

Apex Capital Corp.

Management Discussion and Analysis For the quarter ended September 30, 2007

Basis of Presentation

The following management's discussion and analysis is dated Nov. 29, 2007. and has been prepared by management in accordance with Canadian generally accepted accounting principles (GAPP) and should be read in conjunction with the Apex Capital Corp.'s (the "Company") Filing Statement dated August 29, 2007 and the unaudited financial statements of the Company for the three and nine month periods ending September 30, 2007, both of which are filed on SEDAR. (www.sedar.com)

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such risk, uncertainties and assumptions include, among other things: general economic and business conditions, changing foreign exchange rates, the receipt of required regulatory approvals, the availability of sufficient capital, the estimated cost and availability of funding for the continued exploration and development of the Company's prospects, political and economic conditions, and commodity prices.

Overall Performance

The Company is a Canadian based oil and gas company primarily engaged in an active capital program to develop oil and gas reserves. The Company satisfied its requirement to complete its qualifying transaction by purchasing all of the assets of Traxion Energy Inc. ("Traxion") in exchange for 12,142,128 shares issued from treasury on August 29, 2007. Traxion is now a wholly owned subsidiary of the Company. Traxion is the only operating subsidiary of the Company. The Company expects to change its name to Traxion Energy Inc. at the Annual General Meeting.

During the quarter, the Department of Energy of Alberta announced expected changes to royalty rates for oil and natural gas production in Alberta beginning in 2009. The Company has one natural gas well which is awaiting tie-in and doesn't expect royalty changes, to materially affect the financial performance of the Company.

The Company's operations and prospects are located in Alberta and Saskatchewan.

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Results of Operations

The Company had no revenue from oil and natural gas production for the nine months ended September 30. The Company reported revenue of \$128,083 from oil and gas production for the nine-month period ending September 30, 2006. This revenue was generated by one well, owned by Traxion Energy that became uneconomic and has been suspended.

The Company earned \$2,047 and \$5,186 in interest income for the three and nine-month periods respectively, ending September 30, 2007.

Revenue

	Three Months Ended September 30, 2007	Nine Months ended September 30, 2007
Oil and Gas Sales	\$0	\$0
Interest and other income	\$2,047	\$5,186

G&A

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	2007	2006	2007	2006
G&A	\$58,088	\$64,137	\$150,611	\$223,644

Loss

	3 months ended September 30		9 months Ended September 30	
	2007	2006	2007	2006
Loss	\$156,863	\$84,553	\$259,807	\$270,709

Of the \$158,910 loss in the 3 months ended September 30, 2007, \$92,210 is made up of share based compensation related to 733,000 stock options issued to individuals who were Directors and Officers of Apex Capital Corp. prior to completion of the qualifying transaction.

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Loss per Share

	3 months ended September 30		9 months Ended September 30	
	2007	2006	2007	2006
Loss/share	\$0.012	\$0.009	\$0.018	\$0.027

Capital Expenditures

	3 months ended September 30 2007	9 months ended September 30 2007
Drilling	(\$1,013)	\$313,085
Completion	\$26,798	\$65,731
Geological/Geophysical/Seismic Facilities	\$16,108	\$35,901
	\$443	\$592

Depletion, Depreciation and Accretion

	3 months ended September 30		9 months Ended September 30	
	2007	2006	2007	2006
Depletion, depreciation and accretion	\$2,065	\$3,332	\$6,195	\$95,974

The variance in the depletion is due to the one producing well that was suspended in 2006. The company currently has no producing oil or gas wells.

Stock Based Compensation

733,000 stock options of the company, awarded to Officers and Directors of the Company when it was a Capital Pool Company, were vested as a result of successfully closing the qualifying transaction. These options expire August 29, 2012. There are also 500,000 agent's warrants outstanding that expire on July 27, 2008. In addition, 1,000,000 stock options have been reserved by the company to be awarded to select Officers, Directors, Employees, and Consultants of the Company.

Significant Projects

The Company has a number of significant projects that have been developed. Depending on available financing, these projects will proceed as noted.

Graindale Area - Twp. 25/26 Rge. 1 W4

Traxion holds a 100% working interest ("W.I.") in 1,280 acres of land in the Graindale area of Alberta. Traxion had purchased a wellbore in section 35-25-1 W4 and subsequently re-completed it to produce a flowing Viking gas well. The well began to produce water and a pump was installed, but the well currently produces too much water to be economic. The performance profile of this well indicates a possible wellbore mechanical failure and that the well contains remaining gas, making it a re-drill candidate.

Seismic purchased over the area indicates an additional Viking drill location, on section 2-26-1 W4, which was purchased by Traxion at a Crown sale. It was Traxion's original plan to drill up to 2 wells pending financing and a seismic program in this area in the winter of 06/07. Depending on financing, Traxion may drill a well in the area in the 1st qtr of 2007. Potential cost to drill one well is approximately \$225,000.

Josephine Area, Saskatchewan - Twp. 24, Rge. 28/29 W3

Traxion holds 3,200 acres of land (100 % W.I.) purchased in a Saskatchewan Crown sale in June of 2003. One line of seismic has been purchased over the area, and a comprehensive seismic program is necessary to better delineate the lands. This land contains potential multi-zone gas in relatively shallow horizons. Pipeline infrastructure is undeveloped in the immediate area, the closest tie-in point being six miles away. Low gas prices have rendered this project uneconomic at this time.

Pakowki Area, Alberta - Twp. 4, Rge. 7 W4

Traxion has secured two drilling commitments on a total 1,280 acres of land containing potential oil and gas. Traxion maintains a 75% W.I. upon completion and tie-in of each proposed well. Two potential drill locations have been identified; both being Sunburst sand prospects at approximately 1,000m depth. An existing well, 6-22 will be offset and re-drilled for by-passed Sunburst gas, based on two lines of seismic purchased over the area. The Sunburst sand in the 6-22 well tested 2.4 Mmcf/d. A second Pakowki well will be drilled for by-passed pay, as identified on the offset well, 7-13, which tested 200 ft oil and 150 ft. water. Total cost for these two locations is \$1,150,000 allocated \$650,000 to the 6-22 well and \$500,000 to the 7-13 well. It is expected that the Section 13 well will be drilled in the 4th Qtr of 2007 or 1st Qtr of 2008. The Section 22 well will be drilled when the surface landowner objections have been resolved.

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Comrey Area - Twp. 2, Rge. 6 W4

Traxion has drilled, cased and perforated two wells (one net) in the Bow Island zone on the 4 section Comrey parcel. Both wells experienced less than expected flow rates which do not warrant a stimulation workover in this low gas pricing environment. A potentially productive Milk River/Medicine Hat zone on the 5-16 Comrey well has been identified from well logs. Application to continue the lands has been filed with the Department of Energy. No further capital expenditure is expected on this land until the gas pricing improves.

Granlea Area - Twp. 8, Rge.9 W4

The Company has earned a 37.5% working interest in 604 acres of land by drilling and completing a Sawtooth well in this area. Prior to shutting in this well for build-up, the well flowed gas from the Sawtooth zone a rate of 42 e3m3 through a 5.56 mm choke with 300 ppm H2S. Stabilized flow rates were not achieved. Upon final approval from the surface landowner, the Company will proceed with tie-in. Expected cost to the Company is 135,000.

3D Seismic Joint Venture

Traxion has secured a 3D seismic joint venture with a publicly traded royalty trust to evaluate 20 sections of 3D seismic covering potential Devonian Arcs and Mississippian oil. Upon evaluating and interpreting the 3D seismic, Traxion will post and bid on Crown acreage, carrying the joint venture partner for 35% of the land costs. Traxion will then have a 65% W.I. in the property, with the potential to farm-in on the remaining 35%.

The Company is in the final stages of interpreting the 3D seismic, which has been reprocessed. Pending available financing the Company will proceed with the project.

Liquidity, Capital Resources and Use of Funds

The Company's working capital position at September 30, 2007 was \$1,447,074 as compared to \$275,381 at December 31, 2006. The increase reflects cash that became available upon closing of the reverse take-over of Apex Capital Corp.. At September 30, 2007, \$452,915 was held in cash, \$1,119,622 I in term deposits and \$45,901 in accounts receivable.

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The Company has no debt and will rely primarily upon cash at hand and capital markets for financing future projects. The Company expects to have sufficient funds to proceed with its capital program over the next quarter.

The Company is currently engaged in an effort to raise equity financing of up to \$3,000,000. There is no assurance that the Company will raise any or the entire amount. Until the Company determines the success of this financing initiative only those projects with current commitments are planned to be drilled.

Energy industry activities for the balance of 2007 and 2008 continue to reflect uncertainties caused by changes to the Alberta provincial royalty regime and lower natural gas prices. A consensus view has not emerged from industry forecasters regarding the timing of a return to higher levels of natural gas pricing.

The Company is responding to these negative market forces by proactively managing its business opportunities. Management is focusing on exploiting opportunities in Alberta and Saskatchewan, continued management of its balance sheet, and establishing new growth opportunities.

The Company is confident in its business plans and has a seasoned leadership team. The Company is committed to expansion of its exploration base in Western Canada and, where necessary, will redirect operations in response to natural gas prices and royalty changes. Despite current uncertain market conditions in Alberta, management is excited about its future prospects.

Commitments

Under the terms of flow-through share agreements entered in 2006 the Company was obligated to spend \$430,595 on eligible Canadian Exploration Expense or Canadian Development Expense. As at September 30, 2007 the qualifying expenditures have been incurred.

The Company is committed to drilling two wells in the Pakowki area of Alberta as part of a farm-in agreement. This commitment will cost approximately \$450,000. The first well is expected to be drilled in the winter season of 2007-2008 pending regulatory approvals while the second well will be drilled pending regulatory and surface landowner approval.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, term deposits, accounts receivable, and accounts payable. It is managements' opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The

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fair value of these financial instruments approximates their carrying value due to their short-term maturity and capacity for prompt liquidation.

Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the President and CFO on a timely basis so appropriate decisions can be made regarding public disclosure.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our financial statements. Management has evaluated the design of internal controls over financial reporting and has concluded that such internal controls over financial reporting will ensure the preparation of financial statements for external purposes are in accordance with Canadian generally accepted accounting principles.

Approval

The Board of Directors of the Company has approved the disclosure contained in this quarterly MD&A.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com

Apex Capital Corp.
Consolidated Financial Statements

(unaudited)

The financial statements for September 30, 2007 and 2006
have not been reviewed by the Company's auditors

Apex Capital Corp.
Consolidated Balance Sheets

	September 30 2007 (unaudited)	December 31 2006
Assets		
Current Assets		
Cash	\$ 452,915	\$ 394,762
Term deposits	1,119,622	-
Accounts receivable	45,901	152,119
Prepaid expenses and deposits	8,309	18,232
	<u>1,626,747</u>	<u>565,113</u>
Property and equipment (note 5)	940,429	525,884
Abandonment deposit (note 6)	34,366	34,366
Prepaid transaction costs	-	41,200
	<u>\$ 2,601,542</u>	<u>\$ 1,166,563</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 179,673	\$ 289,732
Asset retirement obligations (note 6)	73,531	43,428
Future income taxes (note 9(b))	44,253	-
	<u>297,457</u>	<u>333,160</u>
Shareholders' Equity		
Share capital (note 7)	2,934,058	1,320,939
Contributed surplus	92,211	-
Deficit	(722,184)	(487,536)
	<u>2,304,085</u>	<u>833,403</u>
	<u>\$ 2,601,542</u>	<u>\$ 1,166,563</u>

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

Apex Capital Corp.

Consolidated Statements of Loss and Deficit

	Three months ended September 30		Nine months ended September 30	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Revenue				
Oil and gas sales, net of royalties	\$ -	\$ 697	\$ -	\$ 128,083
Interest and other income	2,047	470	5,186	2,217
	<u>2,047</u>	<u>1,167</u>	<u>5,186</u>	<u>130,300</u>
Expenses				
Operating	6,546	18,138	15,976	74,811
Transportation	-	113	-	4,870
General and administrative	58,088	64,137	150,611	223,644
Stock-based compensation (note 7(f))	92,211	-	92,211	1,710
Depletion, depreciation and accretion	2,065	3,332	6,195	95,974
	<u>158,910</u>	<u>85,720</u>	<u>264,993</u>	<u>401,009</u>
Loss before income taxes	(156,863)	(84,553)	(259,807)	(270,709)
Future income tax expense (recovery) (note 9)	25,455	-	(25,159)	(12,283)
Net loss and comprehensive loss	(182,318)	(84,553)	(234,648)	(258,426)
Deficit, beginning of period	(539,866)	(288,202)	(487,536)	(114,329)
Deficit, end of period	<u><u>\$(722,184)</u></u>	<u><u>\$(372,755)</u></u>	<u><u>\$(722,184)</u></u>	<u><u>\$(372,755)</u></u>
Loss per share				
Basic and diluted	<u><u>\$ (0.012)</u></u>	<u><u>\$ (0.009)</u></u>	<u><u>\$ (0.018)</u></u>	<u><u>\$ (0.027)</u></u>
Weighted average number of common shares (note 7(g))	<u><u>15,021,315</u></u>	<u><u>9,813,432</u></u>	<u><u>13,020,113</u></u>	<u><u>9,577,164</u></u>

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

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Consolidated Statements of Cash Flows

	Three months ended		Nine months ended	
	September 30		September 30	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities				
Net loss	\$(182,318)	\$(84,553)	\$(234,648)	\$(258,426)
Items not affecting cash:				
Depletion, depreciation and accretion	2,065	3,332	6,195	95,974
Stock-based compensation	92,211	-	92,211	1,710
Future income tax expense (recovery)	25,455	-	(25,159)	(12,283)
	<u>(62,587)</u>	<u>(81,221)</u>	<u>(161,401)</u>	<u>(173,025)</u>
Changes in non-cash working capital (note 8)	<u>(30,927)</u>	<u>102,676</u>	<u>15,104</u>	<u>51,697</u>
	<u>(93,514)</u>	<u>21,455</u>	<u>(146,297)</u>	<u>(121,328)</u>
Financing activities				
Issuance of share capital, net of issuance costs	68,455	6,000	68,455	110,454
Term deposits	(700,000)	-	(700,000)	-
Changes in non-cash working capital (note 8)	22,629	-	22,629	(8,700)
	<u>(608,916)</u>	<u>6,000</u>	<u>(608,916)</u>	<u>101,754</u>
Investing activities				
Acquisition of property and equipment	(42,246)	(3,942)	(390,637)	(173,005)
Increase in abandonment deposit	-	(302)	-	(401)
Deferred transaction costs	-	(41,200)	-	(41,200)
Cash acquired on reverse takeover of Apex	1,334,339	-	1,334,339	-
Share issuance costs on reverse takeover of Apex	(106,374)	-	(106,374)	-
Changes in non-cash working capital (note 8)	<u>(41,776)</u>	<u>(8,345)</u>	<u>(23,962)</u>	<u>(177,164)</u>
	<u>1,143,943</u>	<u>(53,789)</u>	<u>813,366</u>	<u>(391,770)</u>
Cash inflow (outflow)	441,513	(26,334)	58,153	(411,344)
Cash, beginning of period	11,402	36,198	394,762	421,208
Cash, end of period	<u>\$ 452,915</u>	<u>\$ 9,864</u>	<u>\$ 452,915</u>	<u>\$ 9,864</u>

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

Apex Capital Corp.
Notes to Consolidated Financial Statements
September 30, 2007 and 2006
(unaudited)

1. Nature of operations

Apex Capital Corp. (the "Company" or "Apex") was incorporated under the Business Corporations Act of Alberta on September 15, 2004. The Company's business is the exploration for and development of petroleum and natural gas properties in Western Canada.

On August 29, 2007, The Company completed its acquisition of all the issued and outstanding shares of Traxion Energy Inc. ("Traxion") by issuing common shares of the Company. This business combination has been accounted for as a reverse takeover with Traxion as the accounting parent (see note 2). Traxion is a limited liability company incorporated under the Business Corporations Act of Alberta on April 29, 2003.

2. Business combination and fair value of acquisition

On August 29, 2007, the Company completed its acquisition of all the issued and outstanding shares of Traxion Energy Inc. by issuing common shares of the Company. This business combination has been accounted for as a reverse takeover since the former owners of Traxion now own the majority of the shares of the Company. The transaction is accounted for as a capital transaction, that is, the transaction is equivalent to the issuance of shares by Traxion for the net assets of the Company, accompanied by a recapitalization of Traxion. This results in Traxion being the continuing entity for reporting purposes with the comparatives being those previously reported by Traxion for the three and nine months ended September 30, 2006 and as at December 31, 2006 (see note 3) the net assets acquired were as follows:

Cash	\$1,334,399
Term deposit	419,622
Accounts receivable	13,149
Accounts payable and accrued liabilities	<u>(5,520)</u>
Net assets acquired	<u>\$1,761,650</u>

3. Basis of presentation

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly they do not contain all of the information and footnotes required by Canadian generally accepted accounting principles for complete financial statements. The unaudited interim financial statements have been prepared using the same accounting policies as disclosed in the audited financial statements of Traxion for December 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that can be expected for the year ended December 31, 2007. These unaudited interim financial statements should be read in conjunction with the individual December 31, 2006 audited financial statements of the Company and the audited financial statements of Traxion, that are included in the filing statement of Apex dated August 29, 2007.

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4. Significant accounting policies

(a) Cash equivalents

Cash equivalents consist of short term investments and term deposits that mature within ninety days of the beginning of the investment term.

(b) Property and equipment

(i) Petroleum and natural gas properties

The Company follows the full cost method of accounting whereby all costs related to the exploration for and the development of petroleum and natural gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, the portion of general and administrative expenses directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

(ii) Depletion and depreciation

Costs capitalized are depleted and depreciated using the unit-of-production method based on production volumes, before royalties, in relation to the Company's share of estimated proved petroleum and natural gas reserves as determined by independent engineers. In determining costs subject to depletion and depreciation, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of undeveloped property is excluded from the depletable base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred. Undeveloped property is evaluated separately for impairment.

(iii) Ceiling test

Under the full cost method of accounting, a limit is placed on the carrying amount of petroleum and natural gas properties. A ceiling test is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of unproved properties not subject to depletion (the "adjusted carrying amount") exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on forecast prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is measured by comparing the adjusted carrying amount to the estimated future cash flows of the Company's proved and probable reserves discounted using a risk free interest rate. Any recognized impairment is recorded as additional depletion and depreciation expense.

(iv) Asset retirement obligations

Asset retirement obligations reflect the liability associated with retiring tangible long-lived assets such as petroleum and natural gas wells and related equipment. The asset retirement obligation is recognized in the period the original expenditure is made and a

Apex Capital Corp.
Notes to Consolidated Financial Statements
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(unaudited)

reasonable estimate of the fair value can be determined. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit adjusted risk-free interest rate. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related long-lived asset and depleted and depreciated using the unit-of-production method over the estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in estimated future cash flows underlying the obligation. Actual costs incurred to abandon the asset reduce the asset retirement obligations recorded.

(v) Other equipment

Other equipment, which includes computer hardware and furniture and fixtures, are recorded at cost and amortized over the expected useful life at a rate of 45% and 20% per annum, respectively, calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

(c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(d) Stock-based compensation

The Company has a stock-based compensation plan as described in note 7(d). Stock-based compensation is recorded using the fair value method. Under the fair value method, compensation costs attributable to all stock options granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital and the contributed surplus balance is reduced.

(e) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

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(f) Flow-through shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The estimated value of the tax pools forgone is reflected as a reduction in share capital, with a corresponding increase in the future tax liability, when the income tax deductions are renounced.

(g) Joint ventures

Substantially all of the Company's operations are conducted with joint venture partners and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(h) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for asset retirement obligations are based on estimated proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and other relevant assumptions.

The amounts recorded relating to stock-based compensation are based on the estimated fair value of the related stock options. The estimated fair value of the stock options is based on the estimated expected lives of the options, the expected stock price volatility, expected dividends and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty.

(i) Changes in accounting policies

(i) Adoption of new accounting policies

Financial Instruments

On January 1, 2007, the Company adopted three new standards issued by the CICA relating to the accounting for and disclosure of financial instruments:

Section 3855 – "Financial Instruments – Recognition and Measurement" prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet as well as its measurement amount. This section also specifies how gains and losses on financial instruments are to be presented;

Section 3865 – "Hedges" expands on existing Accounting Guideline 13 – "Hedging Relationships" by specifying how hedge accounting is to be applied and what disclosures are necessary when it is applied; and

Section 1530 – "Comprehensive income" introduces new standards for reporting and disclosure of comprehensive income. Comprehensive income is the change in equity of the Company during the period as a result of transactions and other events and circumstances from non-owner sources.

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(unaudited)

The standards have been adopted prospectively and, as such, comparative financial statements have not been restated and the adoption of these standards had no impact on the opening deficit.

At September 30, 2007, the Company does not hold any financial instruments for which it has elected to apply hedge accounting under Section 3865. Consequently, the Company's financial instruments were recorded at fair value on the balance sheet with changes to fair value being reported on the statement of operations.

There was no other comprehensive income (loss) during the three months and nine months ended September 30, 2007; accordingly, comprehensive income is equivalent to net loss.

Accounting changes

Effective January 1, 2007, the Company adopted the revised CICA section 1506, "Accounting Changes". Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect on financial statement line items. There was no impact on the Company's financial statements resulting from the adoption of the revised standard.

(ii) Future accounting pronouncements

As of January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Section 3861 "financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535 "Capital Disclosures" which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

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5. Property and equipment

	September 30, 2007	December 31, 2006
Petroleum and natural gas properties	\$ 1,150,251	\$ 732,532
Other equipment	<u>21,230</u>	<u>20,489</u>
	1,171,481	753,021
Accumulated depletion and depreciation	<u>(231,052)</u>	<u>(227,137)</u>
	<u>\$ 940,429</u>	<u>\$ 525,884</u>

Undeveloped land costs that were excluded from the depletion calculation for September 30, 2007 were \$140,000 (September 30, 2006 - \$122,000).

6. Asset retirement obligations

The following table presents the reconciliation of the beginning and ending aggregate amount of obligations associated with the retirement of petroleum and natural gas properties:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 43,428	\$ 30,835
Liabilities incurred	27,823	10,434
Liabilities settled	-	-
Accretion expense	<u>2,280</u>	<u>2,159</u>
Balance, end of period	<u>\$ 73,531</u>	<u>\$ 43,428</u>

The total estimated future retirement costs of \$88,961 at September 30, 2007 (December 31, 2006 - \$49,938) have been discounted using a credit-adjusted risk-free rate of 7.00%. As of September 30, 2007, \$34,366 (December 31, 2006 - \$34,366) was deposited in a guaranteed investment certificate to satisfy this obligation.

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7. Share capital

(a) Authorized

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

(b) Issued

	September 30, 2007		December 31, 2006	
Common shares	Number	Stated value	Number	Stated value
Balance, beginning of period	500,122	\$ 1,320,939	387,404	\$ 556,415
Share subscriptions received	-	-	16,065	80,325
Issuance of common shares	3,922	37,655	29,008	254,196
Issuance of flow-through common shares	2,800	30,800	39,145	430,595
Options exercised	-	-	28,500	40,755
Tax benefits renounced	-	(69,412)	-	(12,283)
Elimination of Traxion shares on reverse takeover	(506,844)	-	-	-
Issued on acquisition of Traxion	12,164,256	-	-	-
Shares in issuance - Apex	8,330,000	1,761,650	-	-
Share issuance costs – reverse takeover	-	(147,574)	-	-
Share issuance costs	-	-	-	(29,064)
Balance, end of period	<u>20,494,256</u>	<u>\$ 2,934,058</u>	<u>500,122</u>	<u>\$ 1,320,939</u>

(c) Reverse takeover transaction and private placements

On August 31, 2007 Apex exchanged 12,164,256 shares for all the outstanding shares of Traxion on a twenty-four for one basis. Just before the exchange date Apex had 8,330,000 shares outstanding valued at \$1,761,650. There were share issuance costs of \$147,574 associated with the transaction.

During the nine months ended September 30, 2007, prior to the reverse takeover transaction, 3,922 Class A common shares were issued by Traxion for proceeds of \$37,655 and 2,800 Class A common shares were issued on a flow-through basis for proceeds of \$30,800 no share issuance costs were paid.

During the year ended December 31, 2006, 29,008 Class A common shares were issued by Traxion for gross proceeds of \$254,196. The Company paid financing charges of \$2,861.

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During the year ended December 31, 2006, 28,500 Class A common shares were issued by Traxion upon exercise of warrants for proceeds of \$35,625. An additional \$5,130 associated with the fair value of the shares, which was previously recorded as contributed surplus, is also included in share capital.

On December 31, 2006, the Traxion closed a private placement financing of 39,145 Class A common shares issued on a flow-through basis at \$11.00 per share for gross proceeds of \$430,595. The Company paid financing charges of \$26,213. Under the terms of the flow-through share agreements, The Company is required to incur \$430,595 of qualifying expenditures by December 31, 2007. As at September 30, 2007 the qualifying expenditures had been incurred.

(d) Stock option plan

The Company's Board of Directors has approved a stock option plan in accordance with the policies of the TSX Venture Exchange. Under this plan the Board of Directors is authorized to grant options to directors, officers, employees and consultants of the Company to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company at the time an option is granted. The exercise price of the options granted shall not be less than the Discounted Market Price, as defined in Exchange Policy 2.4, and the exercise period shall not exceed 5 years from the date the option is granted.

The Company has granted non transferable stock options to directors and officers to acquire an aggregate of 733,000 common shares at a price of \$0.30 per share for a period of 5 years. The options may be exercised after the greater of 12 months after the reverse takeover and 90 days following cessation of the optionee's position with the Company.

A summary of the status of the Company's stock option plan as at September 30, 2007 and changes during the nine months then ended are as follows:

	September 30, 2007		
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding, beginning of year	-	N/A	N/A
Acquired with reverse-takeover	<u>733,000</u>	<u>0.30</u>	<u>5.0</u>
Outstanding, end of year	<u>733,000</u>	<u>0.30</u>	<u>5.0</u>

(e) Agent options

Options to purchase 500,000 common shares at an exercise price of \$0.30 per common shares were granted to the Agent at the time Apex completed its initial public offering. These options expire July 27, 2008.

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(f) Stock-based compensation

The fair value of options granted under the Company's stock-based compensation plan in 2007 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate (%)	4.5
Option life (years)	5
Expected volatility (%)	85%
Weighted average fair value of each option granted (\$/share)	\$ 0.1258
Dividend yield per share (\$/share)	-

(g) Loss per share

As at September 30, 2007 options that can be converted into 1,233,000 common shares were not included in the calculation of diluted earnings per share, as to do so would be anti-dilutive.

8. Changes in non-cash working capital

Details of the changes in non-cash working capital are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Accounts receivable	\$(22,221)	\$15,339	\$106,218	\$114,693
Prepaid expenses	9,923	35,723	9,923	43,046
Accounts payable and accrued liabilities	<u>(37,776)</u>	<u>43,269</u>	<u>(102,370)</u>	<u>(291,906)</u>
	<u>\$(50,074)</u>	<u>\$94,331</u>	<u>\$13,771</u>	<u>\$(134,167)</u>

Changes in non-cash working capital relating to:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Operating activities	\$(30,927)	\$102,676	\$15,104	\$ 51,697
Financing activities	22,629	-	22,629	(8,700)
Investing activities	<u>(41,776)</u>	<u>(8,345)</u>	<u>(23,962)</u>	<u>(177,164)</u>
	<u>\$(50,074)</u>	<u>\$94,331</u>	<u>\$13,771</u>	<u>\$(134,167)</u>

9. Income taxes

(a) Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 32.12% (2006 - 16.12%) to loss before income taxes. The difference results from the following:

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	Nine Months ended September 30,	
	2007	2006
Expected income tax recovery	\$ (83,450)	\$ (50,280)
Non-deductible crown charges	-	3,275
Resource allowance	-	1,207
Stock-based compensation	29,618	276
Change in tax rate and other	8,132	899
	<u>(45,700)</u>	<u>(44,623)</u>
Future tax benefit not recognized (recognized)	<u>20,541</u>	<u>32,341</u>
	<u><u>\$ (25,159)</u></u>	<u><u>\$ (12,282)</u></u>

- (b) The significant components of the Company's future income tax assets (liabilities) are as follows:

	September 30,	December 31,
	2007	2006
Property and equipment	\$ (164,646)	\$ 2,852
Share issue costs and financing fees	53,340	4,592
Asset retirement obligations	22,059	7,001
Non-capital losses carried forward	133,500	44,311
	<u>(44,253)</u>	<u>58,756</u>
Valuation allowance	<u>-</u>	<u>(58,756)</u>
	<u><u>\$ (44,253)</u></u>	<u><u>\$ -</u></u>

- (c) At September 30, 2007, the Company had estimated non-capital losses of \$445,000, available to be carried forward against future taxable income, of this amount \$275,000 expires if unused in 2026 and \$170,000 expires in 2027.

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10. Related party transactions

During the nine month period ended September 30, 2007, the Company paid consulting and legal fees of \$90,000 (2006 - \$56,006) to companies controlled by directors and/or officers. Included in accounts payable is \$22,500 (2006 - \$46,031) relating to these transactions.

All such transactions were in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the parties.

11. Lease commitments

During 2006, the Company signed a new premises lease and an office equipment lease, both with three year terms, with annual payments totaling \$15,648 and \$1,773, respectively.

12. Financial instruments

(a) Fair values

The fair values of accounts receivable, abandonment deposit and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

(b) Credit risk

Substantially all of the Company's accounts receivable are from companies involved in the oil and gas industry in Canada and are, therefore, subject to the same economic risks as the industry as a whole.

(c) Commodity price risk

The Company has no fixed or forward price sales contracts in place; accordingly, the Company is exposed to commodity price fluctuations.