

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

**INTERIM MANAGEMENT DISCUSSION AND ANALYSIS  
of Financial Condition and Results of Operations  
for the three months ended September 30, 2004**

**Dated: November 26, 2004**

*The following information should be read in conjunction with the Company's unaudited September 30, 2004 and September 30, 2003 and audited December 31, 2003, 2002 and 2001 financial statements and related notes included therein which were prepared in accordance with generally accepted accounting principles in Canada. This discussion includes forward-looking statements that may differ materially from actual results achieved.*

The results for the quarter ending September 30, 2004, reflect operations of the Corporation for the three month period commencing July 1, 2004. Comparative financial results are for the quarter commencing July 1, 2003 and ending on September 30, 2003.

Management discussion and analysis is a review of the Corporation's financial condition and results of operation as compared to the corresponding prior year end. This discussion is intended to provide historical and prospective analysis of the activities of the Corporation.

**OVERALL PERFORMANCE AND RESULTS OF OPERATIONS**

LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD. (ANordex@) is a Canadian based business incorporated under the laws of the Province of Quebec on August 4, 1970. Nordex trades on the TSX Venture Exchange under the symbol ANXX@. The Corporation manufactures and distributes explosives for the mining industry and road construction industry from its manufacturing operations in Dane, Ontario, a small town near Kirkland Lake and just a few miles from the Adams Mine. The Corporation continues to maintain its manufacturing explosives licence in good standing and is researching the possibility of expanding production and offering new explosive products.

**Financial Highlights**

The following table sets forth certain financial information of the Corporation for the three months ended September 30, 2004 and 2003.

<b>Three Months ended September 30</b>	<b>2004</b>	<b>2003</b>
Total Sales	\$831,300	\$311,637
Cost of Goods Sold	\$769,387	\$252,733
Gross Profit	\$ 61,713	\$ 58,904
Administration Expenses	\$125,466	\$ 63,975
Earnings Before Depreciation and Amortization	(\$ 67,602)	(\$ 8,166)
Net Income (Loss) for the Period	(\$ 73,288)	(\$ 11,085)
Net (Loss) Income per Share	(\$ 0.012)	(\$ 0.003)
Cash Provided (used) by Operations	(\$256,181)	\$ 8,971
Cash, End of Period	\$ 30,431	\$ 33,138
Long Term Debt (including current portion)	\$456,478	\$119,221
Total Liabilities	\$1,271,141	\$326,083
Accounts Receivable	\$729,784	\$106,684
Shareholders' Equity	\$310,924	\$249,646
Total Shares Outstanding	6,039,777	3,314,777
(includes 588,777 shares held in treasury)		

**Results of Operations**

For the quarter ending September 30, 2004 Nordex recorded a net loss of \$73,228 (\$0.012 per common share) compared to a net loss of \$11,085 (\$0.003 per common share) for the quarter ending September 30, 2003, reflected on the weighted average number of shares outstanding. The total number of common shares outstanding as of the quarter end was 6,039,777, including 588,777 common shares held in treasury for cancellation.

For the nine month period ending September 30, 2004, Nordex recorded a net loss of \$224,231 (\$0.046) per common share compared to a net loss of \$87,341 (\$0.026) for the nine month period ending September 30, 2003.

**Revenue**

For the quarter ending September 30, 2004, Nordex reported revenues of \$831,100 compared to \$311,637 plus other income of \$15,579 for the quarter ending September 30, 2003.

For the nine month period ending September 30, 2004, Nordex reported revenues of \$1,469,438 compared to \$725,059 for the nine month period ending September 30, 2003.

During the past year, the Corporation has increased its product lines and product offerings, in order to attract larger customers in the mining and construction industries. The Corporation was of the opinion that in order to obtain larger orders from new and existing customers, it was necessary to offer a full product line of explosive products, as larger users of explosive products had indicated they wished to deal with a limited number of suppliers. Sales to larger users of explosive products were difficult to obtain in the past, as Nordex was not been able to offer a full product line.

Accordingly, during the fiscal year, Nordex has introduced new product lines of explosive emulsions ("Emulsions"), explosive WaterGel, and the resale of explosive detonators obtained from third party suppliers. The introduction of these new products have enabled the Corporation to significantly increase the sales of the Corporation when compared to the comparable period in the previous fiscal year.

During the quarter ending September 30, 2004, sales of previously existing Nordex explosive products, including Anfo, ConePak, Norgel, NorStem, and Trace-It increased to \$367,451 compared to \$311,637 for the quarter ending September 30, 2003. Sales of new products totalled \$398,965 for the quarter, comprised of \$73,556.71 of Emulsions, \$77,021 of WaterGel, and \$248,388 of explosive detonators.

**Cost of Goods Sold**

Due to the increased sales of products the Cost of Goods Sold increased to \$769,387 for the quarter ending September 30, 2004, compared to \$252,733 for the quarter ending September 30, 2003. The gross margin was 7.42% for the quarter ending September 30, 2004 compared to 18.9% for the quarter ending September 30, 2003. The most significant component of Cost of Goods Sold were the costs of materials purchased totalling \$613,321, shipping and freight costs of \$68,031, commissions payable on sales of \$14,000 and wages and benefits related to manufacturing of products of \$74,035.

For the nine months ending September 30, 2004, Cost of Goods Sold were \$1,294,130 compared to \$594,542 for the comparative period ending September 30, 2003. The gross margin for the nine month period was 11.93% compared to 18% for the comparative nine months in 2003.

Gross margins were negatively effected as the Corporation was not able to achieve any significant margins on the resale of explosive detonators purchased from third parties. Sales of explosive detonators comprised approximately 35% of the total sales of the Corporation for the three month period ending September 30, 2004. In order to induce existing and new customers to increase purchases of other Nordex products, it was necessary to offer explosive detonators to customers at a cost basically equal to Nordex's cost of purchasing the explosive detonators from third

party suppliers. However, management is of the opinion that it is necessary to continue to offer this product to customers in order to achieve higher sales of other, more profitable products.

### **Administrative Expenses**

Administrative expenses include sales, marketing, customer support, finance and executive personnel, professional services, insurance, office and occupancy costs required to manage the Corporation. Accrued administrative expense costs for the quarter ending September 30, 2004 were \$125,466 compared to \$63,975 for the quarter ending September 30, 2003, including \$15,228 paid to consultants, \$26,420 for insurance, \$2,834 for utilities \$44,999 for wages and benefits for administrative purposes, and \$35,985 for miscellaneous administrative expenses, including property taxes and amounts due for salary to certain employees and officers. The Corporation has accrued \$41,000 for year 2004 salaries to date due to employees and officers who have agreed to forego payment at this time to assist the Corporation in meeting its ongoing cash requirements.

For the nine months ending September 30, 2004, accrued administrative expenses were \$377,379 compared to \$200,175 for the comparative period ending September 30, 2003.

### **Provision for Income Taxes**

As of December 31, 2003, the corporation had available non-capital loss carry-forwards for tax purposes in the amount of \$1,342,000, which may be carried forward and be used to reduce taxable income of future years, as set out in the notes to the financial statements. These carryforwards expire as set out in the notes to the December 31, 2003 statements. In addition, the Corporation has earned non-refundable investment tax credits amounting to approximately \$93,000 that can be applied to reduce future federal income taxes payable. These credits expire as set out in the notes. The benefit of these loss carry-forwards and investment tax credits will be recorded when realized.

### **Retained Earnings**

Retained Earnings decreased to (\$1,009,554) as of September 30, 2004 from (\$785,223) for the fiscal year ending December 31, 2003 reflecting the net loss for the nine month period

### **Accounts Receivable**

Accounts receivable increased to \$729,784 as of September 30, 2004 from \$156,998 as of December 31, 2003. The increase is directly related to the increase in revenues and sales for the quarter ending September 30, 2004. The Corporation recognizes sales upon invoicing and delivery of product, and customers usually pay the Corporation within 60 days of invoicing. Accordingly, accounts receivable have increased due to increased sales. Management is investigating means of reducing the time period within which customers pay invoices to between 30 and 45 days after invoicing to reduce accounts receivable.

Increased sales have also resulted in a corresponding increase in accounts payable and accrued liabilities, as the Corporation has, in order to meet increased sales, been required to increase purchases of materials to \$613,321 for the period, and incurred higher costs for shipping and freight.

### **Inventory**

Inventory has increased to \$355,409 as of September 30, 2004 from \$159,998 as of December 31, 2003. Raw materials are valued at the lower of cost and replacement cost, and finished goods are valued at the lower of cost and net realizable value. The Corporation has increased its inventories of both raw materials and finished goods to meet increased sales. Inventories of previously existing products (Anfo, ConePak, Norgel, NorStem, and Trace-It) were \$45,922, inventories of raw materials were \$65,840, and inventories of new product lines (explosive emulsions, explosive WaterGel, and explosive detonators) were \$243,547.35, of which \$123,579 were explosive detonators purchased from third party suppliers.

## **RISK FACTORS**

The Corporation's business is subject to many risks and uncertainties which may affect its future performance. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes are immaterial may also materially and adversely impair its business operations. The information below and information contained in publicly available information in respect of the Corporation may contain forward-looking statements that involve risks and uncertainties. All such forward-looking statements are naturally speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements.

### **Reliance on Existing Product in Static Market**

For the foreseeable future, the Corporation's revenues will be derived entirely from existing products. Demand for existing products will be affected by many factors, many of which are beyond the Corporation's control, including the general level of mining and quarrying and competition within the explosives industry. No assurance can be given that other companies will not enter the market in which the Corporation competes or that the Corporation will have the resources required to compete successfully in the future.

### **Dependence on Suppliers and Manufacturers**

The Corporation sources its raw materials and manufactured product primarily from suppliers in North America. The Corporation integrates and/or assembles certain components at its facilities. The Corporation believes that it could replace any of its suppliers, manufacturers or assemblers within a short period of time and without material adverse impact on the Corporation's business.

### **Dependence on Significant Customers**

A significant percentage of Nordex's historical revenues has been attributable to installations to a relatively small number of major customers. There can be no assurance that such customers will continue to use the Corporation's products and services. The failure of Nordex's current customers to continue to utilize the Corporation's products could have a material adverse effect on the Corporation. In addition, customers who account for significant portions of the Corporation's revenues may have the ability to negotiate prices for the Corporation's products that are more favourable and could result in lower profit margins for the Corporation.

### **Ability to Manage Growth**

If the Corporation obtains significant orders from large customers, the Corporation will experience rapid growth, which in turn will place significant pressure on the Corporation's managerial, operational and financial condition. The Corporation will also be required to develop and manage multiple relationships with various customers, business partners and other third parties. The Corporation's systems, procedures or controls may not be adequate to support the Corporation's operations and Corporation management may not be able to achieve the rapid expansion necessary to exploit potential market opportunities for the Corporation's products and services. The Corporation's future operating results will also depend on its ability to expand its sales and marketing to implement and manage new distribution channels, to penetrate new markets and to expand its support organization.

### **Reliance on Management**

The Corporation's business involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Purchasers of the Corporation's securities must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. An investment in the Corporation's securities is suitable for investors who are willing to rely solely upon the management of the Corporation and who could afford a total loss of their investment.

### **Key Personnel**

The success of the Corporation is dependent upon, among other things, the services of key personnel. The loss of any of these individuals, for any reason, could have a material adverse effect on the prospects of the Corporation. In addition, the future success of the Corporation will depend in large part on its ability to attract and retain qualified technical, managerial and marketing personnel and there can be no assurance that such personnel can be attracted and retained. Failure to retain or to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Corporation's growth and profitability. The Corporation does not maintain key man insurance for its directors, officers or employees. The contributions of these individuals to the immediate future operations of the Corporation is likely to be of central importance and the loss of any one of these individuals could have a material adverse effect of the business of the Corporation. The Corporation's current team of personnel may not include individuals with sufficient technical expertise to carry out certain of the Corporation's stated objectives. There can be no assurance that suitably qualified personnel can be hired.

### **Directors and Officers Conflicts**

The Directors and officers of the Corporation will only devote part of their time to the affairs of the Corporation. Certain directors of the Corporation are associated with other businesses. Such associations may give rise to conflicts of interest from time to time

### **Delays in Implementing Business Plan**

The Corporation may experience a delay in developing and marketing its products and services. This may result in a delay in the Corporation generating revenues which in turn may have an adverse effect on the Corporation's ability to pay dividends and the value of the Corporation's securities.

### **Additional Financing Requirements**

If the Corporation is unable to implement its business plan utilizing its current financial resources, the Corporation may require additional financing to continue to carry on business. No assurance can be given that such financing will be available on commercially reasonable terms. The ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Corporation. If additional financing is raised by the issuance of shares issued from the treasury of the Corporation, control of the corporation may change and shareholders may suffer dilution.

### **Regulatory Approvals**

The Corporation may be required to obtain the discretionary approval of various securities regulators in the course of carrying on its business. The failure to obtain such approvals may adversely affect the Corporation's conduct of its business. The explosives manufacturing industry is regulated at both the provincial and federal levels. There can be no assurance that the regulatory environment in which the Corporation operates will not change in the future. The laws and regulations of all provinces in which the Corporation intends to operate do impact the Corporation's operations, but do not currently materially restrict the Corporation's operations in those provinces. In connection with its operations in existing markets and expansion into new markets, The Corporation may become subject to additional laws, regulations and interpretations. The ability of The Corporation to operate profitably will depend, in part, upon its ability to operate in compliance with applicable regulations.

### **Negative Cash Flow and Absence of Profits**

There is no assurance that the Corporation will earn profits in the future, or that profitability, if achieved, will be sustained. The success of the Corporation will ultimately depend on its ability to generate revenues from its sales of its products and services, such that its business development and marketing activities may be financed by revenues from operations instead of external financing. There is no assurance that future revenues will be sufficient to generate the required funds to continue the Corporation's business development and marketing activities.

### **Market for Securities**

The Common Shares are listed for trading on the TSX Venture Exchange. However, there is no assurance that an active trading market in the Common Shares will be sustained. Purchasers may not be able to dispose of the Common Shares or Warrants on a timely basis or at all. The market price for the Common Shares could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results, activities by competitors of the Corporation, as well as market conditions in the securities industry, may have a significant impact on the market price of the securities of the Corporation. The stock market has from time to time experienced extreme price and volume fluctuations which have often been unrelated to the operating performance of particular companies.

### Competition

The Corporation must compete with a number of other companies which have substantially greater technical, personnel and financial resources, longer operating histories, greater name recognition and larger customer bases. This competition could materially adversely affect the Corporation's business, operating results or financial condition. The market for the Corporation's products is highly competitive. There can be no assurance that The Corporation will be able to continue to compete successfully with its existing competitors or will be able to compete successfully with new competitors. It will be necessary for The Corporation to develop its technological and personnel resources in order to promote and enhance development of its business. It may be necessary for The Corporation to raise additional financing to support and grow in these areas and there is no assurance The Corporation will be able to raise funds for this purpose.

### SELECTED ANNUAL INFORMATION

The following table sets forth certain financial information of the Corporation for the twelve months ended December 31, 2003, 2002 and 2001.

Twelve Months ended December 31	2003	2002 <sup>(1)</sup>	2001 <sup>(1)</sup>
Total Revenues	\$905,277	\$754,804	\$388,350
Cost of Goods Sold	\$774,829	\$613,840	\$316,931
Gross Profit	\$130,448	\$140,964	\$ 71,419
General Administration and Marketing Expense	\$246,197	\$270,426	\$231,291
Earnings Before Interest, Taxes, Depreciation and Amortization	(\$47,959)	(\$129,462)	(\$159,972)
Net Income (Loss) for the Period	(\$64,726)	(\$104,895)	(\$169,785)
Net (Loss) Income per Share	(\$0.02)	(\$0.032)	(\$0.051)
Cash Provided (used) by Operations	\$ 4,266	(\$117,588)	(\$ 138,506)
Cash, End of Period	\$ 3,059	\$ 6,326	\$ 75,707
Long Term Debt	\$ 82,203	\$ 64,646	\$ 0
Total Liabilities	\$355,349	\$272,391	\$ 59,204
Accounts Receivable	\$156,998	\$195,639	\$ 70,215
Shareholders' Equity	\$278,939	\$336,987	\$440,447
Total Shares Outstanding (includes 588,777 shares held in treasury for cancellation)	3,314,777	3,314,777	3,314,777

Notes (1) Certain of the comparative figures have been restated to conform with current financial presentation.

All financial data contained in this Management Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles

### SUMMARY OF QUARTERLY RESULTS

The following table summarizes information pertaining to the operations of the Corporation on a quarterly basis for the eight quarters ending September 30, 2004. The quarter ending in December of each year may contain year end adjustments. Certain of the comparative figures have been restated to conform with current financial presentation.

<b>Quarter Ended</b>	<b>Revenue (Sales)</b>	<b>Income (Loss)</b>	<b>Income (Loss) Per Share</b>	<b>Total Assets</b>	<b>Total Long Term Financial Liabilities (excluding current portion)</b>
<b>2004</b>					
September 30	\$831,100	(\$73,228)	(\$0.012)	\$1,582,065	\$418,649
June 30	\$268,551	(\$121,733)	(\$0.023)	\$826,548	\$ 95,988
March 31	\$342,868	(\$29,270)	(\$0.0077)	\$757,011	\$104,948
<b>2003</b>					
December 31	\$209,187	\$ 24,990	\$0.008	\$633,738	\$82,203
September 30	\$298,247	(\$11,085)	(\$0.003)	\$575,729	\$89,989
June 30	\$207,637	(\$43,540)	(\$0.013)	\$535,517	\$97,562
March 31	\$190,206	(\$32,716)	(\$0.0099)	\$579,654	\$105,689
<b>2002</b>					
December 31	\$161,866	(\$100,346)	(\$0.03)	\$609,378	\$64,646

## **LIQUIDITY AND CAPITAL RESOURCES**

During the quarter ending September 30, 2004 the Corporation's near-cash position and short-term deposits increased to \$30,431 from \$3,059 as of December 31, 2004. Accounts receivable increased to \$729,784 as of September 30, 2004 from \$156,998 as of December 31, 2003. The increase is directly related to the increase in revenues and sales for the quarter ending September 30, 2004.

During the quarter the Corporation arranged a new working capital loan in the amount of \$400,000.00 from the Kirkland & District Community Business Association. The loan bears interest at the rate of 10% per annum, calculated monthly, payable in monthly instalments of \$5,318 and is amortized over 120 months, maturing in 2014. Proceeds of the loan were used to retire existing long term debt of approximately \$93,000.00, and to finance the purchase of equipment for the Corporation's new emulsions plant.

In addition the Corporation has a loan in the amount of \$37,824, bearing interest at the rate of 8% per annum, payable in monthly instalments of \$995 and maturing in 2008, secured by a vehicle, which vehicle was purchased by the

Corporation for the purposes of delivering product to customers, and a further loan in the amount of \$18,654 bearing interest at the rate of 10% per annum, payable in monthly instalments of \$489, and maturing in 2008 secured by a vehicle, which vehicle was purchased by the Corporation for the purposes of delivering product to customers,

Management is concerned that the Corporation's financial reserves and funds provided by ongoing operations may not be adequate to support its short term needs. In order to achieve its long term growth strategy, additional sources of capital may be required. If so, it is the Corporation's intention to finance future growth through equity or debt offerings.

The ability of the Corporation to continue as a going concern is dependent upon achieving profitable operations and having sufficient cash flow from operations or asset disposals to meet its obligations as they become due. Management is currently exploring ways to reduce overhead expenses and to raise additional capital for working capital purposes and to continue expanding the Corporation.

Management believes its financial reserves and funds provided by ongoing operations are adequate to support its short term needs. In order to achieve its long term growth strategy, additional sources of capital may be required. If so, it is the corporation's intention to finance future growth through equity or debt offerings. In management's opinion, Nordex is well poised to continue its growth in the future and has adequate means, both internally and via outside banking support to finance future growth.

#### **OUTSTANDING SHARE DATA**

The following table sets forth the capitalization of the corporation at September 30, 2004:

<b>Designation of Security</b>	<b>Authorized</b>	<b>Outstanding as at September 30, 2004</b>
Common shares	6,000,000	5,451,000 (see note 1)

*Note 1: The Corporation is authorized to issue 6,000,000 common shares, without nominal or par value. The company has, in addition to the 5,451,000 shares outstanding as of September 30, 2004, 588,777 shares held in treasury for cancellation. The holders of common shares are entitled to one vote for each share held.*

At its annual meeting of shareholders 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 common 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 in 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, and has received conditional approval from the TSX Venture Exchange.

To the best of the knowledge of our directors and officers, as of the date of this Management Analysis and Discussion document, the only persons who beneficially own directly or indirectly, or exercise control or direction over common shares carrying more than 10% of the votes attached to all of the issued and outstanding common shares are:

	<u>Number of shares</u>	<u>Percentage</u>
Elie J. Doumet Canada Ltd. Vancouver, B.C. V6C 1H2	556,377	10.20%
A. Timothy Peterson Mississauga, Ontario	1,074,000	19.70%
Jacques Levesque Point Edward, Ontario	846,700	15.53%

#### **OTHER INFORMATION**

Additional Information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).