

**LES EXPLOSIFS NORDEX L'ÉÉ./NORDEX EXPLOSIVES LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004**

**LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

**November 26, 2004**

**Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not preformed a review of the interim financial statements, they must be accompanied with a notice indicating that the financial statements have not been reviewed by an auditor.**

**The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

**The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

***"Andrew Timothy Peterson"***  
**CEO and Director**

***"Bruce J. Forth"***  
**Director**



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**LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.**

**FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004**

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## **NOTICE TO READER**

We have compiled the consolidated balance sheet of Les Explosifs Nordex Ltee. / Nordex Explosives Ltd. as at September 30, 2004 and the consolidated statements of operations and deficit and cash flows for the period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Kirkland Lake, Ontario  
October 26, 2004

*Ross, Pope & Company.*

**ROSS, POPE & COMPANY**  
**CHARTERED ACCOUNTANTS**

# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 2004 AND DECEMBER 31, 2003

(UNAUDITED-SEE NOTICE TO READER)

	SEPTEMBER 30 2004	DECEMBER 31 2003
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 30,431	\$ 3,059
Accounts receivable	729,784	156,998
Inventories (Note 2)	355,409	159,034
Prepaid expenses	3,389	3,389
	<b>1,119,013</b>	322,480
DUE FROM RELATED PARTY	12,500	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 & 3)	450,552	311,258
	<b>\$ 1,582,065</b>	\$ 633,738
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 814,663	\$ 243,175
Current portion of long-term debt (Note 4)	37,829	29,971
	<b>852,492</b>	273,146
LONG-TERM DEBT (Note 4)	418,649	82,203
	<b>1,271,141</b>	355,349
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Notes 5 & 9)	1,266,049	1,013,549
OPTIONS	11,779	7,513
CONTRIBUTED SURPLUS	222,679	222,679
DEFICIT	(1,009,554)	(785,323)
COMMON SHARES IN TREASURY (Note 5)	(180,029)	(180,029)
	<b>310,924</b>	278,389
	<b>\$ 1,582,065</b>	\$ 633,738

ON BEHALF OF THE BOARD:

"Andrew Timothy Peterson"  
ANDREW TIMOTHY PETERSON  
DIRECTOR

"Bruce J. Forth"  
BRUCE J. FORTH  
DIRECTOR

See accompanying notes.

**LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.****CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT****PERIODS ENDED SEPTEMBER 30, 2004 AND 2003****(UNAUDITED-SEE NOTICE TO READER)**

	2004		2003	
	3 MONTH PERIOD ENDED SEPTEMBER 30	9 MONTH PERIOD ENDED SEPTEMBER 30	3 MONTH PERIOD ENDED SEPTEMBER 30	9 MONTH PERIOD ENDED SEPTEMBER 30
SALES	\$ 831,100	\$ 1,469,438	\$ 311,637	\$ 725,059
COST OF GOODS SOLD (Schedule 1)	769,387	1,294,130	252,733	594,542
GROSS PROFIT	61,713	175,308	58,904	130,517
EXPENSES				
Administrative (Schedule 1)	125,466	377,379	63,975	200,175
Amortization	5,626	12,760	2,919	8,378
Interest on long-term debt	3,849	9,400	3,095	9,305
	134,941	399,539	69,989	217,858
LOSS BEFORE UNDERNOTED	(73,228)	(224,231)	(11,085)	(87,341)
LOSS	(73,228)	(224,231)	(11,085)	(87,341)
DEFICIT, beginning of period	(936,326)	(785,323)	(796,853)	(720,597)
DEFICIT, end of period	\$ (1,009,554)	\$ (1,009,554)	\$ (807,938)	\$ (807,938)
EARNINGS(LOSS) PER SHARE	\$ (0.012)	\$ (0.046)	\$ (0.003)	\$ (0.026)

See accompanying notes.

# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## CONSOLIDATED STATEMENT OF CASH FLOWS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

	2004		2003	
	3 MONTH PERIOD ENDED SEPTEMBER 30	9 MONTH PERIOD ENDED SEPTEMBER 30	3 MONTH PERIOD ENDED SEPTEMBER 30	9 MONTH PERIOD ENDED SEPTEMBER 30
<b>OPERATING ACTIVITIES</b>				
<b>LOSS</b>	\$ (73,228)	\$ (224,231)	\$ (11,085)	\$ (87,341)
ADD ITEMS NOT REQUIRING A CASH OUTLAY				
Amortization	5,626	12,760	2,919	8,378
Gain on sale of equipment	-	(1,000)	-	-
Stock based compensation	1,422	4,266	-	-
DECREASE (INCREASE):				
Accounts receivable	(539,895)	(572,786)	(8,416)	88,957
Inventory	(165,270)	(196,375)	(1,920)	(883)
Prepaid expenses	-	-	(686)	(2,916)
INCREASE (DECREASE):				
Accounts payable	515,164	571,488	58,159	17,047
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(256,181)</b>	<b>(405,878)</b>	<b>38,971</b>	<b>23,242</b>
<b>FINANCING ACTIVITIES</b>				
Borrowing of long-term debt	419,852	460,869	-	56,000
Repayment of long-term debt	(93,582)	(116,031)	(6,863)	(19,358)
Due from shareholders	-	(12,500)	-	-
Issuance of common shares	-	252,500	-	-
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>326,270</b>	<b>584,838</b>	<b>(6,863)</b>	<b>36,642</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(98,175)	(152,588)	(7,590)	(33,072)
Proceeds on disposal of capital assets	-	1,000	-	-
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(98,175)</b>	<b>(151,588)</b>	<b>(7,590)</b>	<b>(33,072)</b>
<b>CHANGE IN CASH DURING THE PERIOD</b>	<b>(28,086)</b>	<b>27,372</b>	<b>24,518</b>	<b>26,812</b>
<b>CASH, beginning of period</b>	<b>58,517</b>	<b>3,059</b>	<b>8,620</b>	<b>6,326</b>
<b>CASH (DEFICIENCY), end of period</b>	<b>\$ 30,431</b>	<b>\$ 30,431</b>	<b>\$ 33,138</b>	<b>\$ 33,138</b>

See accompanying notes.

# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

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### 1. NATURE OF OPERATIONS

The Company is incorporated under the laws of Quebec and operates as a developer and manufacturer of explosive products.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

The accompanying consolidated financial statements do not include all of the information and disclosures required by Canadian Generally Accepted Accounting Principles for annual audited financial statements. The consolidated financial statements should be read in conjunction with the company's consolidated financial statements including the notes thereto for the year ended December 31, 2003.

#### (b) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary, Nordex Explosives (Ontario) Limited, after the elimination of inter-company transactions and balances. There was no activity in the subsidiary during the period.

#### (c) CASH AND CASH DEFICIENCY

Cash and cash deficiency is comprised of cash and bank overdraft.

#### (d) INVENTORIES

Raw materials are valued at lower of cost and replacement cost and finished goods are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

#### (e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is originally recorded at the laid down cost and is amortized based on this cost less salvage value on the declining balance basis using the following rates:

Buildings	3%
Plant, machinery and equipment	5%
Mobile equipment	10%
Laboratory equipment	10%
Office equipment and furniture	10%

#### (f) REVENUE RECOGNITION

Revenue from product sales is recorded when the goods are shipped. Other income is recorded when earned.

# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (g) USE OF ESTIMATES

The preparation of the 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### (h) 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 to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

#### (i) EARNINGS PER SHARE

The Company adopted the new standard for calculating earnings per share as recommended by the Canadian Institute of Chartered Accountants. The new standard requires the use of the treasury stock method for computing diluted earnings per share, which assumes that any proceeds obtained upon exercise of options would be used to purchase common shares at average market price during the period. The adoption of this method did not have a material impact on the historical earnings per share. Anti-dilutive factors are not included in the computation of diluted earnings per share.

#### (j) STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan, which is described in Note 6. Any consideration paid upon exercise of options and issues of shares is credited to share capital.

### 3. PROPERTY, PLANT AND EQUIPMENT

	COST	ACCUMULATED AMORTIZATION	Net 2004	2003
Land and land improvements	\$ 39,839	\$ -	\$ 39,839	\$ 39,839
Buildings	478,521	260,998	217,523	171,448
Plant, machinery and equipment	370,096	301,908	68,188	69,737
Office equipment and furniture	38,432	24,438	13,994	11,548
Laboratory equipment	7,475	4,382	3,093	749
Mobile equipment	454,538	346,623	107,915	17,937
Totals	\$ 1,388,901	\$ 938,349	\$ 450,552	\$ 311,258

Amortization expense for the three month period amounted to \$5,626 (2003 - \$2,919).

# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

### 4. LONG-TERM DEBT

	2004	2003
Term loan bearing interest at 10% per annum, repayable in blended monthly installments of \$5,318. As security the company has pledged accounts receivable, inventory land, buildings specific equipment and has provided a general security agreement. Maturing in 2014.	\$ 400,000	\$ -
Loan bearing interest at 8% per annum, repayable in blended monthly installments of \$995. As security the company has pledged a vehicle. Maturing in 2008.	37,824	-
Loan bearing interest at 10.0% per annum, repayable in blended monthly installments of \$489, secured by a vehicle. Maturing in 2008.	18,654	-
Other	-	112,174
	456,478	112,174
Current portion	37,829	29,971
	\$ 418,649	\$ 82,203

Approximate principal repayments required over the next four years are as follows:

2005	\$ 37,829
2006	37,829
2007	42,158
2008	46,352
2009	44,561
Subsequent to 2009	247,749
	\$ 456,478

### 5. SHARE CAPITAL

(a) AUTHORIZED

6,000,000 common shares (Note 9)

(b) ISSUED

	2004	2003
6,039,777 (2003 - 3,314,777) common shares	\$ 1,266,049	\$ 1,013,549

COMMON SHARES IN TREASURY

588,777 common share	\$ 180,029	\$ 180,029
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# LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

### 6. STOCK OPTIONS

The Company has a stock option plan which allows the granting of stock options to directors, employees, management and consultants up to an aggregate amount of 325,000 options. Under the current Company practice, the options will vest at a rate of 1/3 in each of the first three years of their life. Options issued to consultants and to directors, employees and management will mature January 14, 2005 and January 14, 2007 respectively. The exercise price of each option is \$0.16, which was based on the closing market price of the Company's common shares on January 11, 2002.

A summary of the status of the Company's stock option plan and changes during the year is presented below.

The following director stock options are outstanding:

NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE
200,000	16 cents	January 14, 2007
20,000	16 cents	January 14, 2005

Stock options issued to officers and directors are as follows:

	Number of shares	2004 Weighted average exercise price
Options outstanding as at beginning of year	220,000	\$ 0.16
Granted	-	-
Exercised	-	-
Forfeited	-	-
Options outstanding at period end	220,000	\$ 0.16
Options exercisable at period end	73,333	\$ 0.16

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average contractual life (years)	Exercisable options weighted average contractual life (years)
\$ 0.16	200,000	66,667	3.22	3.22
0.16	20,000	6,666	0.14	0.14
\$ 0.16	220,000	73,333	3.86	3.86

The Company recognizes the calculated benefit at the date of granting the stock options on a straight-line basis over the shorter of the expected service period and the vesting period.

The fair value of each option at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions:

Expected life of options	5 years
Risk-free interest rate	4%
Expected stock price volatility	60%
Expected dividend yield	0%
Weighted-average fair value of options	\$0.16

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED-SEE NOTICE TO READER)

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### 7. LEASE COMMITMENTS

The company's total obligations under various operating leases for vehicles are as follows:

2005	\$	12,123
2006	\$	12,123
2007	\$	2,313

### 8. FINANCIAL INSTRUMENTS

The carrying amount of cash, account receivable, accounts payable and accrued liabilities approximate their fair market value. The company's long term debt bears interest at fixed rates and therefore the Company is not subject to interest rate risk.

### 9. SUBSEQUENT EVENTS

At the annual meeting on June 28, 2004, shareholders approved a by-law of the Board of Directors of the Corporation to increase the authorized capital of the corporation to a maximum number of 12,000,000 shares that may be issued for a maximum consideration of \$48,000,000. The Corporation must apply for supplementary letters patent within six months of the approval of the by-law by shareholders to increase the authorized capital otherwise the by-law will be of no force and effect. The Corporation is in the process of applying for supplementary letters patent.

**LES EXPLOSIFS NORDEX LTEE. / NORDEX EXPLOSIVES LTD.**

**THREE MONTH PERIOD ENDED SEPTEMBER 30 AND NINE MONTH PERIOD ENDED  
SEPTEMBER 30, 2004**

**(UNAUDITED-SEE NOTICE TO READER)**

	<b>3 MONTH PERIOD ENDED SEPTEMBER 30</b>	<b>9 MONTH PERIOD ENDED SEPTEMBER 30</b>
<b>COST OF GOODS SOLD</b>		
Materials Purchased	\$ 613,321	\$ 1,014,183
Freight	68,031	95,312
Commissions	14,000	14,000
Wages & benefits	74,035	170,635
	<b>\$ 769,387</b>	<b>\$ 1,294,130</b>
<b>ADMINISTRATIVE EXPENSES</b>		
Consultants	\$ 15,228	\$ 44,064
Insurance	26,420	47,297
Utilities	2,834	22,497
Wages & benefits	44,999	149,690
Miscellaneous	35,985	113,831
<b>TOTAL</b>	<b>\$ 125,466</b>	<b>\$ 377,379</b>