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

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

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***N.R. McLEOD***

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**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, 2006 and 2005 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, 2006 and 2005, 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 30, 2007

Chartered Accountant

**LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.****CONSOLIDATED BALANCE SHEETS****AS AT DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 57,559	\$ 354,040
Accounts receivable	1,027,908	625,579
Inventories (Note 2)	313,949	270,590
	1,399,416	1,250,209
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 3)	1,043,718	829,511
	\$ 2,443,134	\$ 2,079,720
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,118,050	\$ 1,046,123
Current portion of long-term debt (Note 4)	42,206	43,169
	1,160,256	1,089,292
LONG-TERM DEBT (Note 4)	314,513	365,288
	1,474,769	1,454,580
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 5)	1,129,681	1,086,020
OPTIONS (Note 6)	6,386	16,043
CONTRIBUTED SURPLUS	226,690	226,690
DEFICIT	(394,392)	(703,613)
	968,365	625,140
	\$ 2,443,134	\$ 2,079,720

**APPROVED BY THE BOARD OF DIRECTORS:**

"Andrew Timothy Peterson"  
ANDREW TIMOTHY PETERSON  
DIRECTOR

"John C. Kozak"  
JOHN C. KOZAK  
DIRECTOR

See accompanying notes to the financial statements.

**LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT****YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
SALES (Schedule 1)	<b>\$ 4,857,953</b>	\$ 3,674,883
COST OF GOODS SOLD (Schedule 1)	<b>3,610,281</b>	2,816,898
GROSS PROFIT	<b>1,247,672</b>	857,985
EXPENSES		
Administrative (Schedule 1)	<b>833,414</b>	535,590
Amortization	<b>69,047</b>	46,460
Interest on long-term debt	<b>35,990</b>	43,365
	<b>938,451</b>	625,415
<b>INCOME</b>	<b>309,221</b>	232,570
DEFICIT, beginning of year	<b>(703,613)</b>	(936,183)
DEFICIT, end of year	<b>\$ (394,392)</b>	\$ (703,613)
BASIC AND DILUTED EARNINGS PER SHARE	<b>\$ 0.055</b>	\$ 0.040
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<b>5,451,959</b>	5,742,969

See accompanying notes to the financial statements.

**LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<b>OPERATING ACTIVITIES</b>		
<b>INCOME</b>	<b>\$ 309,221</b>	<b>\$ 232,570</b>
ADD ITEMS NOT REQUIRING A CASH OUTLAY		
Amortization	<b>69,047</b>	46,460
Stock based compensation	<b>5,779</b>	6,853
DECREASE (INCREASE):		
Accounts receivable	<b>(402,329)</b>	80,530
Inventory	<b>(43,359)</b>	9,208
Prepaid expenses	-	4,977
INCREASE (DECREASE):		
Accounts payable	<b>71,928</b>	55,243
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>10,287</b>	435,841
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	<b>(51,738)</b>	(39,262)
Share Options Exercised	<b>(15,436)</b>	-
Due to shareholders	-	12,500
Issuance of common shares	<b>43,661</b>	-
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>(23,513)</b>	(26,762)
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	<b>(283,255)</b>	(249,059)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(283,255)</b>	(249,059)
<b>CHANGE IN CASH DURING THE YEAR</b>	<b>(296,481)</b>	160,020
<b>CASH, beginning of year</b>	<b>354,040</b>	194,020
<b>CASH, end of year</b>	<b>\$ 57,559</b>	<b>\$ 354,040</b>

See accompanying notes to the financial statements.

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 1. NATURE OF OPERATIONS

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

### 2. 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%
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.

#### (e) REVENUE

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

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

#### (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 uses 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. 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 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 2006	2005
Land and land improvements	\$ 45,094	\$ -	\$ 45,094	\$ 39,839
Buildings	807,492	286,958	520,534	335,489
Plant, machinery and equipment	655,055	322,657	332,398	289,734
Office equipment and furniture	43,465	27,607	15,858	13,037
Laboratory equipment	15,453	5,764	9,689	8,485
Mobile equipment	551,947	431,802	120,145	142,927
Totals	\$ 2,118,506	\$ 1,074,788	\$ 1,043,718	\$ 829,511

Depreciation expense for the year amounted to \$69,047 (2005 - \$46,460).

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2006 AND 2005

### 4. LONG-TERM DEBT

	2006	2005
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.	\$ 340,783	\$ 368,976
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.	15,936	26,151
Loan bearing interest at 10% per annum, repayable in blended monthly installments of \$498. As security the company has pledged a vehicle.	-	13,330
	356,719	408,457
Current portion	42,206	43,169
	\$ 314,513	\$ 365,288

Approximate principal repayments are as follows:

2007	\$ 42,206
2008	\$ 39,278
2009	\$ 38,010
2010	\$ 41,990
2011	\$ 46,387
Subsequent to 2011	\$ 148,848
	\$ 356,719

### 5. SHARE CAPITAL

(a) AUTHORIZED

12,000,000 common shares

(b) ISSUED

	2006	2005
5,626,000 common shares	\$ 1,129,681	\$ 1,086,020

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2006 AND 2005

### 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 330,000 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
120,000	21 cents	November 28, 2010
35,000	50 cents	December 14, 2011

Stock options issued are as follows:

Options outstanding as at beginning of year	295,000
Granted	35,000
Exercised	(175,000)
Options outstanding at year end	155,000
Options exercisable at year end	155,000

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average contractual life (years)	Exercisable options weighted average contractual life (years)
\$ 0.21	120,000	120,000	3.03	3.03
0.50	35,000	35,000	1.12	1.12
\$ 0.27	155,000	155,000	4.15	4.15

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.

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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	\$0.27

### 7. 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.

### 8. ACCOUNTS RECEIVABLE CONCENTRATION AND ECONOMIC DEPENDENCE

The Company derives the majority of its revenue from the mining industry. Three customers comprised approximately 79% (2005 - 80%) of the accounts receivable at the year end. The revenue derived from these customers also approximated 79% (2005 -71% ) for the year.

### 9. INCOME TAXES

The Company has losses of approximately \$280,550 available to reduce future taxable income. These losses expire as follows:

2007	\$ 21,020
2008	124,961
2009	81,171
2010	53,398
2011	-
	<hr/>
	\$ 280,550

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.

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:

	2006	2005
Income before income taxes	\$ 309,221	\$ 232,570
Combined basic federal and provincial tax rate	36.12 %	36.12 %
Expected income tax	\$ 111,691	\$ 84,004
Increase (decrease) in income taxes resulting from:		
Depreciation claimed in excess of capital cost allowance	24,940	16,781
Tax losses utilized	(136,631)	(100,785)
	<hr/>	<hr/>
	\$ -	\$ -

# LES EXPLOSIFS NORDEX LTEE./NORDEX EXPLOSIVES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

	2006	2005
Operating losses carried forward	\$ 56,110	\$ 179,754
Tax values of capital assets in excess of accounting values	70,377	18,715
Investment tax credits	-	18,653
Total deferred tax assets	126,487	217,122
Valuation allowance	(126,487)	(217,122)
	\$ -	\$ -

Investment tax credits in the amount of \$NIL (2005 - \$19,000) are available in varying amounts until 2006.

### 10. RELATED PARTY TRANSACTIONS

During 2006, the Company accrued a total of \$60,000 (2005 - \$60,000) in management fees between the President and Chairman who are both directors of the Company. The Company also paid or accrued directors fees of \$11,400 (2005 - \$NIL) for attendance at board meetings. At December 31, 2006 \$112,400 was owing to the directors (2005 - \$150,000). The Company has also accrued bonuses of \$14,569 for the directors under the Profit Sharing Plan (Note 11).

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.

### 11. PROFIT SHARING PLAN

During the fiscal year ending December 31, 2005, the Board of Directors approved a Profit Sharing Plan (the "PSP") for the employees, management and directors of the Corporation. The PSP applies to the fiscal years ending December 31, 2006 and 2007. Under the terms of the PSP, if the Company achieves net income before tax (and before PSP amounts owed) in excess of \$163,530 in either of the fiscal years, certain individuals/groups will receive a portion of the amount in excess of this amount as follows:

VP Operations	20.00% of the amount in excess of \$163,530
President	13.33% of the amount in excess of \$163,530
Chairman	6.67% of the amount in excess of \$163,530
Non-management employees in total	5.00% of the amount in excess of \$163,530
All Directors in total	5.00% of the amount in excess of \$163,530

In the year ending December 31, 2006, the Company recognized a PSP expense of \$145,692. The Company paid out a portion of the PSP owing to the non-management employees during the year. The balance of the amounts owed under the PSP will not be paid out until after the fiscal year end in which they apply.

The maximum amount payable under the PSP is \$400,000 per year.

### 12. LEASE COMMITMENTS

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

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

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

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<b>REVENUE</b>		
Sale of product	\$ 4,635,786	\$ 3,519,489
Freight	221,687	155,058
Other	480	336
	<b>\$ 4,857,953</b>	<b>\$ 3,674,883</b>
<b>COST OF GOODS SOLD</b>		
Materials Purchased	\$ 2,848,390	\$ 2,265,486
Freight	228,460	133,270
Commissions	139,979	135,709
Wages & benefits	393,452	282,433
	<b>\$ 3,610,281</b>	<b>\$ 2,816,898</b>
<b>ADMINISTRATIVE EXPENSES</b>		
Consultants	\$ 105,084	\$ 87,540
Insurance	112,599	65,557
Utilities	29,389	28,919
Wages & benefits	295,946	128,444
Miscellaneous	290,396	225,130
	<b>\$ 833,414</b>	<b>\$ 535,590</b>