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

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

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***N.R. McLEOD***  
CHARTERED ACCOUNTANT

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**AUDITORS' REPORT**

To the Shareholders of  
**Les Explosifs Nordex Ltee./ Nordex Explosives Ltd.**

I have audited the consolidated balance sheets of **Les Explosifs Nordex Ltee./ Nordex Explosives Ltd.** as at December 31, 2005 and 2004 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

North Bay, Canada

**N. R. McLeod, C.A.**



March 24, 2006

Chartered Accountant

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

	2005	2004
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 354,040	\$ 194,020
Accounts receivable	625,579	706,109
Inventories (Note 3)	270,590	279,798
Prepaid expenses	-	4,979
	<b>1,250,209</b>	<b>1,184,906</b>
DUE FROM RELATED PARTY	-	12,500
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 4)	<b>829,511</b>	<b>626,912</b>
	<b>\$ 2,079,720</b>	<b>\$ 1,824,318</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,046,123	\$ 990,880
Current portion of long-term debt (Note 5)	43,169	39,264
	<b>1,089,292</b>	<b>1,030,144</b>
LONG-TERM DEBT (Note 5)	<b>365,288</b>	<b>408,457</b>
	<b>1,454,580</b>	<b>1,438,601</b>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 6)	1,086,020	1,266,049
OPTIONS (Note 7)	16,043	13,201
CONTRIBUTED SURPLUS	226,690	222,679
DEFICIT	(703,613)	(936,183)
COMMON SHARES IN TREASURY (Note 6)	-	(180,029)
	<b>625,140</b>	<b>385,717</b>
	<b>\$ 2,079,720</b>	<b>\$ 1,824,318</b>

Going Concern (Note 1) and Contingencies (Note 11)

APPROVED BY THE BOARD OF DIRECTORS:

**"Andrew Timothy Peterson"**  
ANDREW TIMOTHY PETERSON  
DIRECTOR

**"John C. Kozak"**  
JOHN C. KOZAK  
DIRECTOR

See accompanying notes to financial statements.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
SALES (Schedule 2)	\$ 3,674,883	\$ 2,409,481
COST OF GOODS SOLD (Schedule 1)	2,816,898	2,012,251
<b>GROSS PROFIT</b>	<b>857,985</b>	397,230
EXPENSES		
Administrative (Schedule 1)	535,590	493,350
Amortization	46,460	33,690
Interest on long-term debt	43,365	21,050
	<b>625,415</b>	548,090
<b>INCOME (LOSS) FOR THE YEAR</b>	<b>232,570</b>	(150,860)
DEFICIT, beginning of year	(936,183)	(785,323)
DEFICIT, end of year	\$ (703,613)	\$ (936,183)
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.040</b>	\$ (0.029)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	<b>5,742,969</b>	5,166,284

See accompanying notes to financial statements.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<b>CASH PROVIDED BY (USED IN) OPERATIONS:</b>		
<b>INCOME (LOSS) FOR THE YEAR</b>	<b>\$ 232,570</b>	<b>\$ (150,860)</b>
ITEMS NOT INVOLVING CASH		
Amortization	46,460	33,690
Gain on sale of property, plant and equipment	-	(1,000)
Stock based compensation	6,853	5,688
CHANGE IN NON-CASH OPERATING WORKING CAPITAL:		
(Increase) Decrease in accounts receivable	80,530	(549,111)
Decrease in inventory	9,208	(120,764)
Decrease (Increase) in prepaid expenses	4,977	(1,592)
Increase in accounts payable and accrued liabilities	55,243	747,705
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>435,841</b>	<b>(36,244)</b>
<b>FINANCING:</b>		
Borrowing of long-term debt	-	460,677
Repayment of long-term debt	(39,262)	(125,128)
Due from shareholders	12,500	(12,500)
Issuance of common shares	-	252,500
<b>CASH FLOWS PROVIDED (USED IN) FINANCING ACTIVITIES</b>	<b>(26,762)</b>	<b>575,549</b>
<b>INVESTMENTS:</b>		
Expenditures on property, plant and equipment	(249,059)	(349,344)
Proceeds on sale of property, plant and equipment	-	1,000
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(249,059)</b>	<b>(348,344)</b>
CHANGE IN CASH DURING THE PERIOD	160,020	190,961
CASH AND CASH EQUIVALENTS, beginning of year	194,020	3,059
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 354,040</b>	<b>\$ 194,020</b>

See accompanying notes to financial statements.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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### 1. GOING CONCERN

Concern was expressed in the past on the viability of the Company due to continuing losses, however the Company returned to profitability in 2005. The current financial position of the Company is very good and depending on future profitable operations, should remain so.

### 2. NATURE OF OPERATIONS

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) 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 year.

#### (b) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short term investments.

#### (c) 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.

#### (d) 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%
Emulsion plant	5%
Plant, machinery and equipment	5%
Mobile equipment	25%
Laboratory equipment	10%
Office equipment and furniture	10%

Plant and equipment assets are not amortized until they are put into use.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

#### (e) REVENUE

The Company recognizes sales at the time ownership passes to the customer which occurs upon delivery of the goods to the customer.

#### (f) 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.

#### (g) 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.

#### (h) 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.

#### (i) STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan, which is described in Note 7. Any consideration paid upon exercise of options and issues of shares is credited to share capital.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 4. PROPERTY, PLANT AND EQUIPMENT

	COST	ACCUMULATED AMORTIZATION	Net	
			2005	2004
Land and land improvements	\$ 39,839	\$ -	\$ 39,839	\$ 39,839
Buildings	609,411	273,922	335,489	310,801
Plant, machinery and equipment	380,699	306,705	73,994	71,976
Emulsion plant	215,740	-	215,740	57,232
Laboratory equipment	13,293	4,808	8,485	3,032
Mobile equipment	537,148	394,221	142,927	130,379
Office equipment and furniture	39,123	26,086	13,037	13,653
<b>Totals</b>	<b>\$ 1,835,253</b>	<b>\$ 1,005,742</b>	<b>\$ 829,511</b>	<b>\$ 626,912</b>

### 5. LONG-TERM DEBT

	2005	2004
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.	\$ 368,976	\$ 394,499
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.	26,151	35,581
Loan bearing interest at 10.0% per annum, repayable in blended monthly installments of \$498, secured by a vehicle. Maturing in 2008.	13,330	17,641
	<b>408,457</b>	447,721
Current portion	<b>43,169</b>	39,264
	<b>\$ 365,288</b>	\$ 408,457

Approximate principal repayments are as follows:

2006	\$ 43,169
2007	47,463
2008	42,589
2009	38,010
2010	41,990
Subsequent to 2010	195,236
	<b>\$ 408,457</b>

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 6. SHARE CAPITAL

#### (a) AUTHORIZED

12,000,000 common shares

#### (b) ISSUED

	2005	2004
5,451,000 common shares	\$ 1,086,020	\$ 1,266,049

#### COMMON SHARES IN TREASURY

During the second quarter 588,777 common shares in treasury were cancelled and the value associated with those shares reduced the common share balance by \$180,029

	\$ -	\$ 180,029
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### 7. 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. The exercise price of each option is based on the closing market price of the Company's common shares on the day the options were issued.

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

The following stock options are outstanding:

NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE
170,000	16 cents	January 14, 2007
125,000	21 cents	November 28, 2010

Stock options issued are as follows:

	Number of shares	2005 Weighted average exercise price
Options outstanding as at beginning of year	220,000	\$ 0.16
Granted	125,000	0.21
Exercised	-	-
Forfeited	(50,000)	0.16
Options outstanding at year end	295,000	\$ 0.18
Options exercisable at year end	170,000	\$ 0.16

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 7. STOCK OPTIONS (CONT'D)

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average contractual life (years)	Exercisable options weighted average contractual life (years)
\$ 0.16	170,000	170,000	0.60	1.04
0.21	125,000	NIL	2.08	NIL
\$ 0.18	295,000	170,000	2.68	1.04

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	\$0.18

### 8. INCOME TAXES

The Company has losses of approximately \$898,770 available to reduce future taxable income. These losses expire as follows:

2006	\$ 364,436
2007	253,784
2008	21,020
2009	124,961
2010	81,171
2011	53,398
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	\$ 898,770

The benefit relating to these loss carryforward amounts has not been recognized in the financial statements as the amount to be recorded under generally accepted accounting principles is limited to the amount which is more likely than not to be realized.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 8. INCOME TAXES (CONT'D)

Income for taxation purposes differs from the amounts that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to loss before income taxes. This difference results from the following:

	2005	2004
Income (loss) before income taxes	\$ 232,570	\$ (150,860)
Combined basic federal and provincial tax rate	36.12 %	36.12 %
Expected income tax	\$ 84,004	\$ (54,491)
Increase (decrease) in income taxes resulting from:		
Depreciation claimed in excess of capital cost allowance	16,781	12,169
Unused tax losses (tax losses utilized)	(100,785)	42,322
	\$ -	\$ -

Significant components of the Company's deferred tax assets are as follows:

	2005	2004
Operating losses carried forward	\$ 179,754	\$ 366,979
Tax values of capital assets in excess of accounting values	18,715	85,741
Investment tax credits	18,653	33,688
Total deferred tax assets	217,122	486,408
Valuation allowance	(217,122)	(486,408)
	\$ -	\$ -

Investment tax credits in the amount of \$19,000 (2004 - \$84,000) are available in varying amounts until 2006.

### 9. 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.

### 10. RELATED PARTY TRANSACTIONS

During 2005, the Company accrued \$60,000 (2004 -\$80,000) in management and consulting fees for the President and Chairman who are both directors of the Company. At December 31, 2005 \$150,000 was owing to directors (2004 - \$110,000).

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

# LES EXPLOSIFS NORDEX LTEE./ NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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### 11. CONTINGENCIES

A former supplier has commenced a legal action against the Company for non-payment of its account. The expected settlement has been provided for in the accounts payable of the Company.

### 12. LEASE COMMITMENTS

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

2006	\$	18,416
2007	\$	8,606
2008	\$	6,293
2009	\$	5,244

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

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<b>COST OF GOODS SOLD</b>		
Materials Purchased	\$ 2,265,486	\$ 1,609,304
Freight	133,270	143,209
Commissions	135,709	35,378
Wages & benefits	282,433	224,360
	<b>\$ 2,816,898</b>	<b>\$ 2,012,251</b>
<b>ADMINISTRATIVE EXPENSES</b>		
Consultants	\$ 87,540	\$ 123,650
Insurance	65,557	65,599
Utilities	28,919	26,117
Wages & benefits	128,444	110,125
Miscellaneous	225,130	167,859
<b>TOTAL</b>	<b>\$ 535,590</b>	<b>\$ 493,350</b>

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

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<b>REVENUE</b>		
Sale of product	\$ 3,519,489	\$ 2,311,338
Freight	155,058	94,047
Other	336	4,096
	<b>\$ 3,674,883</b>	<b>\$ 2,409,481</b>