

# **Traxion Energy Inc.**

**Operations Update  
Management's Discussion and Analysis  
September 30, 2008**

## **Operations Update**

### **Saskatchewan**

#### **SW Saskatchewan**

Traxion Energy Inc. ("Traxion" or the "Company") purchased additional acreage in the SW area of Saskatchewan during 2008. The Company now holds 4,795 acres of potential Bakken oil bearing acreage in the area. Traxion also holds an additional 3,200 acres of lands in SW Saskatchewan with potential Viking gas. All of the acreage held by the Company in Saskatchewan is 100% working interest ("WI"). Traxion drilled its first well in the Buffalo Coulee area at 3-27-32-24W3 and production commenced subsequent to quarter end. The well is currently producing heavy oil at average rates of 20-30 barrels per day.

### **Alberta**

#### **Granlea Area, Alberta - Twp. 8, Rge. 9 W4**

The Company earned a 37.5% WI in 640 acres of land by drilling and completing a Sawtooth natural gas well in the Granlea area. The well was brought on stream in January 2008 and the Sawtooth zone has since watered out. Plunger lift technology was applied with no commercial success. A Bow Island zone exists uphole and cost estimating and engineering is underway to determine the commercial viability of completing the well in this zone.

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

Two drilling commitments were secured on 1,280 acres of land in which the Company will maintain a 75% WI upon the completion and tie-in of each proposed well. The first location, Pakowki Section 13, was drilled and abandoned in July 2008 due to insufficient hydrocarbon production. The second Pakowki well has been delayed due to objections from the surface landowner. The Company is working with the Energy Resources Conservation Board to mediate with the landowner to gain surface access to the location. The mineral rights on this 640 acre parcel have been continued until August 29, 2009. The Company intends to drill this location pending surface access and the appropriate funding.

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

The Company holds a 100% WI in 1,280 acres of land in the Graindale area of Alberta. Seismic purchased over the area indicates an additional Viking drill location. The Company may or may not drill this location in the near future pending a number of factors including the royalties applied to this property, gas prices, financing and alternate opportunities.

### **International Projects**

The Company plans to continue assessing potential lands in Colombia but the credit crisis has slowed the progress into international exploration, and as such only a minimal amount of the Company's resources will be applied to this endeavor.

## Management's Discussion and Analysis

(tabular amounts in dollars, unless otherwise stated)

### Advisories

The following Management's Discussion and Analysis ("MD&A") was prepared as at November 26, 2008, and should be read in conjunction with the unaudited interim financial statements for the three and nine months ended September 30, 2008, and the audited consolidated financial statements for the year ended December 31, 2007.

The reader is advised that historical results are not necessarily indicative of future performance. Additional information relating to the Company is available on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or at the Company's web-site at [www.traxion.ca](http://www.traxion.ca).

The following MD&A contains forward-looking information and statements, refers to and discusses certain non-GAAP financial measures and aggregates certain oil and gas information in terms of barrels of oil equivalent. The reader is specifically referred to and encouraged to read the section entitled "Advisories" at the end of this MD&A.

### Corporate Overview and Strategy

Traxion Energy Inc. ("Traxion" or the "Company") is a junior oil and gas company engaged in the exploration, development and exploitation of oil and gas reserves in Western Canada.

### Financial Summary

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
	2008	2007	2008	2007
Natural gas sales	\$ 4,204	\$ -	\$ 176,397	\$ -
Cash flow from operations	\$ (138,726)	\$ (62,587)	\$ (315,894)	\$ (161,401)
Net loss	\$ (159,222)	\$ (182,318)	\$ (412,764)	\$ (234,648)
Capital expenditures	\$ 499,095	\$ 41,596	\$ 1,079,877	\$ 389,987

Cash flow from operations for the three and nine months ended September 30, 2008 decreased from prior periods. Although revenue increased with the commencement of production in January 2008, the Company incurred additional operating expenses, general and administrative costs, and depletion. The increase in expenses resulted in the Company experiencing an overall net loss for the three and nine months ending September 30, 2008.

Third quarter earnings and cash flow decreased from the second quarter of the year due to the loss of production from a well in Granlea.

## Revenue

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
<b>Average production</b>								
Natural gas (mcf/d)	8	-	-	-	74	-	-	-
Total (boe/d)	1	-	-	-	19	-	-	-
<b>Benchmark Prices</b>								
AECO (\$/gj)	\$ 7.73	\$ -	\$ -	\$ -	\$ 8.59	\$ -	\$ -	\$ -
<b>Realized prices</b>								
Natural gas (\$/mcf)	\$ 6.15	\$ -	\$ -	\$ -	\$ 8.69	\$ -	\$ -	\$ -
Total (\$/boe)	\$ 36.88	\$ -	\$ -	\$ -	\$ 52.13	\$ -	\$ -	\$ -
<b>Revenue</b>								
Natural gas	\$ 4,204	\$ -	\$ -	\$ -	\$ 176,397	\$ -	\$ -	\$ -

Production and revenue increased in the three and nine months ended September 30, 2008, compared to the prior periods as the Company's first gas well was brought on-stream in January 2008. Revenue in the current quarter decreased from the second quarter of the year when the well ceased to produce.

Other income in the third quarter is comprised of interest revenue and deposit adjustments.

## Royalties

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Royalties	\$ 5,643	\$ -	\$ -	\$ -	\$ 37,973	\$ -	\$ -	\$ -
Royalty rate (% of revenue)	134%	-	-	-	21.5%	-	-	-

The Company did not pay royalties in 2007 as production commenced in January 2008. Overall royalty expense in the current quarter decreased compared to the second quarter of 2008 due to lower production. Unrecognized royalties from the second quarter and subsequently applied to the third quarter increased the royalty rate in the third quarter.

## Operating Expenses

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Operating expenses	\$ 20,863	\$ 6,546	\$ 54,745	\$ 15,976				
Operating expenses per boe (\$/boe)	\$ 183.01	\$ -	\$ 16.18	\$ -				

Operating expenses increased from the comparative periods in 2007 with the Company's first well coming on stream in January 2008. Operating expenses per boe in the third quarter rose from the second quarter of 2008 due to lower production volumes.

## General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2008	2007	September 30, 2008	2007
General and administrative expenses	\$ 154,429	\$ 58,088	\$ 455,560	\$ 150,611
Total general and administrative expenses per boe (\$/boe)	\$ 1,354.64	\$ -	\$ 134.63	\$ -

Total general and administrative expenses (“G&A”) rose from the prior periods due to a combination of factors. The Company has incurred reporting costs since listing on the TSX Venture Exchange August 29, 2007. The relative increase in quarter over quarter G&A costs was due to an increase in international geological costs and an increase in capital financing and accounting charges from an increase in financing activities.

G&A per boe in the third quarter rose from the second quarter of 2008 due to lower production volumes. It is expected G&A per boe will decline as the Company brings production on stream.

## Related Party Transactions

Management services were provided by consulting firms controlled by Directors and/or Officers of the Company. In the first nine months of 2008, the Company paid \$80,237 (September 30, 2007 – \$64,074) to these firms. The related party transactions are in the normal course of operations and were measured at the exchange amount, which was comparable to similar transactions conducted between arm’s length parties based on standard commercial terms.

## Stock Based Compensation

Stock based compensation results from the amortization of the fair value of stock options over their related vesting period. The amount is primarily determined by the number of options granted, the vesting period and the estimated fair value of the options. Stock-based compensation expense decreased in the three months ended September 30, 2008, compared to prior periods due to stock options granted in conjunction with the Capital Pool Company transaction in August 2007.

## Corporate Netbacks

(\$/boe)	Three months ended		Nine months ended	
	September 30, 2008	2007	September 30, 2008	2007
Realized price	\$ 36.88	\$ -	\$ 52.13	\$ -
Royalties	(49.50)	-	(11.22)	-
Operating expenses	(183.01)	-	(16.18)	-
Operating netback	\$ (195.63)	\$ -	\$ 24.73	\$ -

Lower corporate netbacks were due to lower production volumes and an increase in operating expenses resulting from attempts to revive the Granlea well. Also, unrecognized royalties from the second quarter and subsequently applied to the third quarter increased the royalty rate in the third quarter.

## Depletion, Depreciation and Accretion

	Three months September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Depletion, depreciation and accretion	\$ 7,421	\$ 2,065	\$ 68,514	\$ 6,195
Depletion, depreciation and accretion per boe (\$/boe)	\$ 65.10	\$ -	\$ 20.25	\$ -

Depletion increased in the three and nine months ended September 30, 2008, in conjunction with commencement of production. DD&A per boe in the third quarter of 2008 is higher than in the second quarter due to depreciation of furniture and fixtures and accretion costs combined with declining production. It is expected DD&A per boe will decline as the Company brings production on stream.

## Capital Expenditures

Nine months ended September 30,	2008	%	2007	%
Drilling and completions	\$ 630,401	58%	\$ 353,494	91%
Equipment and facilities	469,711	16%	592	-
Geological and geophysical	59,549	6%	35,901	9%
Land	220,216	20%	-	-
	1,079,877	100%	389,987	100%
Furniture and fixtures	2,134		650	
Total capital expenditures	\$ 1,082,011		\$ 390,637	

In SW Saskatchewan, 4,795 acres were acquired in the first nine months of 2008. Traxion drilled and cased its first Bakken prospect in the area at 3-27-32-24W3 and continued processing and interpreting seismic purchased across its Buffalo Coulee lands.

In Alberta, the Section 13 prospect in the Pakowki area was drilled, cased, and subsequently abandoned.

The Granlea location was tied-in and produced commercial quantities of gas until the Sawtooth zone watered out. Additional expenditures were incurred to equip the well to allow the gas to flow, but those attempts were unsuccessful.

## Income Taxes

The Company currently has a net future tax asset which has not been recognized in the consolidated financial statements as at September 30, 2008, due to the uncertainty of realization. Flow through share expenditures incurred in the first quarter of the year resulted in a future income tax recovery for the nine months ended September 30, 2008.

## Liquidity and Capital Resources

As at	September 30, 2008	December 31, 2007
Working capital (deficiency)	\$ (193,171)	\$ 1,206,131
Share capital	\$ 2,851,223	\$ 2,860,309
Contributed surplus	90,771	53,329
Deficit	(1,110,866)	(698,102)
Shareholders' equity	\$ 1,831,128	\$ 2,215,536

Subsequent to quarter end, the well drilled at Buffalo Coulee commenced production at rates of 20-40 barrels per day. It is expected that the cash generated from the well will cover a portion of the Company's G&A expenses in the foreseeable future. The Company intends to rely upon capital markets, debt, and asset sales for financing future projects. The Company has the ability to modify its capital program if sufficient funds are not available.

On October 1, 2008, Traxion was approved for a \$300,000 loan. The loan is repayable in six months and is renewable at the discretion of the lender. Advances bear interest at 13%. The loan is collateralized by a first charge on the Company's assets.

During August, 2008 the Company entered into an agency agreement to raise up to \$2,400,000 by way of public offering. The Company expects to file a short-form offering document prior to December 31, 2008.

### Contractual Obligations

The Company has committed to certain payments over the next five years as follows:

	2008	2009	2010	2011	2012	Total
Office lease	\$ 3,912	\$ 3,912	\$ -	\$ -	\$ -	\$ 7,824
Software	8,250	37,000	-	-	-	45,250
Farm-in agreement	-	225,000	-	-	-	225,000
	\$12,162	\$265,912	\$ -	\$ -	\$ -	\$278,074

### Financial Instruments

The Company's financial instruments are comprised of cash and cash equivalents, other short term deposits, accounts receivable, abandonment deposit and accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short term maturities. The Company's abandonment deposit and other short term deposits earn interest at a rate of 2.05% and 2.0% annually. In the three and nine months ended September 30, 2008, the deposits earned \$5,483 and \$21,661 of interest income respectively, classified as other income on the consolidated financial statements.

It is managements' opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## Changes in Accounting Policies

As of January 1, 2008, the Company adopted two new accounting standards from the Canadian Institute of Chartered Accountants ("CICA"), Section 3862 "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation," which replaced 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.

As of January 1, 2008, the Company adopted CICA Section 1535 "Capital Disclosures" which requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

## International Financial Reporting Standards ("IFRS")

The Accounting Standards Board has confirmed that public companies will be required to report under IFRS effective January 1, 2011. Traxion is currently assessing the impact of adopting IFRS (including an examination of recognition, measurement and disclosure differences) and developing its conversion plan.

## Critical Accounting Estimates

There have been no material changes in the accounting estimates critical to the consolidated financial statements since the issuance of the Company's MD&A for the year ended December 31, 2007.

## Quarterly Information

The following table sets forth certain quarterly financial information of the Company for the seven most recent quarters. Quarterly reports for the Company were not produced prior to Q1 2007.

	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07	Q1 07
Revenue	\$ 4,204	\$ 75,802	\$96,391	\$14,675	\$ 2,047	\$ 366	\$2,773
Net loss	\$(159,222)	\$(166,865)	\$(86,677)	\$15,536	\$90,107	\$12,944	\$1,980
per share – basic	\$(0.01)	\$(0.01)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
per share – diluted	\$(0.01)	\$(0.01)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

In the third quarter of 2008, revenue decreased as the Company's one producing well at the time was shut-in. Net loss increased due to lower revenue and increase in overall G&A costs.

Revenue in the first and second quarters of 2008 increased when the Company's first gas well began producing in January 2008. The net loss in the first and second quarters increased due to reporting requirements associated with the Company becoming a reporting issuer and a general increase in G&A.

Prior to 2008, revenue consisted of interest earned on the Company's cash and cash equivalents. The net loss increased in the third quarter of 2007 due to costs associated with the reverse takeover of Apex Capital Corp.

## Additional Information

Additional information relating to the Company and its business and operations is available on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or at the Company's web-site at [www.traxion.ca](http://www.traxion.ca).

## **Advisories**

### ***Forward Looking Statements***

This document contains forward looking or outlook information which reflects management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Forward looking statements include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact, including statements regarding cash flow, production, capital expenditures and planned wells in 2008, as well as the liquidity plans of the Company. These statements reflect management's current beliefs and are based on information currently available to management. Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in these forward looking statements. Although management believes the expectations reflected in these forward looking statements are reasonable, there can be no assurances that actual results will be consistent with these forward looking statements. Readers should not put undue reliance on forward looking information. These statements are made as of the date hereof and management assumes no obligation to update or revise these statements to reflect new events or circumstances except as required by law.

### ***Use of BOE Equivalents***

The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil to estimate relative energy content and does not represent a value equivalency at the wellhead. A boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip. Boe may be misleading, particularly if used in isolation.

### ***Non-GAAP Financial Measures***

Included in the MD&A and elsewhere in this report are references to terms used in the oil and natural gas industry such as cash flow from operations, cash flow per share and corporate netbacks. These terms are not defined by accounting principles generally accepted in Canada ("GAAP") in Canada and consequently are referred to as non-GAAP measures. Non-GAAP measures do not have any standardized meaning and therefore reported amounts may not be comparable to similarly titled measures reported by other companies. Cash flow from operations should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net earnings as determined in accordance with GAAP, as an indicator of the Company's performance or liquidity. Cash flow from operations is used by the Company to evaluate operating results and the Company's ability to generate cash to fund capital expenditures. The Company uses the corporate netback measure, in conjunction with a barrel of oil equivalent volumetric measure, to assess comparability of petroleum sales and related costs between producing wells and periods.

# Traxion Energy Inc.

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## Directors

### James Ehret

President & CEO, Traxion Energy Inc.

### Frank van der Vliet

Vice President, Exploration, Traxion Energy Inc.

### Art Flaws, P. Eng.

CanBriam Energy Inc.

### Brent Walter

Lawyer, ProVenture Law LLP

## Officers

### James Ehret

President & CEO

### Frank van der Vliet

Vice President, Exploration

### Jim Brander

Chief Financial Officer

## Legal Counsel

ProVenture Law LLP

## Auditors

Collins Barrow Calgary LLP

## Consulting Engineers

Chapman Petroleum Engineering Ltd.

## Bankers

The Bank of Nova Scotia

## Transfer Agent

Olympia Trust Company  
Suite 2300, 125 – 9<sup>th</sup> Ave. SE  
Calgary, AB T2P 0P6

## Stock Exchange Listing

TSX Venture Exchange  
Trading symbol: **TXE**

# **Traxion Energy Inc.**

## **Financial Statements September 30, 2008**

(unaudited)

These financial statements have not been reviewed by the Company's auditors.

**Traxion Energy Inc.  
Balance Sheets**

As at	September 30, 2008	December 31, 2007
	(unaudited)	(audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 71,428	\$ 890,713
Other short term deposits	77,696	419,622
Accounts receivable	123,359	329,807
Prepaid expenses and deposits	17,397	13,663
	289,880	1,653,805
Property and equipment (note 4)	2,088,354	1,049,330
Abandonment deposit	35,763	34,366
	\$ 2,413,997	\$ 2,737,501
<b>Liabilities</b>		
Current liabilities		
Account payable and accrued liabilities	\$ 483,051	\$ 447,674
Asset retirement obligations (note 5)	99,818	74,291
	582,869	521,965
<b>Shareholders' equity</b>		
Share capital (note 6)	2,851,223	2,860,309
Contributed surplus (note 6)	90,771	53,329
Deficit	(1,110,866)	(698,102)
	1,831,128	2,215,536
	\$ 2,413,997	\$ 2,737,501

Commitments (note 12)

*See accompanying notes to the financial statements.*

Approved by the Board,

"James Ehret"  
Director

"Arthur D. Flaws"  
Director

**Traxion Energy Inc.**  
**Statements of Loss, Comprehensive Loss and Deficit**  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Revenue</b>				
Petroleum and natural gas	\$ 4,204	\$ -	\$ 176,397	\$ -
Royalties	(5,643)	-	(37,973)	-
	(1,439)	-	138,424	-
Interest and other income	38,005	2,047	55,987	5,186
	<b>36,566</b>	<b>2,047</b>	<b>194,411</b>	<b>5,186</b>
<b>Expenses</b>				
Operating	20,863	6,546	54,745	15,976
Depletion, depreciation and accretion	7,421	2,065	68,514	6,195
Stock-based compensation (note 6)	13,075	92,211	37,442	92,211
General and administrative	154,429	58,088	455,560	150,611
	<b>195,788</b>	<b>158,910</b>	<b>616,261</b>	<b>264,993</b>
<b>Loss before income taxes</b>	<b>(159,222)</b>	<b>(156,863)</b>	<b>(421,850)</b>	<b>(259,807)</b>
<b>Income taxes</b>				
Future income tax recovery	-	25,455	(9,086)	(25,159)
<b>Net loss and comprehensive loss</b>	<b>(159,222)</b>	<b>(182,318)</b>	<b>(412,764)</b>	<b>(234,648)</b>
<b>Deficit, beginning of period</b>	<b>\$ (951,644)</b>	<b>\$ (539,866)</b>	<b>\$ (698,102)</b>	<b>\$ (487,536)</b>
<b>Deficit, end of period</b>	<b>\$ (1,110,866)</b>	<b>\$ (722,184)</b>	<b>\$ (1,110,866)</b>	<b>\$ (722,184)</b>
<b>Net loss per share</b>				
Basic and diluted loss per share (note 9)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

See accompanying notes to the financial statements.

**Traxion Energy Inc.**  
**Statements of Cash Flows**  
(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>				
Net loss	\$ (159,222)	\$ (182,318)	\$ (412,764)	\$ (234,648)
Depletion, depreciation and accretion	7,421	2,065	68,514	6,195
Stock-based compensation	13,075	92,211	37,442	92,211
Future income tax recovery	-	25,455	(9,086)	(25,159)
	<b>(138,726)</b>	<b>(62,587)</b>	<b>(315,894)</b>	<b>(161,401)</b>
Changes in non-cash working capital (note 10)	<b>512,457</b>	<b>(30,927)</b>	<b>310,244</b>	<b>15,104</b>
	<b>373,731</b>	<b>(93,514)</b>	<b>(5,650)</b>	<b>(146,297)</b>
<b>Financing activities</b>				
Issuance of common shares, net of issuance costs	-	68,455	-	68,455
Term deposits	-	(700,000)	-	(700,000)
Changes in non-cash working capital (note 10)	-	22,629	<b>(21,876)</b>	22,629
	-	<b>(608,916)</b>	<b>(21,876)</b>	<b>(608,916)</b>
<b>Investing activities</b>				
Property and equipment	<b>(499,096)</b>	(42,246)	<b>(1,082,011)</b>	(390,637)
Abandonment deposit	-	-	<b>(1,397)</b>	-
Cash acquired during Acquisition	-	1,334,339	-	1,334,339
Share issuance costs of Acquisition	-	(106,374)	-	(106,374)
Changes in non-cash working capital (note 10)	<b>99,100</b>	(41,776)	<b>291,649</b>	(23,962)
	<b>(399,996)</b>	<b>1,143,943</b>	<b>(791,759)</b>	<b>813,366</b>
<b>Change in cash and cash equivalents</b>	<b>(26,265)</b>	<b>441,513</b>	<b>(819,285)</b>	<b>58,153</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>97,693</b>	<b>11,402</b>	<b>890,713</b>	<b>394,762</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 71,428</b>	<b>\$ 452,915</b>	<b>\$ 71,428</b>	<b>\$ 452,915</b>

See accompanying notes to the financial statements.

# **Traxion Energy Inc.**

## **Notes to the Financial Statements**

### **September 30, 2008**

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#### **1. Nature of Operations**

Apex Capital Corp. ("Apex") was incorporated under the Business Corporations Act of Alberta on September 15, 2004. On August 29, 2007, Apex acquired all of the issued and outstanding common shares of Traxion Energy Inc., a company incorporated under the Business Corporations Act of Alberta on April 29, 2003. This resulted in a reverse takeover by Traxion Energy Inc. and on July 14, 2008, the consolidated entity amalgamated and changed its name to Traxion Energy Inc. (the "Company" or "Traxion").

The Company is a junior oil and gas company engaged in the exploration, development and exploitation of petroleum and natural gas properties in Western Canada.

#### **2. Basis of Presentation and Going Concern**

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in notes to annual financial statements have been condensed or omitted. The interim financial statements have been prepared using the same accounting policies, except as described in note 3 below and should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2007.

On August 29, 2007, Apex completed an acquisition of all the issued and outstanding shares of Traxion by issuing common shares. This business combination (the "Acquisition") was accounted for as a reverse takeover with Traxion being the continuing entity for accounting purposes. Accordingly, the financial statements include the results of Apex from the date of the Acquisition.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Unfavorable conditions and events have left doubt as to the appropriateness of this assumption. The financial statements do not include any adjustments that might result if the going concern assumption were not appropriate. Such adjustments could be material.

Management believes that the Company has sufficient funds to meet its corporate and administrative obligations in the immediate future. Any significant exploration or development plans will require additional capital funding. The Company intends to continue to develop drilling prospects, which will require the Company to obtain financing from external sources. There is no assurance that the Company will be successful with these initiatives.

All amounts are presented in Canadian dollars.

#### **3. Adoption of New Accounting Pronouncements**

As of January 1, 2008, the Company adopted two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which replaced 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.

As of January 1, 2008, the Company adopted CICA Section 1535 "Capital Disclosures" which requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

**Traxion Energy Inc.**  
**Notes to the Financial Statements**  
**September 30, 2008**

**4. Property and Equipment**

September 30, 2008	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	\$ 2,355,707	\$ (282,464)	\$ 2,073,243
Furniture and fixtures	32,796	(17,685)	15,111
Property and equipment	\$ 2,515,503	\$ (300,149)	\$ 2,088,354

No general and administrative expenses were capitalized in the nine months ended September 30, 2008. Costs associated with unproved properties excluded from costs subject to depletion for the nine months ended September 30, 2008, amounted to \$336,000. There was no production during the nine months ended September 30, 2007, accordingly, no depletion of petroleum and natural gas properties was recorded.

**5. Asset Retirement Obligations**

	September 30, 2008
Asset retirement obligations, beginning of period	\$ 74,291
Liabilities incurred	22,682
Accretion expense	2,845
Asset retirement obligations, end of period	\$ 99,818

As at September 30, 2008, \$35,763 (December 31, 2007 – \$34,366) was deposited in a guaranteed investment certificate to satisfy these obligations.

**6. Share Capital**

**(a) Authorized**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

**(b) Issued**

	September 30, 2008	
	Number	Amount
Common shares outstanding, beginning of period	19,994,256	\$2,860,309
Tax benefits renounced on flow through shares	-	(9,086)
Common shares outstanding, end of period	19,994,256	\$2,851,223

On August 31, 2007, Apex issued 12,164,256 common shares in exchange for the 506,844 common shares of Traxion outstanding prior to the Acquisition. Of the 12,164,256 common shares issued by Apex during the Acquisition, 2,000,000 common shares were subject to performance escrow restrictions pursuant to the business terms of the transaction. These shares were to be released to the shareholders of Traxion (as to 500,000 common shares per well) in the event that four wells drilled subsequent to September 27, 2006, show sufficient potential to warrant the installation of production casing in accordance with good oilfield practice, failing which the subject 2,000,000 common shares would be cancelled. As at June 30, 2008, all of the four wells had been drilled

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and cased (December 31, 2007 – three wells), and accordingly no common shares remain subject to cancellation.

As at August 31, 2007, there were 3,330,000 Apex shares held in escrow pursuant to an agreement among Apex, its transfer agent and certain shareholders of Apex. Following the issuance of the Final Exchange Bulletin by the TSX Venture Exchange, 10% of the escrowed shares were released. On each of the of the 6, 12, 18, 24, 30 and 36 month anniversaries of the Final Exchange Bulletin, an additional 15% of the escrowed shares will be released. The release from escrow may be accelerated if the Company is classified as a Tier 1 issuer on the TSX Venture Exchange.

**(c) Stock options**

The Company has the following stock options outstanding:

	Number of options	Weighted average exercise price
Outstanding, beginning of period	833,000	\$0.29
Granted to officers and directors	875,000	0.20
Expired	(425,000)	0.30
Outstanding, end of period	<b>1,283,000</b>	<b>\$0.22</b>

The range of exercise prices of stock options outstanding and exercisable as at September 30, 2008, were:

Weighted average exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
\$0.20	975,000	4.28	-
\$0.30	308,000	2.50	308,000
\$0.22	1,283,000	3.85	308,000

**(d) Stock based compensation**

The fair value of stock options granted is estimated using the Black-Scholes option pricing model. In the nine months ended September 30, 2008, 875,000 stock options were granted with the following weighted average assumptions and resulting fair value:

	Nine months ended September 30, 2008
Risk free interest rate	3.5%
Expected option life (years)	5
Expected volatility	85%
Weighted average fair value of options	<b>\$0.08</b>

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**(e) Agent options**

Options to purchase 500,000 common shares at an exercise price of \$0.30 per common share were granted to agents at the time Apex completed its initial public offering. These options expired on July 27, 2008. All amounts related to share based compensation for these options in contributed surplus were eliminated upon the reverse takeover.

**(f) Contributed surplus**

The following table presents the reconciliation of contributed surplus with respect to stock based compensation:

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	<b>Nine months ended September 30, 2008</b>
Contributed surplus, beginning of period	<b>\$53,329</b>
Stock based compensation expense	<b>37,442</b>
Contributed surplus, end of period	<b>\$90,771</b>

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**7. Capital Disclosures**

The Company's goal is to maintain a strong capital base to meet its objectives of ensuring financial flexibility while optimizing the cost of capital, maintaining the Company's ability to fulfill its financial obligations and financing internally generated growth and potential acquisitions.

The Company considers its capital structure to include working capital and shareholders' equity. The Company manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its petroleum and natural gas assets. The Company may choose to issue equity or debt, revise its capital expenditure program or sell assets to optimize its capital structure.

The Company prepares a budget to assist in the management of its capital structure. The budget is updated to reflect results of operations and capital expenditures, changes to forecasted prices and costs, general industry conditions and other factors.

The Company's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. The Company's share capital is not subject to any external restrictions.

**8. Related Party Transactions**

Management services were provided to the Company by consulting and legal firms controlled by directors and officers of the Company. In the first nine months of 2008, the Company paid \$80,237 (September 30, 2007 – \$64,074) to these firms. As at September 30, 2008, \$5,250 (September 30, 2007 – \$60,620) was payable to these firms. Additionally, as at September 30, 2008, \$6,250 (September 30, 2007 – \$6,250) is receivable from an officer of the Company.

The related party transactions were in the normal course of operations and were measured at the exchange amount, which was comparable to similar transactions conducted between arm's length parties based on standard commercial terms.

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**9. Per Share Amounts**

The weighted average number of common shares outstanding used to calculate basic and diluted per share amounts during the three and nine months ended September 30, 2008, was 19,994,256 (three and nine months ended September 30, 2007 – 15,021,315 and 13,020,113). The weighted average number of common shares was calculated using the number of common shares of Traxion Energy Inc. prior to the date of the Acquisition adjusted for the conversion ratio, plus the common shares of Apex on a weighted average basis from the date of the Acquisition to the end of the period. All of the Company's outstanding stock options are anti-dilutive and excluded from the calculation of the weighted average number of common shares outstanding. As a result, the diluted per share amounts are the same as the basic per share amounts.

**10. Statement of Cash Flows**

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Other short term deposits	\$ 487,609	\$ -	\$ 341,926	\$ -
Accounts receivable	26,993	(22,221)	206,448	106,218
Prepaid expenses and deposits	9,403	9,923	(3,734)	9,923
Accounts payable and accrued liabilities	87,552	(37,776)	35,377	(102,370)
	<b>\$ 611,557</b>	<b>\$ (50,074)</b>	<b>\$ 580,017</b>	<b>\$ 13,771</b>
<hr/>				
Net change in non-cash working capital				
Relating to:				
Operating activities	\$ 512,457	\$ (30,927)	\$ 310,244	\$ 15,104
Financing activities	-	22,629	(21,876)	22,629
Investing activities	99,100	(41,776)	291,649	(23,962)
	<b>\$ 611,557</b>	<b>\$ (50,074)</b>	<b>\$ 580,017</b>	<b>\$ 13,771</b>

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**11. Financial Instruments**

**(a) Fair value of financial instruments**

The Company's financial instruments are comprised of cash and cash equivalents, other short term deposits, accounts receivable, abandonment deposit and accounts payable and accrued liabilities. The carrying values and the fair values of the Company's financial instruments are:

	<b>September 30, 2008</b>		December 31, 2007	
	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
Financial assets				
<i>Held for trading</i>				
Cash and cash equivalents	\$ 71,428	\$ 71,428	\$ 890,713	\$ 890,713
Other short term deposits	\$ 77,696	\$ 77,696	\$ 419,622	\$ 419,622
Abandonment deposit	\$ 35,763	\$ 35,763	\$ 34,366	\$ 34,366
<i>Loans and receivables</i>				
Accounts receivable	\$ 123,359	\$ 123,359	\$ 329,807	\$ 329,807
Financial liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	\$ 483,051	\$ 483,051	\$ 447,674	\$ 447,674

**(b) Risk management**

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk, credit risk and liquidity risk.

**(i) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the normal course of operations, the Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates.

***Commodity price risk***

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and US dollar as well as world economic events dictating the levels of supply and demand. The Company did not have any financial instruments in place to manage commodity prices at or during the nine months ended September 30, 2008.

***Foreign currency exchange rate risk***

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Company from the sale of its production. Correspondingly, a decrease in the

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value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Company did not have any forward exchange rate contracts in place at or during the nine month period ended September 30, 2008, to reduce its exposure to foreign currency fluctuations.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its abandonment deposit, which currently earns 2.05% interest annually, and other short term deposits, which earn 2.0% interest annually. The Company had no interest rate swaps or hedges in place at or during the nine month period ended September 30, 2008, to reduce its risk from interest rate fluctuations.

If, for the nine months ended September 30, 2008, the rate of interest earned on the Company's abandonment deposit and other short term deposits had decreased by 1%, with all other variables held constant, the net loss for the period would have been \$4,960 higher. An equal and opposite impact would have occurred to the Company's net loss if the prime rate had been 1% lower.

**(ii) Credit risk**

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss to the Company. A significant portion of the Company's accounts receivable are with entities in the petroleum and natural gas sector and are subject to normal industry credit risk. The primary source of credit risk for the Company arises from its accounts receivable from joint venture partners and petroleum and natural gas marketers. The Company generally grants unsecured credit, but routinely assesses the financial strength of its customers. As at September 30, 2008, the Company had \$12,170 of accounts receivable that were greater than 90 days old and considered past due, but not impaired. The majority of these amounts are due from large, well established joint venture partners.

Joint venture receivables are typically collected within one to three months of the joint venture bills being issued to partners. However, the receivables are typically from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreement between parties. The Company attempts to mitigate this risk by obtaining partner approval of significant capital expenditures prior to performance of the project. The Company typically does not obtain collateral from joint venture partners; however, a cash call may be requested in advance of the start of a project. In some cases, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

As is common in the petroleum and natural gas industry in Western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25<sup>th</sup> day of the following month. The Company sells the majority of its production to one petroleum and natural gas marketer and is therefore subject to concentration risk. The Company attempts to mitigate credit risk associated with these balances by establishing marketing relationships with large purchasers. No collection issues have been incurred to date with the Company's petroleum and natural gas marketer.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages its liquidity risk through cash and debt management and monitors the financial obligations created by its operating activities and capital expenditures.

The Company's financial liabilities, composed of accounts payable and accrued liabilities of \$483,051, are due and payable within less than one year.

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**12. Commitments**

The Company has committed to certain payments over the next five years as follows:

	2008	2009	2010	2011	2012	Total
Office lease	\$ 3,912	\$ 3,912	\$ -	\$ -	\$ -	\$ 7,824
Software	8,250	37,000	-	-	-	45,250
Farm-in agreement	-	225,000	-	-	-	225,000
	<u>\$12,162</u>	<u>\$265,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$278,074</u>

**13. Subsequent Events**

On October 1, 2008, the Company was approved for a \$300,000 loan. The loan is repayable in six months and is renewable at the discretion of the lender. Advances bear interest at 13%. The loan is collateralized by a first charge on the Company's assets.

During August, 2008 the Company entered into an agency agreement to raise up to \$2,400,000 by way of public offering. The Company expects to file a short-form offering document prior to December 31, 2008.

**14. Reclassification**

Certain amounts disclosed for prior periods have been reclassified to conform with current period presentation.