

## third quarter report

### Message To Shareholders

We are pleased to deliver the third quarter report for the fiscal year 2001. Gross revenue from product sales for the current year to date totals \$7,583,593 that represents a 88% increase over the \$4,036,477 in gross revenue from product sales the company received over the same period in 2000. Earnings before interest depreciation and taxes in the first nine months of 2001 were \$1,027,476 compared with \$768,371 in the first nine months of 2000. This reflects an increase of 34% year over year. For details of the third quarter financial performance please refer to the financial reports and managements discussion and analysis enclosed in this report.

In July the company closed a non-brokered private placement totaling \$1,000,000 at \$0.70 per share. The proceeds of this financing are being used for working capital and various operational improvements. Discussions are ongoing with various financiers with the hope of developing a strategic financial alliance to support the company's internal growth and acquisition plans.

Subsequent to the end of the third quarter, Normiska Corporation and Abitibi-Consolidated Inc. signed the definitive mineral exploration agreement stemming from a letter of intent signed by both parties in December, 2000. A news release dated December 19, 2000 describes the main terms of this agreement.

It is the intention of management to develop this project in a fashion that it believes will maximize Normiska shareholder value. The focus of Normiska management will be on our core business of the production, manufacturing and sale of horticultural raw materials. The company is pleased to welcome the Nearco management team to their active participation in bringing value to Normiska. We are all very excited at the prospects this venture brings to our company.

Normiska continues on track to have another record sales year for 2001. We are currently on a path to surpass 2000's forward looking projection of \$8,000,000 in sales and an EBIDTA of \$1.2 million.

On behalf of the BOARD

*"David Graham"*

David Graham  
President and CEO  
Sept. 20, 2001

*"John Arnold"*

John Arnold  
Chairman and CFO

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### **Management's Discussion and Analysis of Financial Conditions and Results of Operation for the 3 and 9 Months Ended July 31, 2001**

The following discussion and analysis of the operating results and financial position of the Company for the three and nine month results ended July 31, 2001, and the three and nine month periods ended July 31, 2000, should be read in conjunction with the financial statements of the Company enclosed herein and the Annual Report as at October 31, 2000 previously published. Year to date results for fiscal 2001 are unaudited.

#### **Overview**

The Corporation processes Jack pine bark into a line of compost and mulch products and harvests horticultural grade peat moss from its sphagnum peat bog in Fort Frances, Ontario and manufactures high quality vermiculite and perlite in Lachine, Quebec, which is distributed throughout Canada and the Eastern United States.

We supply our customers with the four main ingredients of soil - less growing media, namely sphagnum peat moss, composted Jack pine bark, vermiculite and perlite for both horticultural and industrial uses.

#### **Summary of Capital and Financing**

Term loan, prime plus 1.75% plus monthly principal payments of \$48,000, due Feb 18, 2004	\$1,520,000
8% Debenture due December 1, 2002	\$ 350,000
Convertible debt, prime plus 2%, no fixed term	\$ 350,000
Demand loans	\$ 125,000
Inventory Factoring Loan	\$ 350,000
Shareholders' Equity	\$4,268,195
Common Shares Outstanding, July 31, 2001	7,780,773

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### Results of Operations

Sales continue to increase as the Fort Frances peat bog begins to produce at higher rates. The results also reflect reporting of a full 9 months of operation of the VIL Vermiculite assets as compared to 5 months in the comparable period. Tipping fees have been segregated for reporting purposes as they contribute less to the company's cash flow.

### Liquidity and Capital Resources

The Corporation was successful in raising \$1,000,000 through the sale of 1,428,571 common shares by way of a private placement to an individual.

Management anticipates that cash flow from its current operations will continue to grow and that credit facilities granted to it by its bank, funds lent to the Corporation and additional equity from the private placement of common shares 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 supply of unprocessed vermiculite from South Africa, 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. The Corporation has sought to mitigate its risks by determining that, should the delivery of vermiculite from South Africa be curtailed, there are other sources of material from which raw vermiculite could be obtained. The Corporation has acquired an additional source of sphagnum peat moss in a different climatic region and is continuing to investigate the acquisition of additional sources of supply. The Corporation continues to negotiate with several significant bark generators and is currently undertaking tests with two companies. The Fort Frances peat bog will be able to produce sufficient peat moss to ensure the viability of the dual purpose processing plant and the baling line, which has been installed. The ability to seamlessly switch between product streams will mitigate any effect of an interruption to the bark supply from the local mill.

On behalf of the BOARD

*"David Graham"*

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Sept. 20, 2001

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### Normiska Corporation Consolidated Balance Sheet (Unaudited)

	31-Jul 2001	31-Jul 2000	31-Oct 2000
<b>Assets</b>			
<b>Current</b>			
Accounts Receivable	\$1,391,565	\$1,439,104	\$1,216,321
Inventory	\$3,044,263	\$1,953,327	\$2,184,824
Prepaid	<u>\$ 181,603</u>	<u>\$ 47,068</u>	<u>\$ 42,924</u>
	<b>\$4,617,431</b>	<b>\$3,439,499</b>	<b>\$3,444,069</b>
<b>Capital Assets</b>	<b>\$ 4,918,601</b>	<b>\$4,909,484</b>	<b>\$ 5,044,716</b>
<b>Deferred Development &amp; Marketing Costs</b>	<b>\$ 1,278,636</b>	<b>\$1,156,465</b>	<b>\$ 1,238,731</b>
Future Income Taxes	<u>\$ 189,000</u>	<u>\$ 205,000</u>	<u>\$ 299,000</u>
	<u><b>\$11,003,668</b></u>	<u><b>\$9,710,448</b></u>	<u><b>\$10,026,516</b></u>
<b>Liabilities</b>			
<b>Current</b>			
Bank Indebtedness	\$1,266,102	\$1,057,668	\$ 978,745
Accounts Payable	\$2,165,380	\$1,955,931	\$2,405,810
Demand Loans	\$ 125,000	\$ 182,053	\$ 200,000
Inventory Factoring Loan	\$ 350,000		
Current Portion Long Term Debt	<u>\$ 769,780</u>	<u>\$ 560,189</u>	<u>\$ 769,780</u>
	<b>\$4,676,262</b>	<b>\$3,755,841</b>	<b>\$4,354,335</b>
<b>Long-term Debt</b>	<b>\$1,359,211</b>	<b>\$2,204,907</b>	<b>\$ 1,748,716</b>
<b>Convertible Debt</b>	<b>\$ 350,000</b>	<b>\$ 350,000</b>	<b>\$ 350,000</b>
<b>Convertible Debenture</b>	<u><b>\$ 350,000</b></u>	<u><b>\$ 500,000</b></u>	<u><b>\$ 500,000</b></u>
	<b>\$6,735,473</b>	<b>\$6,810,748</b>	<b>\$6,953,051</b>
<b>Shareholders' Equity</b>			
Common Shares	\$4,372,255	\$3,130,557	\$3,320,869
Deficit	<u>(\$ 104,060)</u>	<u>(\$ 230,857)</u>	<u>(\$ 247,404)</u>
	<u><b>\$4,268,195</b></u>	<u><b>\$2,899,700</b></u>	<u><b>\$3,073,465</b></u>
	 <u><b>\$11,003,668</b></u>	 <u><b>\$9,710,448</b></u>	 <u><b>\$10,026,516</b></u>

#### **Note 1: Basis of Presentation**

These financial statements should be read in conjunction with the financial statements for the year ended October 31, 2000 as set out in the Corporation's annual report. These financial statements are prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods of computation as were used for the financial statements for the year ended October 31, 2000.

#### **Note 2: Convertible Debenture**

The Corporation has negotiated a change in the terms of repayment of the \$500,000 convertible redeemable debenture. The Corporation has paid principal payments of \$150,000 plus interest Subject to regulatory approval, the Corporation will issue a warrant to purchase up to 500,000 common shares with an exercise price of \$0.70, exercisable for five years. The exercise time will be reduced to August 31, 2003 on payment of the outstanding loan and accrued interest thereon. The Corporation may demand conversion of the warrant on 60 days notice if the weighted average of the trading in the Corporation's common shares is above \$1.25 for 20 trading days with a minimum of \$30,000 average value of trading per day. The warrants will replace the conversion option attached to the original convertible debenture.

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### Normiska Corporation Interim Statement Of Consolidated Profit & Loss (Unaudited)

	3 Months Ended 31-Jul 2001	9 Months Ended 31-Jul 2001	3 Months Ended 31-Jul 2000	9 Months Ended 31-Jul 2000
Sales	\$2,739,748	\$7,583,593	\$2,158,915	\$4,036,477
Cost of Goods Manufactured	<u>\$2,112,616</u>	<u>\$5,701,554</u>	<u>\$1,615,270</u>	<u>\$2,939,434</u>
Gross Operating Margin	\$ 627,132	\$1,882,039	\$ 543,645	\$1,097,043
Tipping Fees Net of Freight	<u>\$ 30,032</u>	<u>\$ 72,694</u>	<u>\$ 96,008</u>	<u>\$ 461,556</u>
Gross Margin	<u>\$ 657,164</u>	<u>\$1,954,733</u>	<u>\$ 639,653</u>	<u>\$1,558,599</u>
<b>General, Administration &amp; Selling Expense</b>				
Office	\$ 59,925	\$ 182,278	\$ 151,178	\$ 313,623
Salaries & Benefits	\$ 132,086	\$ 387,074	\$ 107,842	\$ 218,426
Marketing	\$ 29,057	\$ 139,618	\$ 66,680	\$ 152,627
Sales & Administration	\$ 94,456	\$ 218,287	\$ 44,682	\$ 105,552
	<u>\$ 315,524</u>	<u>\$ 927,257</u>	<u>\$ 370,382</u>	<u>\$ 790,228</u>
<b>Operating Profit</b>	<u>\$ 341,640</u>	<u>\$1,027,476</u>	<u>\$ 269,271</u>	<u>\$ 768,371</u>
Amortization	\$ 159,352	\$ 466,578	\$ 77,963	\$ 325,143
Interest	<u>\$ 100,272</u>	<u>\$ 307,554</u>	<u>\$ 113,565</u>	<u>\$ 192,032</u>
	<u>\$ 259,624</u>	<u>\$ 774,132</u>	<u>\$ 191,528</u>	<u>\$ 517,175</u>
Income (Loss) Before Provision for Income Taxes	\$ 82,016	\$ 253,344	\$ 77,743	\$ 251,196
Provision for Income Taxes	<u>\$ 40,000</u>	<u>\$ 110,000</u>	<u>\$ 30,000</u>	<u>\$ 94,000</u>
Net Income (Loss) for the Period	\$ 42,016	\$ 143,344	\$ 47,743	\$ 157,196
(Deficit) Beginning of Period	<u>(\$ 146,076)</u>	<u>(\$ 247,404)</u>	<u>(\$ 278,601)</u>	<u>(\$ 388,053)</u>
Retained Earnings (Deficit) End of Period	<u>(\$ 104,060)</u>	<u>(\$ 104,060)</u>	<u>(\$ 230,858)</u>	<u>(\$ 230,857)</u>
Basic Income per Share	<u>\$0.01</u>	<u>\$0.02</u>	<u>\$0.01</u>	<u>\$0.02</u>

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### Normiska Corporation Interim Statement Of Cash Flow (Unaudited)

	3 Months Ended 31-Jul 2001	9 Months Ended 31-Jul 2001	3 Months Ended 31-Jul 2000	9 Months Ended 31-Jul 2000
<b>Cash Flow from Operating Activities</b>				
Cash Receipts from Customers	\$7,449,452	\$7,449,452	\$2,366,098	\$3,399,398
Cash Paid to Suppliers & Employees	(\$7,811,620)	(\$7,811,620)	(\$2,772,536)	(\$3,890,024)
Interest Paid	(\$ 307,554)	(\$ 307,554)	(\$ 77,963)	(\$ 192,032)
	<u>(\$ 669,722)</u>	<u>(\$ 669,722)</u>	<u>(\$ 484,401)</u>	<u>(\$ 682,658)</u>
<b>Cash Flow from Investing Activities</b>				
Capital Asset Additions	(\$ 223,328)	(\$ 424,912)	(\$ 95,438)	(\$3,387,851)
Prepays & Deposits	(\$ 37,815)	(\$ 37,815)	\$ 22,932	\$ 22,932
Government Grant	\$ 0	\$ 103,662	\$ 22,932	\$ 22,932
	<u>(\$ 261,143)</u>	<u>(\$ 359,065)</u>	<u>(\$ 72,506)</u>	<u>(\$3,364,919)</u>
<b>Cash Flow from Financing Activities</b>				
Increase (Decrease) in Bank Indebtedness	\$ 287,357	\$ 287,357	\$ 705,870	\$1,017,271
Proceeds from Long - Term Debt	\$ 224,455	\$ 224,455	\$ 705,870	\$1,780,088
Repayment of Long - term Debt	(\$ 608,025)	(\$ 608,025)	(\$ 147,783)	(\$ 147,783)
Repayment of Convertible Debenture	(\$ 150,000)	(\$ 150,000)	(\$ 150,000)	(\$ 150,000)
Increase (Decrease) in Demand Loans	\$ 275,000	\$ 275,000	(\$ 70,180)	\$ 179,820
Issue of Common Shares	\$1,000,000	\$1,000,000	\$ 69,000	\$1,070,398
	<u>\$1,028,787</u>	<u>\$1,028,787</u>	<u>\$ 556,907</u>	<u>\$4,047,577</u>
<b>Increase (Decrease) in Cash</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>