated Financial Statements
October 31, 2002 and 2001

6. Deferred Costs

	2002			2001
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Marketing	**$ 140,343**	**$ 137,420**	**$ 2,923**	$ 31,984
Financing	**189,320**	**53,566**	**135,754**	37,377
Trademark	**3,815**	**-**	**3,815**	-
	$ 333,478	**$ 190,986**	**$ 142,492**	$ 69,361

7. Capital Assets

	2002			2001
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	**$ 40,067**	**$ -**	**$ 40,067**	$ 40,067
Building	**410,676**	**85,672**	**325,004**	344,013
Bark Pad	**438,283**	**65,452**	**372,831**	374,763
Office improvements	**20,407**	**11,753**	**8,654**	-
Equipment	**5,271,207**	**1,125,232**	**4,145,975**	4,174,795
Automobile	**15,749**	**14,224**	**1,525**	2,441
Computer equipment	**92,425**	**49,184**	**43,241**	21,034
Furniture and fixtures	**14,919**	**11,396**	**3,523**	6,957
	$ 6,303,733	**$ 1,362,913**	**$ 4,940,820**	$ 4,964,070

8. Investment in Mineral Rights

During 2001, the Company signed a definitive mineral exploration agreement with Abitibi-Consolidated Inc. ("Abitibi"). The Company had the right to earn a 100% interest in certain mineral rights subject to a royalty of 2.5%. The term of the agreement was ten years with a provision to renew for a further three years. Abitibi had a right to acquire a 30% interest under certain terms and conditions. During 2002, the Company relinquished the their right to earn an interest in the property.

9. Future Income Taxes

	2002	2001
Long-Term		
Capital assets - difference between book value and tax value	**$ 42,540**	$ (68,429)
Non-capital loss carryforwards	**391,700**	345,187
Deferred costs - difference between book value and tax value	**51,341**	40,550
Other	**34,419**	57,692
Total Future Income Tax Assets	**$ 520,000**	$ 375,000

10. Bank Indebtedness

The Company has a demand operating loan from the Bank of Montreal (the lender) for a maximum of $2,500,000, secured by a general security agreement. Interest on the loan is calculated at the rate of prime plus 1%.

11. Demand Loans

Loans in the amount of $75,000 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.

12. Long-Term Debt

	2002	2001
Bank of Montreal demand term loan repayable at interest of prime plus 1.5% plus monthly principal payments of $26,667, secured by a general security agreement.	**$ 1,520,000**	$ -
Laurentian Bank term loan repayable interest of prime plus 1.75% plus monthly principal payments of $48,000 due on February 18, 2004, secured by a general agreement.	-	1,376,000
Equipment loans repayable at interest rates ranging from 8.5% to 10.67%, requiring monthly payments of $9,107 per month. Specific capital assets have been pledged as security.	**180,387**	343,396
Promissory note	**59,755**	136,755
Capital lease obligations repayable over terms of 48 to 60 months requiring monthly payments of $13,580.	**263,391**	219,908
	2,023,533	2,076,059
Less: Current portion	**604,708**	921,222
	$ 1,418,825	$ 1,154,837

12. Long Term Debt - continued

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

	2003	$ 713,325
	2004	525,929
	2005	417,436
	2006	383,204
	2007	246,000
		2,285,894
Less: Interest		262,361
		$ 2,023,533

13. 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 lender's option at any time the Company issues a prospectus at the maximum discount allowed by the Ontario Securities Commission.

14. 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 maturity date was later altered to be July 1, 2003 and the debenture to be repaid in a blended monthly payment of $15,830. 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 repaid $171,410 of principal.

15. Share Capital

Authorized

Unlimited Common shares

Issued

	Shares	Amount
Balance at October 31, 2000	**3,320,869**	**$ 3,320,869**
Private placement *(i)*	1,919,719	1,919,719
Balance at October 31, 2001 and 2002	**5,240,588**	**$ 5,240,588**

(i) 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.

16. 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.

	2002		2001	
	Number of Shares	**Weighted-Average Exercise Price**	Number of Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	**875,000**	**$ 1.00**	950,000	$ 0.99
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Cancelled	**-**	**-**	(75,000)	0.76
Outstanding, end of year	**875,000**	**$ 1.00**	875,000	$ 1.00

At October 31, 2002, 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.

16. Stock Options - continued

Non-Plan stock 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. After the expiration of these options, options to acquire 500,000 common shares at $0.70 were granted, expiring on March 28, 2003.

A sales agent was granted options to purchase 66,316 common shares, exercisable at $0.95. They have expired during the year.

Pro forma stock option disclosure

The fair value of stock options granted after January 1, 2002 has been estimated at $0.002 per option using Black-Scholes model for pricing options. The following assumptions are used:

Risk free interest rate	2.75	%
Expected stock volatility	18	%
Expected life	1	years

Had the fair value based method been used for stock options granted in 2002, the Company's net loss for the year ended October 31, 2002 would have increased by $1,000. There would be no change to the basic loss per share and exercise of the outstanding stock options would still be anti-dilutive.

17. Earnings Per Share

	2002	2001
(Loss) income available to common shareholders	**$ (346,009)**	$ 51,631
Weighted average common shares outstanding	**9,209,344**	6,614,816
Basic (loss) earnings per common share	**$ (0.04)**	$ 0.01
Diluted (loss) earnings per common share	**$ (0.04)**	$ 0.01

The conversion of the convertible debentures and certain of the stock options outstanding at October 31, 2002 and 2001 are anti-dilutive.

18. Unusual Items

During the year, the Company incurred $92,845 (2001 - $NIL) in restructuring costs related to reorganizing sales management personnel.

19. Supplementary Cash Flow Information

	2002	2001
Net change in non-cash working capital items:		
Accounts receivable	**$ 477,889**	$ (515,329)
Inventory	**(280,901)**	(547,165)
Prepaid expenses	**396**	(63,544)
Accounts payable and accrued liabilities	**302,614**	(934,481)
Net change in non cash working capital	**$ 499,998**	$ (2,060,519)
Other information:		
Interest paid	**$ 274,747**	$ 445,257
Income and capital taxes paid	**$ 21,654**	$ 17,549

20. 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.

21. 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.

21. Commitments and Contingencies - continued

(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 has an exclusive right and privilege to remove, process and sell any peat within upon or under the premise subject to an agreed rent and royalty. This lease extends to June 30, 2009. Rent for the terms are as follows:

July 1, 2002 to June 30, 2004	at least $25,000
July 1, 2004 to June 30, 2005	at least $35,000
July 1, 2005 to June 30, 2009	at least $50,000

In addition to the rent, a royalty on all peat removed from the premises at a rate of $0.20 per cubic metre for the first 100,000 cubic metres and $0.40 per cubic metre for each metre in excess of 100,000 cubic metres is payable to ACI.

(iv) **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
2003	$ 178,965	$ 52,120	$ 231,085
2004	163,635	54,030	217,665
2005	52,458	-	52,458
2006	165,399	-	165,399
2007	12,833	-	12,833
	$ 573,290	$ 106,150	$ 679,440

(v) **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. In 2001, the Company and Abitibi have negotiated a new fee equal to the Company's cost to transport the bark waste to its facilities.

Normiska
Corporation

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2002.

The following discussions and analysis of the operating results and financial position of the Corporation for the year ending October 31, 2002 should be read in conjunction with the financial statements enclosed herein and the Annual Report for the fiscal year ending October 31, 2002.

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 Corporation 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 Corporation 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 Corporation 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 1.50% plus monthly principal payments of $26,667 due July 2007	$1,520,000
8% Debenture	$ 137,831
Convertible debt at prime plus 2%, no fixed term	$ 350,000

Demand loans at prime plus 3%, no fixed term	$ 125,000
Capital lease and equipment finance loans at interest rates from 8.55% to 10.67% requiring monthly payments of $24,085	$ 443,778
Shareholders' Equity	$4,698,806
Common Shares Outstanding	9,209,344

RESULTS OF OPERATIONS

The year 2002 was dominated by the restructuring of the Corporation. As a result, total sales declined by 5% to $9,316,321 from $9,821,278 exclusive of tipping fees totaling $173,470 received in 2001.

The VIL division ceased acting as a distributor of raw ore to regional expanders due to a shortage in supply. The Corporation also eliminated several low margin accounts.

A new expander opened in New Brunswick and was able to drastically undercut our transport costs. A major U.S. customer acquired a large perlite and vermiculite supplier and began supplying their own product.

The VIL division is concentrating on opening new accounts and new markets for its products to replace these sales.

Even though the mid west United States and Canada experienced a wet season which resulted in a lower than average peat harvest at Fort Frances, sales at the Organics Division increased by $839,000 over 2001.

Tipping fees were reduced from $173,000 in 2001 to $nil in 2002. This reduction was anticipated in the bark supply agreement between Normiska and Abitibi Consolidated Inc. as early as 2000. In 2001 Normiska received an addition volume of bark not contemplated in this agreement that generated $173,000 in tipping fees. Currently, bark is delivered to the Fort Frances site on a zero cost basis.

The Fort Frances division is currently continuing the development of its sphagnum peat harvesting fields. The costs of developing these fields are being amortized over their expected productive life.

The Corporation continues to focus on reduction of transportation costs from the Fort Frances Division. Administrative and selling costs were $223,000 less than the previous year. Interest paid on long-term debt was reduced by $172,000.

The cash costs of changing our bank totalled $152,000 in fees and expenses that are being amortized over 3 years. The company's one time cash costs relating to restructuring were in excess of $300,000.

Accounts receivable at year-end decreased by $478,000 over the previous year-end reflecting the decrease in sales over fiscal year 2001. Inventories recorded at year-end increased by $281,000. The Corporation has embarked on a program to reduce its inventories during 2003 to improve its cash flow and better match its production requirements to the raw material flow. Accounts payable were increased by $288,000.

The Corporation determined that market conditions precluded the financing of its Abitibi mineral properties lease and therefore abandoned the project. There was no penalty for termination of the arrangement with Abitibi. The $56,500 invested in the project was written off in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation changed its banking to the Bank of Montreal. The term loan was increased to $1,600,000 amortizing at $26,667 per month from $1,376,000 amortizing at $48,000 per month in the prior year. The revolving line of credit was increased to a maximum of $2,500,000 secured by trade accounts receivable and inventory. Equipment loans of $120,000, demand loans of $50,000 and convertible debentures of $171,000 were repaid during the year.

Management anticipates that increasing cash flow from operations, credit facilities granted by the Corporation's bank and funds lent to the Corporation will provide adequate working capital for the foreseeable future.

RISKS AND UNCERTAINTIES

Various risks and uncertainties can affect Normiska's operations. The most significant factors are the disruption of 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 lower than anticipated harvest occur or the supply of bark be interrupted, sufficient inventory be on hand to diminish the effect and that a secondary source of supply is readily available.

The Corporation has acquired an additional bog as a source of horticultural grade sphagnum peat located in a different climatic region and continues to investigate 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 Corporation 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.