

## LES EXPLOSIFS NORDEX LTEE/NORDEX EXPLOSIVES LTD.

### ANNUAL MANAGEMENT DISCUSSION AND ANALYSIS of Financial Condition and Results of Operations for the twelve months ended December 31, 2004

Dated: April 19, 2005

*The following information should be read in conjunction with the Corporation's audited December 31, 2004, 2003 and 2002 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.*

LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD. ("Nordex" or the "Corporation") 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 "NXX". The Corporation manufactures and distributes explosives for the mining industry from its manufacturing operations in Dane, Ontario, a small town near Kirkland Lake, Ontario. 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 for the mining and road construction industry.

The results for the fiscal year ending December 31, 2004, reflect operations of the Corporation for the twelve month period commencing January 1, 2004. Comparative financial results are for the fiscal year commencing January 1, 2003 and ending on December 31, 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

##### Financial Highlights

The following table sets forth certain financial information of the Corporation for the fiscal years ending December 31, 2004, 2003 and 2002

<b>Twelve Months ended December 31</b>	<b>2004</b>	<b>2003<sup>(1)</sup></b>	<b>2002<sup>(1)</sup></b>
Total Revenues	\$2,409,481	\$967,628	\$794,351
Cost of Goods Sold	\$2,012,251	\$774,829	\$613,840
Gross Profit	\$ 397,230	\$192,799	\$180,511
Selling and General Administration and Marketing Expense excluding interest	\$ 493,350	\$233,984	\$270,426
Income (loss) before Interest, Taxes, Depreciation and Amortization	(\$96,120)	(\$41,185)	(\$89,915)
Amortization Expenses	\$33,690	\$1,328	\$9,491
Interest on long term debt	\$21,050	\$12,313	\$5,439
Net Income (loss) for the Period	(\$150,860)	(\$64,726)	(\$104,845)
Net Income (loss) per Share	(\$0.029)	(\$0.020)	(\$0.032)
Cash Provided (used)	(\$36,244)	4,266	(\$117,588)
Cash (bank indebtedness) End of Period	\$194,020	\$ 3,059	\$ 6,326
Long Term Debt	\$408,457	\$ 82,203	\$ 64,646
Total Liabilities	\$1,438,601	\$355,349	\$272,391
Accounts Receivable	\$706,109	\$156,998	\$195,639
Shareholders' Equity	\$385,717	\$278,939	\$336,987
Total Shares Outstanding <sup>(2)</sup>	6,039,777	3,314,777	3,314,777

- Notes: (1) Certain of the comparative figures have been restated to conform with current financial presentation.  
(2) Includes includes 588,777 shares held in treasury for cancellation

All financial data contained in this Management Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles. With respect to foreign currency, all monetary assets and liabilities have been translated at the year-end exchange rate. Gains and Losses from translating monetary assets and liabilities are recognized through the statement of earnings and retained earnings in the Corporation's financial statements. Transactions in foreign currencies are translated into Canadian Dollars at the appropriate rate prevailing at the time of the transactions. Foreign exchange gains and losses are included in income for the year.

### **Dividend Record and Policy**

The Corporation has not recently paid dividends on any shares of the Corporation and may never pay cash dividends.

### **Income for the Fiscal Year**

For the fiscal year ending December 31, 2004, Nordex recorded a net loss of \$150,860 (\$0.029 loss per common share) compared to a net loss of \$64,726 (\$0.020 loss per common share) for the fiscal year ending December 31, 2003 and compared to a net loss of \$104,845 (\$0.032 loss per common share) for the fiscal year ending December 31, 2002, reflected on the weighted average number of shares outstanding. The total number of common shares outstanding as of the fiscal year end was 6,039,777 including 588,777 common shares held in treasury for cancellation.

### **Revenue**

For the fiscal year ending December 31, 2004, Nordex reported revenues of \$2,409,481 compared to \$967,628 for the fiscal year ending December 31, 2003 and compared to \$802,482 for the fiscal year ending December 31, 2002. The revenues for the Corporation increased as a result of the following: (1) a broader product offering as a result of a distribution arrangement with SEC Corp. in the U.S.A.; (2) ability to supply the Corporation's clients in a more timely manner as a result of increasing the number of vehicles to deliver product to customers and increasing the Corporation's storage capacity of finished product; (3) securing a third-party agent for the sole purpose of selling Corporation's product; and (4) management's ability to spend a greater portion of its time on sales and marketing activities compared to the previous year.

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 has enabled the Corporation to significantly increase the sales of the Corporation when compared to the comparable period in the previous fiscal year.

Management anticipates continued growth in revenues. Nordex is now able to provide a broad product offering and will begin marketing to these larger clients in 2005.

### **Cost of Sales**

Cost of Sales were \$2,012,251 for the fiscal year ending December 31, 2004 compared to \$774,829 for the fiscal year ending December 31, 2003 and compared to \$613,840 for the fiscal year ending December 31, 2002. The increase in cost of sales was due to the increase in sales for the fiscal year and an increase in the cost of goods sold and payment of commissions.

The gross margin was 16.5% for the fiscal year ending December 31, 2004 compared to 19.9% for the fiscal year ending December 31, 2003 and compared to 23.5 % for the fiscal year ending December 31, 2002. It was necessary that Nordex not increase its prices to customers in 2004 in order to maintain existing clients and obtain new ones. The decrease in gross margin is a result of the increased material and freight costs and the introduction of commissions payable to an agent of the Corporation. Raw material costs increased in the fiscal year ending December 31, 2004 to \$1,609,304 (representing 69.6% of annual product sales) from \$474,654 (representing 51.7% of annual product sales) for the year ending December 31, 2003. Freight costs increased in the fiscal year ending December 31, 2004 to \$143,209 (representing 6.2% of annual product sales) from \$42,467 (representing 4.6% of annual product sales) for the year ending December 31, 2003. During the year, the Corporation secured an agent for the sole purpose of the agent selling the Corporation's product and pays the agent a commission based on a percentage of sales. There was \$35,378 paid out in commission in the fiscal year ending December 31, 2004 (nil in 2003).

Gross margins were also negatively effected as the Corporation was not able to achieve any significant margins on the resale of explosive detonators purchased from third parties. 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.

### **Selling, General and Administrative**

Selling, general and administrative expenses include marketing, customer support, financing, interest, executive personnel, professional services, office and occupancy costs required to manage the corporation. They do not include depreciation and amortization. Selling, general and administrative expenses for the fiscal year ending December 31, 2004 were \$514,400 (representing 21.3% of total annual sales) compared to \$246,197 (representing 25.4% of total annual sales) for the fiscal year ending December 31, 2003 and compared to \$275,865 (representing 34.4% of total annual sales) for the fiscal year ending December 31, 2002. Management anticipates that these costs will decrease these costs as a percentage of total revenues provided there are corresponding future increases in sales and revenues. .

Wages and benefits increased to \$110,125 in 2004 compared to \$32,864 in 2003. This increase was a result of increased employee costs including the hiring of a full time manager located at the production facility in Dane for the entire year, and increases in administrative support costs including the hiring of a full time administrative assistant to replace part time personnel. Insurance costs increased to \$65,599 in 2004 compared to \$45,326 in 2003 as a result of the acquisition of delivery vehicles and an increase in the rates charged for mandatory liability insurance. Utility costs were essentially the same increasing by \$8 in 2004. Consulting costs in 2004 increased to \$123,650 from \$52,290 in 2003, including previously incurred costs that were not fully recognized in prior years. During the fiscal year ending December 31, 2004, the Corporation accrued \$101,750 in compensation to management which was not paid out during the year. The individuals owed these amounts have agreed that the Corporation will not be required to pay those accrued amounts until such time as not to cause undue hardship to the Corporation. Miscellaneous Expenses increased and are explained below.

### **Miscellaneous Expenses**

Miscellaneous Expenses are a component of Selling, General and Administrative Expenses. Miscellaneous Expenses include property expense; vehicle expense; travel expenses; professional fees; training costs; and costs associated with the management and ongoing regulatory and other expenses related to the public

company. Miscellaneous Expenses were \$167,859 for the fiscal year ending December 31, 2004 compared to \$77,495 for the fiscal year ending December 31, 2003 representing a year over year increase of \$90,364. In 2003, bad debt was recovered for the amount of \$10,950 whereas there was nil in 2004 resulting in a year over year increase of \$79,414 after adjusting for the recovery of bad debt. This increase is a result of several factors including: (1) a concerted effort to increase maintenance on the plant, buildings and mobile equipment as a result of the increased level of activity and the age of the equipment; (2) additional professional fees and public company regulatory expenses primarily as a result of the private placement that closed in April 2004; (3) higher travel costs as a result of increased selling and marketing; (4) increases to the costs of licenses and permits regulating the manufacturing and distribution of explosives; and (5) additional office supplies and expense due to the increased activity. These areas account for \$80,247 of the remaining \$79,414 adjusted increase in 2004 and are provided below.

<b>Account</b>	<b>2004</b>	<b>2003</b>	<b>2004 Increase</b>
<b>Total Miscellaneous Expenses</b>	<b>\$167,859</b>	<b>\$77,495</b>	<b>\$90,364</b>
Add Recovery of Bad Debt	Nil	\$10,950	(\$10,950)
<b>Adjusted Total Miscellaneous Expenses</b>	<b>\$167,859</b>	<b>\$88,445</b>	<b>\$79,414</b>
Plant, Property & Buildings Improvements	\$28,288	\$7,781	\$20,507
Improvement & Upgrades to Trucks	\$30,513	\$6,216	\$24,297
Professional and Public Company Listing Fees	\$37,003	\$21,356	\$15,647
Travel	\$24,690	\$16,010	\$8,680
Explosives Licensees & Permits	\$12,422	\$4,500	\$7,922
Office Supplies and Expense	\$7,597	\$4,403	\$3,194
<b>Total from Above Accounts</b>	<b>\$140,513</b>	<b>\$60,266</b>	<b>\$80,247</b>
Remaining Miscellaneous Accounts	\$27,346	\$28,179	(\$833)

### **Inventories**

Inventories increased to \$279,798 at the fiscal year ending December 31, 2004 from \$159,034 at the fiscal year ending December 31, 2003 and are a direct result of the increase in the monthly sales levels. It is necessary for the Corporation to maintain higher inventory levels to meet increased demands by customers. 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.

### **Property, Plant and Equipment**

The total value of Property, Plant and Equipment at fiscal year ending December 31, 2004 was \$626,912 compared to \$311,258 at fiscal year ending December 31, 2003 and \$285,453 at fiscal year ending December 31, 2002. During the fiscal year 2004, a significant amount of effort and money was spent on the following (1) improvements to the existing plant facility; (2) development of a new plant to produce emulsions product; (3) improvements and betterments to the buildings located at the plant including the office; (4) increasing the number of trucks and enhancements to existing trucks to deliver product to customers; and (5) increasing the storage capacity of finished product (inventory).

Amortization for the fiscal year ending December 31, 2004 increased to \$33,690 from \$11,328 at fiscal year ending December 31, 2003 and \$9,491 at fiscal year ending December 31, 2002. The increase was a result of the investment in Property, Plant & Equipment described above and an increase in the amortization rate used for Mobile Equipment to 25% in 2004 from 10% in 2003.

**Provision for Income Taxes**

As of December 31, 2004, the corporation has available non-capital loss carry-forwards for tax purposes in the amount of \$1,016,000, 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 carry forwards expire as set out in the notes. As of December 31, 2003, the Corporation had available non-capital loss carry-forwards for tax purposes in the amount of \$1,342,000. Realization of the potential benefits of these losses is dependent upon future profitability. 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 (\$936,183) for the fiscal year ending December 31, 2004 reflecting the net loss for the period compared to (\$785,323) for the fiscal year ending December 31, 2003 and compared to (\$720,597) for the fiscal year ending December 31, 2002.

**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 Markets**

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 road construction as well as 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 respond to technological changes or to compete successfully in the future.

**Technological Change**

Because of technological changes in the industry, there can be no assurance that the introduction of new products or the development of other technologies by other entities will not render the Corporation's products and processes obsolete or unmarketable. Moreover, increased market penetration and customer acceptance of the Corporation's products will depend upon the Corporation's ability to maintain a technically competent product development, marketing and technical support force and its ability to adapt to technology changes in its industry.

**Dependence on Suppliers and Manufacturers**

The Corporation sources its raw materials primarily from suppliers in North America. The Corporation integrates and/or assembles certain components at its facilities. The Corporation also acts as a distributor for other companies and resells their product. A significant portion of the Corporation's sales are currently made up by the resale of product from one company, Austin Powder. With the exception of Austin Powder, 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. The

ability to replace the product supplied by Austin Powder with similar product from another supplier is a significant risk and failure to do so could have a material adverse effect on the Corporation.

### **Dependence on Significant Customers**

A significant percentage of Nordex's historical revenues have 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 with a combination of experience, knowledge and careful evaluation, it 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.

### **Dependence on 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 all of 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.

### **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 secure 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.

### **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.

## 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 December 31, 2004. Results for the quarters ending March, June and September are unaudited, whereas the fiscal year ends for December are audited. As a result, the quarter ending in December of each year may contain year end adjustments. Certain of the comparative figures for prior quarters have been restated to conform with current financial presentation.

Quarter Ended	Revenue	Income (Loss)	Income (Loss) Per Share	Total Assets	Total Long Term Financial Liabilities
<b>2004</b>					
December 31	\$966,961	\$ 73,371	\$0.012	\$1,824,318	\$447,721
September 30	\$831,100	(\$ 73,228)	(\$0.012)	\$1,582,065	\$456,478
June 30	\$268,551	(\$121,733)	(\$0.023)	\$ 826,548	\$130,742
March 31	\$342,869	(\$ 29,270)	(\$0.008)	\$ 579,454	\$104,948
<b>2003</b>					
December 31	\$258,148	\$ 22,615	\$0.007	\$ 633,738	\$112,174
September 30	\$311,367	(\$ 11,085)	(\$0.003)	\$ 575,729	\$119,221
June 30	\$207,637	(\$ 43,540)	(\$0.013)	\$ 535,517	\$126,084
March 31	\$190,206	(\$ 32,716)	(\$0.010)	\$ 579,654	\$132,740

## LIQUIDITY AND CAPITAL RESOURCES

During the fiscal year ending December 31, 2004, there was an increase in the Corporation's near-cash position and short-term deposits to \$194,020 from \$3,059 as of December 31, 2003 and \$6,326 as of December 31, 2002.

Accounts receivable increased to \$706,109 from \$156,998 at December 31, 2003 and \$195,639 at December 31, 2002. The increase is directly related to the increase in sales for the year and for the fourth quarter 2004 in particular. Accounts payable and accrued liabilities increased to \$990,880 from \$243,175 at December 31, 2003 and \$189,815 at December 31, 2002. At the fiscal year ending December 31, 2004, accounts payable made up \$787,781 of the \$990,880. The increase in accounts payable is directly related to the increase in sales for the year and for the fourth quarter 2004 in particular. In the fiscal year ending December 31, 2004, accrued liabilities outstanding to Directors, staff and consultants was \$180,659; \$131,750 of this amount is consulting fees and wages for directors and management that has not been paid

out and it will only be paid out in a manner and at a time that does not cause undue hardship to the Corporation.

On April 28, 2004, the Corporation closed a private placement resulting in the issuance of 2,725,000 shares and net proceeds of \$252,500.

During the fiscal year 2004, the Corporation arranged a new working capital loan in the amount of \$400,000 from the Kirkland & District Community Development Corporation. The loan bears interest at the rate of 10% per annum calculated monthly, payable in monthly instalments of \$5,318 and is amortized over a 120 months, maturing in 2014. Proceeds of the loan were used to cancel existing long term debt of approximately \$93,000 and to finance the purchase of equipment of the Corporation's new emulsion 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 purpose of delivering product to customers. Furthermore, the Corporation has a 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 purpose of delivering product to customers.

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 increase sales, increase gross margins 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.

#### **Transactions with Related Parties**

During the fiscal year ending December 31, 2004 the Corporation loaned a director of the Corporation \$12,500 with no interest. This loan was repaid to the Company in full in April, 2005.

### **FOURTH QUARTER RESULTS**

#### **Income**

For the quarter ending December 31, 2004, the Company recorded a net income of \$73,371 (\$0.012 earnings per common share) compared to a net income of \$22,615 (\$0.007 earnings per common share) for the quarter ending December 31, 2003, reflected on the weighted average number of shares outstanding.

#### **Revenue**

For the quarter ending December 31, 2004, revenues were \$966,961 compared to \$258,148 for the quarter ending December 31, 2003.

The increase in revenue was a result of securing several new clients in the third quarter in both mining and road construction and the broader product offering that the Company was providing in the quarter. In the second quarter, the Company secured a full time person to sell its products. Due to this and ongoing marketing activities, the Company was successful in securing the new clients. The company also entered into relationships with other explosive manufacturers in the United States that make product that the Company does not. As a result of these relationships, the Company can provide a broader product offering resulting in increased sales.

### Cost of Sales

The Cost of Sales were \$718,121 for the quarter ending December 31, 2004, compared to \$180,287 for the quarter ending December 31, 2003. The gross margin was 25.73% for the quarter ending December 31, 2004, compared to 30.16% for the quarter ending December 31, 2003.

### Selling, General and Administrative

The Selling, General and Administrative Expenses for the quarter ending December 31, 2004 were \$127,221 (representing 13.16% of total sales in the quarter) compared to \$36,717 (representing 14.22% of total sales in the quarter) for the quarter ending December 31, 2003. This increase is a result of several factors which are outlined in the section above on Selling, General and Administrative Expenses for the entire year.

### Capital Expenditures

In the fourth quarter, management decided to capitalize various expenditures that had been made throughout the year associated with (1) improvements to the existing plant and building, (2) the implementation of a new plant to manufacture emulsion explosives, (3) increased storage capacity of manufactured explosives and (4) improvements to mobile equipment. These capital expenditures adjustment amounts for each of these items are provided below.

Capital Expenditure Area	Adjustment Made in Fourth Quarter
Existing Plant and Building	\$48,159
Emulsion Plant	\$58,484
Storage Facilities	\$12,519
Mobile Equipment	\$10,884
Total Fourth Quarter Adjustments	\$130,046

A large portion of these expenditures occurred in the first three quarters with the adjustment occurring in the fourth quarter.

### OUTSTANDING SHARE DATA

The following table sets forth the capitalization of the Corporation at December 31, 2004:

Designation of Security	Authorized	Outstanding as at December 31, 2004
Common	12,000,000	6,039,777 (includes 588,777 common shares held in treasury for cancellation)

On April 28, 2004, the Corporation completed a private placement of 2,725,000 common shares at a price of \$0.10 per share for proceeds to the Corporation of \$272,500.00 before costs and expenses related thereto. At the end of the previous fiscal year ending December 31, 2003, the Corporation had 3,314,777 issued shares, including the 588,777 shares held in treasury for cancellation.

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. On December 15, 2004, the *Registraire des Entreprises* for the Province of Quebec issued a *Certificate De*

*Modification* increasing the authorized capital of the corporation to 12,000,000 common no par value shares. The holders of common shares are entitled to one vote for each share held.

To the best of the knowledge of the directors and senior officers of the Corporation, the following persons beneficially own, directly or indirectly or exercise control or direction over, more than 10% of the issued and outstanding Common Shares of the Corporation:

Name	Number of Shares Beneficially Owned or Controlled or Directed	Percentage of Outstanding Common Shares <sup>(1)</sup>	
		Of 6,039,777 <sup>(a)</sup>	Of 5,451,000 <sup>(b)</sup>
Elie J. Doumet Canada Ltd. Vancouver, British Columbia, Canada	556,377	9.21%	10.21%
Jacques Levesque Point Edward, Ontario, Canada	866,700	14.35%	15.90%
Andrew Timothy Peterson Mississauga, Ontario, Canada Canada	1,074,000	17.78%	19.70%

Notes: (1) The Corporation holds 588,777 common shares held in treasury for cancellation. Percentage of Common Shares is shown as (a) as a percentage of total outstanding shares and (b) as a percentage of total outstanding shares less shares held in treasury for cancellation.

## OTHER INFORMATION

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

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