

**APEX CAPITAL CORP.  
MANAGEMENT DISCUSSION AND ANALYSIS**

**For The Nine Month Period Ended September 30, 2006**

The following discussion and analysis of financial results, prepared as of September 30, 2006 should be read in conjunction with the unaudited interim financial statements of Apex Capital Corp. (the "Company"), for the three month period ended September 30, 2006 together with the notes thereto. The unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those in the statements.

The Company was incorporated under the *Business Corporations Act* of Alberta on September 15, 2004. The Company is a capital pool corporation as defined by the rules of the TSX Venture Exchange ("the Exchange"). The Company's principle business is the identification and evaluation of assets, properties or businesses, and once identified and evaluated to negotiate an acquisition or participation subject to the approval of the Exchange and, if required, shareholders' approval.

The Company is a reporting issuer in the Province of Alberta and British Columbia and files all public documents on [www.sedar.com](http://www.sedar.com).

For further information about the Company, please refer to the Company's Prospectus dated March 30, 2006 which has been filed on [www.sedar.com](http://www.sedar.com).

**MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis is based on results of operations and financial position and should be read in conjunction with the unaudited financial statements for the three month period ended September 30, 2006:

- The company earned interest income of \$7,440.
- Depreciation expenses increased by \$482.
- Office and sundry expenses increased significantly to \$7,718 as compared to \$595 in 2005.
- Professional fees increased to \$5,983.

The reason for the increase in sundry expenses is the ongoing costs incurred related to the prospectus and the application for approval and listing on the Exchange. After taking into account the interest income earned on cash on deposit, the Company's net loss for the three month period was \$6,743.

The Company's prospectus dated March 30, 2006 was filed with and accepted by the Exchange, the Alberta Securities Commission and the British Columbia Securities Commission. The sponsoring agent is Canaccord Capital Corporation. The initial public offering is completed and the Company is now listed on the Exchange. The symbol is AAX.P.

## **BUSINESS OF THE CORPORATION**

The Company proposes to identify and evaluate businesses and assets with a view to completing a qualifying transaction. Any proposed qualifying transaction must be accepted by the Exchange and any non arm's length qualifying transaction is also subject to Majority of the Minority Approval in accordance with the CPC Policy of the Exchange.

Until completion of a qualifying transaction, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential qualifying transaction. With the consent of the Exchange, this may include the raising of additional funds in order to finance an acquisition.

## **RISKS RELATED TO OUR BUSINESS**

The Company has a limited history of operation and has not yet entered into an agreement in principle to acquire or complete a qualifying transaction. The Company is currently evaluating opportunities and until such a time as it enters into an agreement to complete a qualifying transaction, there is no guarantee such a transaction will be completed. External financing will be required to fund the Company's activities, primarily through the issuance of common shares. There can be no assurance that the Company will be able to obtain adequate financing. The securities of the Company should be considered a highly speculative investment. The following risk factors should be given special consideration when evaluating an investment in any of the Company's securities:

**Dilution:** There are a number of outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future. This will result in further dilution to the Company's shareholders.

**Revenues and Dividends:** The Company has no meaningful revenues and does not expect to have any meaningful revenues in the foreseeable future. In the event that the Company generates any meaningful revenues in the future, the Company intends to retain its earnings in order to finance further growth. Furthermore, the Company has not paid any dividends in the past and does not expect to pay any dividends in the future.

**Disruption in Trading:** In the event the Company makes a public announcement of a proposed qualifying transaction, trading in the common shares of the Company will be halted and will remain for an indefinite period of time. Trading in the common shares of the Company may be halted at other times for other reasons, including failure by the Company to submit documents to the Exchange in the time periods required.

## **FORWARD LOOKING STATEMENTS**

Certain statements contained herein are "forward-looking" and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events to differ materially from those expressed or implied. Readers are therefore cautioned not to place reliance on any forward-looking statement.

## **LIQUIDITY**

As of September 30, 2006, the Company had \$1,777,084 in cash and the Company's account payables and accrued liabilities outstanding were \$8,462. The Company's working capital as at September 30, 2006, is \$1,768,622

## **FINANCIAL INSTRUMENTS**

- (i) Fair value  
The carrying values of cash and term deposits, interest receivables, accounts payable and accrued liabilities, approximate their fair values because of the short-term maturity of these financial instruments.
  
- (ii) Interest rate risk  
The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

## **CAPITAL STOCK**

Capitalization:

Unlimited number of common shares without par value  
Unlimited number of preferred shares without par value

<b><u>Amount</u></b>	<b><u>Number of Shares</u></b>	
Shares issued for cash	8,330,000	\$1,825,363
<b>Balance, September 30, 2006</b>	<b><u>8,330,000</u></b>	
<b><u>\$1,825,363</u></b>		

### **a) Escrow Shares**

Accordingly to Exchange policies, all of the Company's issued shares prior to the public offering will be held in escrow and will be released over a period of years from the time of acceptance of the Company's qualifying transaction.

**b) Share Options**

The Company has granted options to Directors to purchase a total of 733,000 common shares at \$0.30 per share. The options will be exercisable for a period of up to five years following the date of obtaining a listing on the Exchange. Should any Director's options be exercised into common shares of the Company prior to the completion of a qualifying transaction, then such shares are to be escrowed pursuant to the requirements set out in Exchange Policy 2.4.

**DISCLOSURE CONTROLS AND POLICIES**

Management has ensured that there are disclosure controls and procedures which provide reasonable assurance that material information relating to the Company is disclosed on a timely basis, particularly information relevant to the period in which annual filings are being prepared. Management believes these disclosure controls and procedures have been effective during the period ended September 30, 2006.

**INITIAL PUBLIC OFFERING**

On July 13, 2006, the Company completed its initial public offering and issued 5,000,000 common shares at a price of \$0.30 per share for gross proceeds of \$1,500,000. The cost of the issue was \$164,137.72. Total issued and outstanding shares are 8.33 million common shares. The Company's shares are now traded on the Exchange under the symbol AAX.P.

**PROPOSED ACQUISITION OF TRAXION ENERGY**

The Company has reached an agreement in principle to acquire all of the issued and outstanding shares of Traxion Energy Inc., ("Traxion") an Alberta corporation active in the oil and gas industry. The parties have entered into a letter of intent dated September 8, 2006, with respect to the proposed transaction. It is intended that the acquisition will constitute the qualifying transaction of the Company within the meaning of the Exchange Policy 2.4.

The letter agreement, which was negotiated at arms length between the Company and Traxion shareholders, contemplates that the Company will acquire, by way of an exempt takeover bid, all of the issued and outstanding shares of Traxion for total consideration of \$5,164,723 payable entirely by way of the issuance of 12,911,808 common shares of the Company at an ascribed value of \$0.40 cents per share. The foregoing valuation assumes the exercise of all outstanding Traxion options for proceeds to Traxion of approximately \$35,625 and the completion of Traxion of a private placement to raise gross proceeds of \$1.03 million. In the event the options are not exercised or the full Traxion private placement is not completed, the value of the acquisition will be adjusted on a dollar-for-dollar basis. Holders of Traxion shares at the closing of the acquisition will receive 24 common shares of the Company for each Traxion share then held. Upon completion of the acquisition, Traxion will be a wholly owned subsidiary of the Company, which combined entities are sometimes hereinafter referred to as the resulting issuer.

Of the estimated 12,911,808 common shares of the Company to be received by the shareholders of Traxion as disclosed above, two million (15.49%) of such shares will be subject to performance escrow restrictions and will only be released to the Traxion shareholders (as to 500,000 shares per well) in the event Traxion's next four wells show sufficient potential to warrant the installation of production casing, in accordance with good oil field practice. The aforementioned escrow is not mandated by the Exchange, but was negotiated between the parties as part of the business terms of the transaction.

It is anticipated that the total number of outstanding common shares of the resulting issuer (following the acquisition and assuming the exercise of the Traxion options and completion of the Traxion private placement) will be approximately 21,244,808 common shares. Those shares will be

owned, as to approximately 39.2 per cent, by the current holders of Apex shares and as to approximately 60.8 per cent by the holders of Traxion common shares. Accordingly, the acquisition will constitute a reverse takeover of the Company. In addition to the foregoing, it is anticipated that the directors of the resulting issuer will grant stock options, at the closing of the acquisition, to directors, officers, employees and consultants entitling such persons to acquire up to 10 per cent of that number of resulting issuer common shares then outstanding at an exercise price of 40 cents per share.

The acquisition remains subject to, among other things, all applicable regulatory and directors approvals, the execution of a formal agreement and the completion of satisfactory due diligence. The parties expect that all conditions precedent will be satisfied in due course. As the acquisition is an arm's-length transaction, it is not contemplated that shareholder approval of the Company will be required.

**APEX CAPITAL CORP.**  
(A Capital Pool Company)

**INTERIM FINANCIAL STATEMENTS**

**September 30, 2006 AND 2005**  
(Unaudited)

*The Company's independent auditor has not performed a review of these financial statements.*

**APEX CAPITAL CORP.**  
(A Capital Pool Company)

**INTERIM BALANCE SHEETS**  
(Unaudited)

	<b>SEPTEMBER 30 2006</b>	<b>DECEMBER 31 2005</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,763,736	\$ 460,067
GST recoverable	878	1,570
Interest receivable	12,470	7,162
	1,777,084	468,799
<b>Deferred Share Issue Costs</b>	5,867	-
<b>Equipment</b>	3,855	5,303
	\$ 1,786,806	\$ 474,102
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 8,462	\$ 13,350
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 5)</b>	1,825,363	499,500
<b>Deficit</b>	(47,019)	(38,748)
	1,778,344	460,752
	\$ 1,786,806	\$ 474,102

Approved by the Directors:

"Burkhard Franz"

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"Lorraine McVean"

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The accompanying notes are an integral part of these financial statements.

**APEX CAPITAL CORP.**  
(A Capital Pool Company)

**INTERIM STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
<b>Expenses</b>				
Amortization	\$ 482	\$ 334	\$ 1,447	\$ 820
Office and sundry	7,718	1,118	13,516	12,095
Professional fees	5,983	595	6,611	14,295
<b>Loss For The Period Before The Following</b>	<b>(14,183)</b>	<b>(2,047)</b>	<b>(21,574)</b>	<b>(27,210)</b>
<b>Other Income</b>				
Interest	7,440	1,866	13,303	4,663
<b>Net Loss For The Period</b>	<b>(6,743)</b>	<b>(181)</b>	<b>(8,271)</b>	<b>(22,547)</b>
<b>Deficit, Beginning Of Period</b>	<b>(40,276)</b>	<b>(37,614)</b>	<b>(38,748)</b>	<b>(15,248)</b>
<b>Deficit, End Of Period</b>	<b>\$ (47,019)</b>	<b>\$ (37,795)</b>	<b>\$ (47,019)</b>	<b>\$ (37,795)</b>
<b>Earnings (Loss) Per Share, Basic And Diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>8,330,000</b>	<b>3,330,000</b>	<b>8,330,000</b>	<b>3,330,000</b>

The accompanying notes are an integral part of these financial statements.

**APEX CAPITAL CORP.**  
(A Capital Pool Company)

**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
<b>Cash Flows From Operating Activities</b>				
Net loss for the period	\$ (6,743)	\$ (181)	\$ (8,271)	\$ (22,547)
Add: Item not involving cash:				
Amortization	481	334	1,447	820
	<u>(6,262)</u>	<u>(153)</u>	<u>(6,824)</u>	<u>(21,727)</u>
Changes in non-cash working capital items:				
GST recoverable	(838)	(61)	692	(1,042)
Accounts payable and accrued liabilities	(2,453)	400	(4,887)	(665)
Interest receivable	(6,844)	(1,865)	(5,308)	(4,663)
	<u>(16,397)</u>	<u>(1,373)</u>	<u>(16,327)</u>	<u>(28,097)</u>
<b>Cash Flows From Financing Activity</b>				
Deferred share issue costs	-	-	(5,867)	-
Private placement, net of costs	1,325,863		1,325,863	
	<u>1,325,863</u>		<u>1,319,996</u>	
<b>Cash Flows From Investing Activity</b>				
Purchase of equipment	-	-	-	(2,477)
<b>Increase/(Decrease) In Cash</b>	<b>1,309,466</b>	<b>(1,373)</b>	<b>1,303,669</b>	<b>(30,574)</b>
<b>Cash, Beginning Of Period</b>	<b>454,270</b>	<b>466,767</b>	<b>460,067</b>	<b>495,968</b>
<b>Cash, End Of Period</b>	<b>\$ 1,763,736</b>	<b>\$ 465,394</b>	<b>\$ 1,763,736</b>	<b>\$ 465,394</b>

The accompanying notes are an integral part of these financial statements.

**APEX CAPITAL CORP.**  
**(A Capital Pool Company)**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006 AND 2005**  
**(Unaudited)**

**1. INTERIM FINANCIAL INFORMATION**

The financial information as at September 30, 2006, and for the nine-month period then ended, is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of this period have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's audited financial statements for the year ended December 31, 2005.

**2. NATURE OF OPERATIONS**

The Company was incorporated under the Business Corporations Act of Alberta on September 15, 2004. The Company is a capital pool company as defined by the rules of the TSX Venture Exchange (the "Exchange"). As of September 30, 2006, the Company had no business or assets, other than cash, GST recoverable, interest receivable, deferred share issue costs, and equipment. As a capital pool company, the Company's principal business is the identification and evaluation of assets, properties or businesses with a view to participation therein.

Where an acquisition or participation is warranted (the "Qualifying Transaction"), additional funding may be required. The ability of the Company to fund its potential future operations and commitments is dependent upon the ability of the Company to obtain additional financing.

There is no assurance that the Company will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or de-list the Company's shares from trading.

**3. SIGNIFICANT ACCOUNTING POLICY**

Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

**APEX CAPITAL CORP.**  
**(A Capital Pool Company)**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006 AND 2005**  
**(Unaudited)**

**4. CASH**

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to 30 % of the gross proceeds may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

**5. SHARE CAPITAL**

Authorized:

Unlimited number of preferred shares without par value  
Unlimited number of common shares without par value

Issued and Fully Paid:

	<u>NUMBER OF SHARES</u>	<u>AMOUNT</u>
Shares issued for cash	8,330,000	\$ 1,825,363
Balance, September 30, 2006	<u>8,330,000</u>	<u>\$ 1,825,363</u>

a) Escrow Shares

According to Exchange policies, all of the Company's issued shares will be held in escrow and will be released over a period of three years from acceptance of the Company's qualifying transaction.

b) Share Options

The Company intends to grant options to directors to purchase a total of 733,000 common shares at \$0.30 per share. The options will be exercisable for a period up to five years following the date of obtaining a listing on the Exchange. During the period the options allocated have not been granted and no stock base compensation has been expensed.

**APEX CAPITAL CORP.**  
**(A Capital Pool Company)**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006 AND 2005**  
**(Unaudited)**

**6. INITIAL PUBLIC OFFERING**

By an agency agreement dated March 30, 2006, the Company intends to offer, through an agent, to the public, by an offering, pursuant to a prospectus dated March 30, 2006, of up to 5,000,000 common shares at \$0.30 per share (the "Public Offering"). The cost of the issue, including the agent's commission of \$150,000, is estimated to be \$202,500. The total subscription must be raised within 90 days of the date of the receipt of the final prospectus relating to the offering, otherwise all funds collected under subscriptions will be returned and the offering cancelled. In connection with this offering, the agent will be granted an option to purchase that number of common shares which is equal to 10% of the common shares sold under the Public Offering at a price of \$0.30 per share for a period of twenty four months from the date the Company's common shares are listed for trading on the Exchange.

On July 13, 2006, the Company completed its initial public offering and issued 5,000,000 common shares at a price of \$0.30 per share for gross proceeds of \$1,500,000.

**7. PROPOSED ACQUISITION OF TRAXION ENERGY**

The Company has reached an agreement in principle to acquire all of the issued and outstanding shares of Traxion Energy Inc. an Alberta corporation active in the oil and gas industry. The parties have entered into a letter of intent dated September 8, 2006, with respect to the proposed transaction. It is intended that the acquisition will constitute the qualifying transaction of Apex within the meaning of the TSX Venture Exchange Policy 2.4.

The letter agreement, which was negotiated at arms length between Apex and Traxion shareholders contemplates that Apex will acquire, by way of an exempt takeover bid, all of the issued and outstanding shares of Traxion for total consideration of \$5,164,723 payable entirely by way of the issuance of 12,911,808 common shares of Apex at an ascribed value of \$0.40 cents per share. The foregoing valuation assumes the exercise of all outstanding Traxion options for proceeds to Traxion of approximately \$35,625 and the completion of Traxion of a private placement to raise gross proceeds of \$1.03 million. In the event the options are not exercised or the full Traxion private placement not completed, the value of the acquisition will be adjusted on a dollar-for-dollar basis. Holders of Traxion shares at the closing of the acquisition will receive 24 common shares of Apex for each Traxion then held. Upon completion of the acquisition, Traxion will be a wholly owned subsidiary of Apex, which combined entities are sometimes hereinafter referred to as the resulting issuer.

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**(A Capital Pool Company)**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006 AND 2005**

**(Unaudited)**

Of the estimated 12,911,808 common shares of Apex to be received by the shareholders of Traxion as disclosed above, two million (15.49) of such shares will be subject to performance escrow restrictions and will only be released to the Traxion shareholders (as to 500,000 shares per well) in the event Traxion's next four wells show sufficient potential to warrant the installation of production casing in accordance with good oil field practice. The aforementioned escrow is not mandated by the exchange, but was negotiated between the parties as part of the business terms of the transaction.

It is anticipated that the total number of outstanding common shares of the resulting issuer (following the acquisition and assuming the exercise of the Traxion options and completion of the Traxion private placement) will be approximately 21,244,808 common shares. Those shares will be owned, as to approximately 39.2 per cent, by the current holders of Apex shares and as to approximately 60.8 per cent by the holders of Traxion common shares. Accordingly, the acquisition will constitute a reverse takeover of Apex. In addition to the foregoing, it is anticipated that the directors of the resulting issuer will grant stock options, at the closing of the acquisition, to directors, officers, employees and consultants entitling such persons to acquire up to 10 per cent of that number of resulting issuer common shares then outstanding at an exercise price of 40 cents per share.

The acquisition remains subject to, among other things, all applicable regulatory and directors approvals, the execution of a formal agreement and the completion of satisfactory due diligence. The parties expect that all conditions precedent will be satisfied in the ordinary course. As the acquisition is an arm's-length transaction, it is not contemplated that shareholder approval will be required.