

# third quarter report

*Nine months ending 31st July 2000*

## MESSAGE TO THE SHAREHOLDERS

We are pleased to report record sales and profitability in the third quarter of fiscal 2000. Our strategy to generate strong growth internally and through acquisitions resulted in an increase in revenue of 644% to \$4.8 million for the nine months ended July 31, 2000 from the same period last year. An operating profit of \$768,371 was recorded for the nine months ended July 31, 2000 compared with a loss of \$14,618 for the corresponding period in 1999. Much of this growth can be attributed to the VIL Vermiculite assets that were acquired five months ago.

### Peat and Pine Bark

Our Fort Frances operations are progressing well, and customers' response to our products continues to be extremely favourable. We delivered record volumes of peat and bark products to horticultural suppliers and retailers, primarily in the U.S. Midwest, and we continue to scale up production to meet growing demand.

Normiska was recently awarded a \$200,000 grant from Human Resources and Development Canada for the expansion of its baling and packaging production line. This expansion will increase the range and production output of sphagnum peat moss products, allowing us to better supply our customers. We are also improving customer service through the recent addition of distribution yards in Milwaukee and Minneapolis.

We will begin developing an additional 100 acres of peat in Fort Frances in September of this year. We expect to complete this expansion before the harvest season begins in the spring of next year. Also in September, the initial survey of the company's 3,600 acre Thunder Bay peat bog will be completed. Results of this survey will determine the feasibility of bringing this bog into production. Early indications are that the bog contains high quality sphagnum peat.

### Vermiculite and Perlite

We have begun to explore expanding the VIL production capabilities to supply a wider range of products to an increasingly diverse customer base. Process studies at the Company's vermiculite and perlite operations in Lachine, Québec have concluded that with a modest investment, output capacity can be increased by as much as 30% over the next 12 months.

Investigations continue with respect to the construction of a second vermiculite and perlite production facility in Southwestern Ontario. Scoping studies will be completed in the next two months. We continue to examine opportunities in the Great Lakes basin.

### Financing

During the third quarter we issued 693,158 common shares in exchange for special warrants for proceeds of \$660,000, or \$513,373 after commissions and legal fees. These funds are being used to purchase bog harvesting equipment and to finance receivables and inventory. The Company currently has 6,343,702 common shares issued and outstanding.

### Outlook

Looking ahead, Normiska is well positioned for continued strong growth. We are expanding the capacity of our existing production facilities and continue to work toward bringing potential horticultural resources into production.

The horticultural market is expected to grow at over 10% per year. The industry is highly fragmented and on the verge of significant consolidation. Normiska is investigating several acquisition opportunities in both Canada and the United States and we expect to outpace industry growth by increasing market share.

During this time of substantial change and rapid growth, we would like to commend our employees for their commitment and hard work. They are in large part responsible for our significant progress this past year. We remain very positive about the future prospects of the Company.

**"WATCH US GROW!"**

On behalf of the Board

David Graham, President and C.E.O.  
September 18, 2000

John Arnold, Chairman and C.F.O.

## third quarter report

*Nine months ending 31st July 2000*

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS**

The following discussion and analysis of the operating results and financial position of the Company for the three and nine month periods ended July 31, 2000, and the three and nine month periods ended July 31, 1999, should be read in conjunction with the financial statements of the Company enclosed herein. Year to date results for fiscal 2000 are unaudited.

#### **Comparison of three and nine month periods ended July 31, 2000 and three and nine month periods ended July 31, 1999.**

#### **Operating Results**

The acquisition of the assets of VIL Vermiculite was completed on February 22, 2000 for a total of \$3,266,000 (including \$266,000 in legal fees and commissions) and reported in our six month Report to Shareholders. The acquisition was the main contributor to sales and profit growth over the corresponding period a year earlier. Sales for the first nine months of fiscal 2000 increased to \$4,844,200 from \$752,747 at July 31, 1999. Gross margins were \$1,558,599 up from \$422,899.

Sales for the quarter ended July 31, 2000 were \$2,326,930 compared with \$295,716 for the same period in 1999. Gross margins were \$639,654 compared to \$106,157 for the comparable period.

Earnings before Interest, Taxes and Amortization, or EBITA, for the nine months totalled \$768,371, compared with a loss of \$14,618 in the 1999 period. Net profit was \$157,196, or \$0.02 per share, compared to a loss of \$221,690 in 1999. For the three months ended July 31, 2000, EBITA was \$269,272, compared with a loss of \$29,358 in 1999 and net income was \$47,744 compared with a loss of \$109,143.

#### **Financial Position**

Reflecting the increased sales, accounts receivable increased to \$1,710,973 at July 31, 2000 from \$239,751 at July 31, 1999, while inventories increased to \$1,681,458 from \$325,608 a year ago. As reported in our second quarter, the Company has adopted the asset and liability method of accounting for income taxes, which resulted in a reduction of the deficit by \$299,000.

Bank loans increased to \$1,166,981 compared with \$164,018 in 1999. The additional credit was used to finance the higher accounts receivable and inventories. Accounts payable increased to \$2,028,671 from \$285,597, reflecting higher inventories. Long-term debt increased to \$3,054,908 from \$1,139,427 to finance the acquisition of the VIL assets and the purchase of additional harvesting equipment for the Fort Frances peat operation.

To date this year, the Company has issued 1,187,362 common shares for net proceeds of \$1,070,398. These funds were applied toward the acquisition of bog harvesting equipment and to finance receivables and inventory.

#### **Outlook**

The Company continues to develop its markets for peat moss, pine bark mulch and pine bark compost in the upper mid-west United States. Market penetration is on target and we anticipate record shipments. Normiska's entry into the vermiculite and perlite markets continues to expand its scope and has provided it with additional product lines, which allow it to better serve customers for their soil-less growing media.

The Company is exploring financing alternatives which, combined with cash flow, will support execution of its growth strategy.

David Graham, President and C.E.O.  
September 18, 2000

John Arnold, Chairman and C.F.O.

third quarter  
report

Nine months ending 31st July 2000

**NORMISKA CORPORATION**  
**Interim Statement of Consolidated**  
**Profit (Loss) and Deficit**  
(Unaudited)

	Three Months Ended July 31 2000	Three Months Ended July 31 1999	Nine Months Ended July 31 2000	Nine Months Ended July 31 1999
Revenue	\$2,326,930	\$295,716	\$4,844,200	\$752,747
Cost of goods sold	\$1,687,276	\$189,559	\$3,282,457	\$329,848
Gross Margin	\$639,654	\$106,157	\$1,558,599	\$422,899
<b>Selling, General &amp; Administrative</b>				
Salaries & Benefits	\$107,842	\$27,678	\$218,426	\$88,383
Selling & Travel	\$44,682	\$47,934	\$105,552	\$93,010
Office & Administration	\$108,016	\$6,897	\$226,873	\$87,905
Marketing	\$66,680	\$43,679	\$152,627	\$105,476
Professional Fees	<u>\$43,162</u>	<u>\$9,327</u>	<u>\$86,750</u>	<u>\$62,743</u>
	\$370,382	\$135,515	\$790,228	\$437,517
<b>Operating Profit (Loss)</b>	<b>\$269,272</b>	<b>(\$29,358)</b>	<b>\$768,371</b>	<b>(\$14,618)</b>
Interest Cost	\$77,963	\$31,337	\$192,032	\$61,650
Amortization	<u>\$113,565</u>	<u>\$48,448</u>	<u>\$325,143</u>	<u>\$145,422</u>
	\$191,528	\$79,785	\$517,175	\$207,072
<b>Income (Loss) Before Provision for Income Taxes</b>	<b><u>\$77,744</u></b>	<b><u>(\$109,143)</u></b>	<b><u>\$251,196</u></b>	<b><u>(\$221,690)</u></b>
Provision for Taxes	\$30,000	\$0	\$94,000	\$0
<b>Net Income (Loss) for Period</b>	<b><u>\$47,744</u></b>	<b><u>(\$109,143)</u></b>	<b><u>\$157,196</u></b>	<b><u>(\$221,690)</u></b>
Deficit Beginning of Period	<u>(\$278,601)</u>	<u>(\$610,972)</u>	<u>(\$388,053)</u>	<u>(\$498,425)</u>
Deficit End of Period	<u>(\$230,857)</u>	<u>(\$720,115)</u>	<u>(\$230,857)</u>	<u>(\$720,115)</u>

third quarter  
report

Nine months ending 31st July 2000

**NORMISKA CORPORATION**  
**Interim Statement of Consolidated**  
**Cash Flows**  
(Unaudited)

	Three Months Ended July 31 2000	Three Months Ended July 31 1999	Nine Months Ended July 31 2000	Nine Months Ended July 31 1999
<b>Cash Flow from Operation Activities</b>				
Cash Receipts from Customers	\$2,366,098	\$134,227	\$3,398,398	\$581,677
Cash Paid to Suppliers & Employees	(\$2,772,536)	(\$313,251)	(\$3,890,024)	(\$834,065)
Interest Paid	<u>(\$77,963)</u>	<u>(\$31,337)</u>	<u>(\$192,032)</u>	<u>(\$61,650)</u>
	<b>(\$484,401)</b>	<b>(\$210,361)</b>	<b>(\$683,658)</b>	<b>(\$314,038)</b>
<b>Cash Flow from Investing Activities</b>				
Capital Asset Acquisitions	(\$90,348)	(\$192,231)	(\$3,382,761)	\$449,290
Expenditures on Deferred Costs	(\$5,090)	(\$16,065)	(\$5,090)	\$16,065
Deposits	<u>\$22,932</u>	<u>(\$10,000)</u>	<u>\$22,932</u>	<u>\$15,443</u>
	<b>(\$72,506)</b>	<b>(\$218,296)</b>	<b>(\$3,364,919)</b>	<b>\$480,798</b>
<b>Cash Flow from Financing Activities</b>				
Bank Indebtedness	\$705,870	\$120,732	\$1,017,271	\$168,349
Demand Loans	(\$70,180)	\$0	\$179,820	\$0
Long Term Debt	(\$147,783)	\$307,925	\$1,780,088	\$417,516
Issue of Common Shares	<u>\$69,000</u>	<u>\$0</u>	<u>\$1,070,398</u>	<u>\$0</u>
	<b>\$556,907</b>	<b>\$428,657</b>	<b>\$4,047,577</b>	<b>\$585,865</b>
Increase (Decrease) in Cash	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Cash Beginning of Period	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Cash End of Period	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

third quarter  
report

Nine months ending 31st July 2000

**NORMISKA CORPORATION**  
**Consolidated Balance Sheet**  
(Unaudited)

Assets	July 31, 2000	July 31, 1999
Current Assets	\$3,439,499	\$579,065
Fixed Assets	\$4,909,484	\$1,418,910
Deferred Development	\$1,156,465	\$1,155,533
Other	<u>\$205,000</u>	<u>\$0</u>
	<u>\$9,710,448</u>	<u>\$3,153,508</u>
<b>Liabilities &amp; Shareholders' Equity</b>		
Current Liabilities	\$3,755,841	\$549,337
Long Term Debt	<u>\$3,054,908</u>	<u>\$1,139,427</u>
	\$6,810,749	\$1,688,764
<b>Shareholders' Equity</b>		
Common Shares	\$3,130,557	\$2,184,859
Deficit	<u>(\$230,858)</u>	<u>(\$720,115)</u>
	<u>\$2,899,699</u>	<u>\$1,464,744</u>
	<u>\$9,710,448</u>	<u>\$3,153,508</u>

*Forward Looking Statements*

This report includes "forward looking statements" that are subject to risks and uncertainties. For information identifying legislative or regulatory, economic, climatic, currency, technological, competitive and other important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, see Normiska's Annual Report under the heading Risks and Uncertainties in the Management Discussion and Analysis section.

All amounts mentioned in this report are in Canadian dollars unless otherwise noted.