

Normiska Corporation
Consolidated Financial Statements
October 31, 2003 and 2002

Normiska Corporation

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October 31, 2003 and 2002

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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, 2003 and 2002 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 Canadian 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: *"Moore Stephens Cooper Molyneux LLP"*

Chartered Accountants

Toronto, Ontario
December 15, 2003, except as to
Note 23, which is as of
March 9, 2004.

Normiska Corporation

Consolidated Balance Sheets

October 31, 2003 and 2002

	2003	2002
Assets		
Current assets		
Accounts receivable	\$ 1,172,351	\$ 1,235,960
Inventory	2,541,138	3,012,890
Prepaid expenses	133,166	109,886
	3,846,655	4,358,736
Bog development costs (note 5)	1,152,144	1,200,570
Deferred costs (note 6)	133,878	138,677
Property, plant and equipment (note 7)	5,203,300	4,940,820
Future income taxes (note 8)	475,051	520,000
	\$ 10,811,028	\$ 11,158,803
Liabilities		
Current liabilities		
Bank indebtedness (notes 9 and 23)	\$ 2,193,055	\$ 2,049,190
Accounts payable and accrued liabilities	1,744,233	1,774,441
Term loans (note 10)	1,325,000	1,520,000
Demand loans (note 11)	125,000	125,000
Current portion of long-term debt (note 12)	133,277	284,708
	5,520,565	5,753,339
Long-term debt (note 12)	123,526	218,825
Convertible debt (note 13)	350,000	350,000
Convertible debenture (note 14)	150,000	137,831
	6,144,091	6,459,995
Shareholders' equity		
Share capital (note 15)	5,240,588	5,240,588
Deficit	(573,651)	(541,780)
	4,666,937	4,698,808
	\$ 10,811,028	\$ 11,158,803

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"

John M. Arnold

Wm. E. Bateman

Normiska Corporation

Consolidated Statements of Operations and Deficit for the years ended October 31, 2003 and 2002

	2003	2002
Sales	\$ 8,546,649	\$ 9,316,321
Cost of goods manufactured		
Raw materials, site and processing costs	4,130,554	4,285,282
Labour	954,805	1,235,708
	5,085,359	5,520,990
Distribution and selling costs	1,827,309	2,529,979
	6,912,668	8,050,969
Gross profit	1,633,981	1,265,352
Administrative expenses		
Salaries and benefits	381,295	410,939
Office	308,863	253,699
Marketing and product development	116,071	164,681
Professional fees	91,085	44,532
	897,314	873,851
Income before the undernoted	736,667	391,501
Interest - long-term debt	66,934	99,913
Interest - other	199,797	174,834
Amortization of plant and equipment	333,135	322,880
Amortization of deferred costs	50,252	68,203
Amortization of bog development costs	73,471	67,328
Write off of mineral properties	-	56,507
	723,589	789,665
Income (loss) before unusual items and provision for income taxes	13,078	(398,164)
Unusual items <i>(note 19)</i>	-	92,845
	13,078	(491,009)
Provision for (recovery of) future income taxes	44,949	(145,000)
Net loss for the year	(31,871)	(346,009)
Deficit, beginning of year	(541,780)	(195,771)
Deficit, end of year	\$ (573,651)	\$ (541,780)
Earnings (loss) per share <i>(note 18)</i>		
Basic earnings (loss) per share	\$ 0.00	\$ (0.05)
Diluted earnings (loss) per share	\$ 0.00	\$ (0.05)

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

Normiska Corporation

Consolidated Statements of Cash Flows for the years ended October 31, 2003 and 2002

	2003	2002
Cash flow from operating activities		
Net loss for the year	\$ (31,871)	\$ (346,009)
Items not affecting cash		
Amortization	456,858	458,411
Write off of mineral properties	-	56,507
Provision for (recovery of) future income taxes	44,949	(145,000)
	469,936	23,909
Net change in non-cash working capital balances <i>(note 20)</i>	481,876	499,998
	951,812	523,907
Cash flow from investing activities		
Additions to property, plant and equipment	(595,615)	(299,630)
Expenditures on deferred costs	(70,501)	(176,387)
Mineral rights	-	(31,507)
	(666,116)	(507,524)
Cash flow from financing activities		
Increase in bank indebtedness	143,864	257,553
Proceeds from convertible debenture	150,000	-
Repayment of convertible debenture	(137,831)	(171,410)
Proceeds from long-term debt	-	171,215
Repayment of long-term debt	(246,729)	(1,720,141)
Proceeds from term loan	125,000	1,600,000
Repayment of term loan	(320,000)	(103,600)
Repayment of demand loan	-	(50,000)
	(285,696)	(16,383)
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

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

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

1. Nature of Operations and Going Concern

Normiska Corporation ("the Company") was incorporated on January 17, 1997 under the laws of Ontario. The Company expands vermiculite and perlite at its plant in Lachine, Quebec. The Company is also developing and 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.

The Company has incurred losses and reductions in its working capital over the last two years. As at October 31, 2003, the Company was not in compliance with certain ratio covenants contained in its lending agreement with the Bank of Montreal (*notes 9 and 10*). The bank has not waived these violations and is in a position to call their operating and term loans.

The Company's ability to continue as a going concern depends on its ability to achieve profitability, maintain current financing and obtain new sources of financing. Management is actively pursuing additional sources of financing (*note 23*).

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

2. Acquisition and Basis of Accounting

On August 31, 1997, the Company acquired 100% of the issued and outstanding shares of Normiska Peat Inc. ("Peat"), a company which was previously controlled by the shareholders of Company. 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 the Company and Peat have been included in the consolidated accounts of the Company.

3. Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 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.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

3. Significant Accounting Policies - continued

Deferred marketing costs

These costs 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.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Building	-	20	years straight line
Bark Pad	-	20	years straight line
Office improvements	-	3	years straight line
Perlite plant equipment	-	10	years straight line
Bark and peat facility equipment		20	years straight line
Automobile	-	3	years straight line
Computer equipment	-	3	years straight line
Furniture and fixtures	-	5	years straight line

Earnings (loss) per share

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 earnings (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 earnings (lower loss) per share than the basic earnings (loss) per share.

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. 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.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

3. Significant Accounting Policies - continued

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.

Future changes in accounting policy - Stock-based compensation

In October 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This amended section requires recognition of stock-based expenses for all employee stock-based compensation transactions.

Effective November 1, 2004, the Company will adopt prospectively the new accounting policies in regard to stock-based compensation.

Future changes in accounting policy - Impairment of long-lived assets

Effective November 1, 2004, the Company will adopt prospectively the new accounting policies in regard to the impairment of long-lived assets.

In December 2002, the CICA issued Handbook Section 3063, Impairment of Long-lived Assets. This new section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces requirements for impairment in Property, Plant and Equipment, Section 3061. An impairment loss is recognized when the carrying amount of an asset to be held and used exceeds the projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the assets exceeds its fair value. According to the new CICA recommendation, Section 3063 will be applied prospectively for years beginning on or after April 1, 2003. The Company does not expect any significant adjustment to the carrying value of its property, plant and equipment as a result of this change in accounting policy.

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.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

4. Results by Business Segments - continued

	Canada	United States	2003 Total
Sales	\$ 5,297,366	\$ 3,249,283	\$ 8,546,649
Cost of goods manufactured	(4,068,287)	(1,017,072)	(5,085,359)
Distribution and selling costs	(931,928)	(895,381)	(1,827,309)
Gross profit	297,151	1,336,830	1,633,981
Administrative expenses	(466,603)	(430,711)	(897,314)
Income (loss) before the undernoted	(169,452)	906,119	736,667
Interest	(170,708)	(96,023)	(266,731)
Amortization	(223,860)	(232,998)	(456,858)
Income (loss) before income taxes	\$ (564,020)	\$ 577,098	\$ 13,078

	Canada	United States	2002 Total
Sales	\$ 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 the undernoted	78,351	313,150	391,501
Interest on long-term debt	(176,818)	(97,929)	(274,747)
Amortization	(301,532)	(305,481)	(607,013)
Write off of mineral properties	(56,507)	-	(56,507)
Loss before unusual items and income taxes	\$ (456,506)	\$ (90,260)	\$ (546,766)

5. Bog Development

	Cost	Accumulated Amortization	2003 Net Book Value
Development	\$ 1,492,499	\$ 340,355	\$ 1,152,144

	Cost	Accumulated Amortization	2002 Net Book Value
Development	\$ 1,467,454	\$ 266,884	\$ 1,200,570

Normiska Corporation

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

6. Deferred Costs

			2003
	Cost	Accumulated Amortization	Net Book Value
Marketing	\$ 140,343	\$ 140,343	\$ -
Financing	189,320	100,896	88,424
Thamesville start up	45,454	-	45,454
	375,117	241,239	133,878
			2002
	Cost	Accumulated Amortization	Net Book Value
Marketing	140,343	137,420	2,923
Financing	189,320	53,566	135,754
	\$ 329,663	\$ 190,986	\$ 138,677

7. Property, Plant and Equipment

			2003
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 558,478	\$ -	\$ 558,478
Building	410,676	106,206	304,470
Bark Pad	438,283	87,367	350,916
Office improvements	20,407	15,334	5,073
Equipment	5,345,323	1,385,721	3,959,602
Automobile	15,749	15,140	609
Computer equipment	94,330	71,639	22,691
Furniture and fixtures	15,565	14,104	1,461
	6,898,811	1,695,511	5,203,300
			2002
	Cost	Accumulated Amortization	Net Book Value
Land	40,067	-	40,067
Building	410,676	85,672	325,004
Bark Pad	438,283	65,452	372,831
Office improvements	20,407	11,753	8,654
Equipment	5,271,207	1,125,232	4,145,975
Automobile	15,749	14,224	1,525
Computer equipment	92,425	49,184	43,241
Furniture and fixtures	14,919	11,396	3,523
	\$ 6,303,733	\$ 1,362,913	\$ 4,940,820

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

8. Future Income Taxes

Significant components of the Company's future tax assets are as follows as at October 31, 2003 and 2002:

	2003	2002
Long-Term		
Plant and equipment - difference between book value and tax value	\$ 169,937	\$ 42,540
Non-capital loss carryforwards	255,832	391,700
Deferred costs - difference between book value and tax value	32,293	51,341
Other	16,989	34,419
Total Future Income Tax Assets	\$ 475,051	\$ 520,000

9. 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 prime rate plus 1% per annum.

10. Term Loans

	2003	2002
Bank of Montreal demand term loan repayable at interest of prime rate plus 1.5% and monthly principal payments of \$26,667, secured by a general security agreement.	\$ 1,200,000	\$ 1,520,000
Rainy River Future Development Corporation demand term loan bearing interest at prime rate to plus 3.0%, requiring minimum payments of \$3,054 per month starting August 2004. The loan is secured by a charge on specific inventory.	125,000	-
	\$ 1,325,000	\$ 1,520,000

11. Demand Loans

Loans in the amount of \$75,000 and \$50,000 are repayable on demand and bear interest at 9% per annum. The \$50,000 loan is payable to a party related to an officer of the Company.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

12. Long-Term Debt

	2003	2002
Equipment loans repayable at interest rates ranging from 8.5% to 10.67%, requiring monthly payments of \$9,107 per month. Specific equipment have been pledged as security.	\$ 95,006	\$ 180,387
Promissory note	41,000	59,755
Capital lease obligations repayable over terms of 48 to 60 months requiring monthly payments of \$13,580.	120,797	263,391
	256,803	503,533
Less: Current portion	133,277	284,708
	\$ 123,526	\$ 218,825

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

2004	\$ 144,336
2005	90,569
2006	38,404
	273,309
Less: Interest	16,506
	\$ 256,803

13. Convertible Debt

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

14. Convertible Debenture

During the year, the Company repaid \$137,831 being the balance of the principal owing on a Convertible Debenture from a Labour Sponsored Fund. No portion of the debenture was converted.

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

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

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

15. Share Capital

Authorized

Unlimited Common shares

Issued

	Shares	Amount
Balance at October 31, 2001, 2002 and 2003	9,209,344	\$ 5,240,588

16. Stock Options

The Company has in effect a Stock Option Plan ("the Plan") that provides for the potential grant of up to 2,250,000 options to directors, officers, employees and service providers. The terms of the awards under the Plan are determined by the Board of Directors. A summary of the status of the Company's stock option plan as of October 31, 2003 and 2002 and changes during the years ending on those dates is presented below.

	2003		2002	
	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	1,385,000	0.17	-	-
Expired	(250,000)	1.00	-	-
Cancelled	(20,000)	0.75	(75,000)	0.76
Outstanding, end of year	1,990,000	\$ 0.29	875,000	\$ 1.00

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at October 31, 2003 are as follows:

	Options Outstanding			Options Exercisable	
	Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	\$ 0.17	1,740,000	\$ 0.17	1,740,000	\$ 0.17
	\$ 1.15	250,000	\$ 1.15	250,000	\$ 1.15
		1,990,000	\$ 0.29	1,990,000	\$ 0.29

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

16. Stock Options - continued

Pro forma stock option disclosure

The fair value of 1,385,000 stock options granted during the year (2002 - 500,000 non-plan options) has been estimated at \$0.02 (2002 - \$0.002) per option using the Black-Scholes model for pricing options. The following assumptions are used:

	2003	2002
Risk free interest rate	3.80 %	2.75 %
Dividend yield	NIL	NIL
Expected stock volatility	22 %	18 %
Expected life	5 years	1 year

The weighted average fair value of the 355,000 stock options re-valued during the year (2002 - NIL) has been estimated at \$0.01 per option using the Black-Scholes model for pricing options. The following weighted average assumptions are used:

	2003
Risk free interest rate	2.42 %
Dividend yield	NIL
Expected stock volatility	22 %
Expected life	1.40 years

Had the fair value based method been used for stock options granted and re-valued, the Company's net loss for the year ended October 31, 2003 would have increased by \$35,500 (2002 - \$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. Income Taxes

The Company has \$700,000 of non-capital losses carried forward to reduce future taxable income. The non-capital losses expire as follows:

2006	\$ 181,000
2007	323,000
2009	196,000
	\$ 700,000

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

17. Income Taxes - continued

The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery, using a statutory tax rate of 36.62% (2002 - 38.62%) at October 31, 2003 and 2002, are as follows:

	2003	2002
Income tax payable (recoverable) at statutory rate	\$ 4,789	\$ (189,628)
Increase (decrease) resulting from:		
Amortization in excess of CCA	119,670	91,678
Other	2,803	22,087
Non-capital loss (utilized) carryforward	(127,262)	75,863
Income taxes	\$ -	\$ -

18. Earnings (Loss) Per Share

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

	2003	2002
Numerator:		
Net loss attributable to common shareholders		
- basic and diluted	\$ (31,871)	\$ (346,009)
Denominator:		
Weighted average common shares outstanding		
-basic and diluted	9,209,344	6,614,816
Basic earnings (loss) per common share	\$ -	\$ (0.05)
Diluted earnings (loss) per common share	\$ -	\$ (0.05)

The conversion of the convertible debentures and certain of the stock options outstanding at October 31, 2003 and 2002 are anti-dilutive.

19. Unusual Items

In 2002 the Company incurred \$92,845 in restructuring costs related to reorganizing sales management personnel.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

20. Supplementary Cash Flow Information

	2003	2002
Net change in non-cash working capital items:		
Accounts receivable	\$ 63,609	\$ 477,889
Inventory	471,753	(280,901)
Prepaid expenses	(23,280)	396
Accounts payable and accrued liabilities	(30,206)	302,614
Net change in non cash working capital	\$ 481,876	\$ 499,998
Other information:		
Interest paid	\$ 266,731	\$ 274,747
Income and capital taxes paid	\$ 11,963	\$ 21,654

21. Financial Instruments

Risk management activities

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

22. 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.

Notes to Consolidated Financial Statements

October 31, 2003 and 2002

22. Commitments and Contingencies - continued

(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:

<i>July 1, 2002 to June 30, 2004</i>	at least \$25,000
<i>July 1, 2004 to June 30, 2005</i>	at least \$35,000
<i>July 1, 2005 to June 30, 2009</i>	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, 2003, the Company was committed to rental lease payments for their premises and equipment lease payments in the following amounts:

	Rental	Equipment	Total
2004	\$ 184,635	\$ 69,403	\$ 254,038
2005	52,459	62,871	115,330
2006	15,400	1,954	17,354
2007	12,833	-	12,833
	\$ 265,327	\$ 134,228	\$ 399,555

(v) Bark supply agreement

In September 1997, the Company signed a twenty year "Surplus Bark Supply Agreement" with ACI whereby ACI, for the initial three years, paid a fee to the Company 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 ACI have negotiated a new fee equal to the Company's cost to transport the bark waste to its facilities.

23. Subsequent Event

Pursuant to agreements dated March 9, 2004, between the Company, the Bank of Montreal ("the Bank") and a related party group ("the purchaser"), the Bank assigned to the purchaser \$2,854,827 of indebtedness owed by the Company to the Bank.

Subject to regulatory approval, the Company has agreed to issue 1,500,000 common shares valued at \$0.1275 each to the Bank in exchange for a reduction of \$191,250 of Company indebtedness to the Bank.

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2003.

The following discussions and analysis of the operating results and financial position of the company for the year ending October 31, 2003 should be read in conjunction with the financial statements enclosed herein and the Annual Report for the fiscal year ending October 31, 2003.

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 1.5% plus monthly principal payments of \$26,667 (See Subsequent Event)	\$1,200,000
Convertible debt at prime plus 2%, no fixed term	\$ 350,000
Convertible debenture at 8% interest only for 36 months, convertible into common shares at \$0.22 due September 5, 2008	\$ 150,000
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 \$22,687	\$ 215,803
Shareholders Equity	\$4,666,938
Common Shares Outstanding	9,209,344

RESULTS OF OPERATIONS

Gross margins improved by \$368,629 as a result of the company's continued focus on profitable sales, although total sales decreased by \$769,602 from 2002 as a result primarily of eliminating those sales which did not yield an acceptable gross profit.

The sharp rise in the value of the Canadian dollar had a direct impact on the value of sales from the Fort Frances Division which sells in U.S. dollars. Fortunately, a significant portion of this change was offset by the increased efficiency in the peat harvesting and material processing operations and increases in volumes shipped. The Company estimates that the value of sales sold in U.S. dollars and recorded in Canadian dollars was negatively impacted by approximately \$260,000.

The result of a competitor opening an expander in New Brunswick continued to have an effect on the Mineral Division sales. The Company has not been able to overcome the freight differential offered by the location of this unit.

Distribution and selling costs were reduced by \$702,670. The company continues to focus on reduction of transportation costs from the Fort Frances division.

Operating profits were improved by \$345,166 over 2002.

The Fort Frances division continues to develop its sphagnum peat harvesting fields. The costs of developing these fields are being depreciated over their expected productive life.

Accounts receivable at year-end decreased by \$63,609 over the previous year-end reflecting the decrease in sales over fiscal year 2002. Inventories recorded at year-end decreased by \$471,752. The company used some slow moving inventory at cost to complete the construction of a berm on its property in Fort Frances to meet Ministry of Environment requirements for the operation of that site. Bank lines of credit utilized increased by \$143,865 compared to 2002. Accounts payable decreased by \$35,553 from the same period in 2002. Administrative and office costs were reduced by \$23,463 over 2002. Interest costs were reduced by \$ 8,016.

Disclosure of Term Loans

The Canadian Institute of Chartered Accountants Emerging Issues Committee has recommended that certain types of term debt be shown as a current liability. This is described as Issue 122, Balance Sheet Classification of Callable Debt Obligations and applies to financial statements issued after January 1, 2003. The Company has adopted these recommendations for its financial statements as at October 31, 2003 and has reclassified the comparative figures for the year ended October 31, 2002 to reflect this change.

QUARTERLY COMPARISONS

The Company has improved its results quarter over quarter from 2002 as shown in the chart below.

Normiska Corporation

Quarterly comparisons

	2003	2003	2003	2003
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Sales	\$1,637,011	\$2,165,434	\$2,921,526	\$1,822,748
Cost of Goods Manufactured	\$960,534	\$1,135,801	\$1,892,878	\$1,344,378
Gross Manufacturing Margin	\$676,477	\$1,029,633	\$1,028,648	\$478,370
Distribution & Selling costs	\$427,978	\$554,281	\$538,361	\$368,897
Gross Operating Profit	\$248,499	\$475,352	\$490,287	\$109,473
General & Administrative	\$134,415	\$172,262	\$136,574	\$143,692
Operating Profit	\$114,084	\$303,090	\$353,713	(\$34,219)
Amortization	\$106,356	\$121,000	\$114,822	\$114,000
Interest	\$62,329	\$68,139	\$68,932	\$67,331
	\$168,685	\$189,139	\$183,754	\$181,331
Net Profit (Loss) Before Taxes	(\$54,601)	\$113,951	\$169,959	(\$215,550)
Provision (Recovery) for Taxes	\$16,238	\$47,859	\$44,438	(\$63,586)
Net profit (Loss)	(\$70,839)	\$66,092	\$125,521	(\$151,964)
Retained earnings (Deficit) beginning of period	(\$502,132)	(\$568,224)	(\$693,745)	(\$541,782)
Retained earnings (Deficit)- end of period	(\$572,971)	(\$502,132)	(\$568,224)	(\$693,746)
Basic Income (loss) per share	(\$0.01)	\$0.01	\$0.01	(\$0.02)
	2002	2002	2002	2002
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Sales	\$1,862,081	\$2,478,209	\$2,619,495	\$2,356,536
Cost of Goods Manufactured	\$1,053,935	\$1,363,783	\$1,763,874	\$1,440,135
Gross Manufacturing Margin	\$808,146	\$1,114,426	\$855,621	\$916,401
Distribution & Selling costs	\$730,444	\$786,653	\$601,524	\$576,039
Gross Operating Profit	\$77,702	\$327,773	\$254,097	\$340,362
General & Administrative	\$138,696	\$194,683	\$193,646	\$174,253
Operating Profit	(\$60,994)	\$133,090	\$60,451	\$166,109
Amortization	\$163,910	\$109,790	\$92,587	\$92,124
Interest	\$107,421	\$52,350	\$49,273	\$65,703
Write off of mineral interests	\$0	\$0	\$56,507	\$0
	\$271,331	\$162,140	\$198,367	\$157,827
Net Profit (Loss) Before Taxes	(\$332,325)	(\$29,050)	(\$137,916)	\$8,282
Provision (Recovery) for Taxes	(\$82,500)	(\$12,500)	(\$50,000)	\$0
Net profit (Loss)	(\$249,825)	(\$16,550)	(\$87,916)	\$8,282
Retained earnings (Deficit) beginning of period	(\$291,956)	(\$275,406)	(\$187,491)	(\$195,773)
Retained earnings (Deficit)- end of period	(\$541,781)	(\$291,956)	(\$275,407)	(\$187,491)
Basic Income (loss) per share	(0.03)	(0.00)	(\$0.01)	\$0.00

LIQUIDITY AND CAPITAL RESOURCES

The term loan, amortizing at \$26,667 per month, stands at \$1,200,000 reduced from \$1,520,000 at the prior yearend. Capital equipment loans and capitalized leases were repaid by \$227,975 during the year. Convertible debentures of \$137,831 were repaid during the year.

The Company borrowed \$125,000 from the Rainy River Future Development Corporation under a demand term loan at 8% interest with interest only payable until August, 2004 and then repayable over 48 months at blended payments of \$3,054 per month.

The Company also issued a convertible debenture for \$150,000 to an arm's length individual with interest at 8% per annum, interest only paid quarterly for 3 years whereupon the principle shall be repaid in equal quarterly installments of \$18,750 plus interest.

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.

Events Subsequent to the Year End

A group of the Company's a group of shareholders, some of whom are related to the company have purchased all of the Company's bank debt and the Company has agreed to issue 1,500,000 common shares from treasury valued at \$0.1275 per share to the bank as part of this transaction, subject to regulatory approval. The group has also agreed to provide additional funds which will enable the Company to complete planned capital expenditures and expansion as well as finance necessary working capital

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 company 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 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.