

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)

August 31, 2006

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To the Shareholders of Micrex Development Corp.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by appointing an Audit Committee comprised of three Directors, two of which are independent, who review the financial information prepared by management and discuss relevant matters with management and the external auditors. The Audit Committee reports to the Board prior to the approval of the audited consolidated financial statements for publication.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the Shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

(signed) "Stan Marshall"

President & CEO

December 20, 2006

To the Shareholders of Micrex Development Corp.:

We have audited the consolidated balance sheet of Micrex Development Corp. ("Micrex") as at August 31, 2006 and the consolidated statements of loss, deficit and cash flows for the year then ended. These financial statements are the responsibility of Micrex's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Micrex Development Corp. as at August 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended August 31, 2005 were audited by another firm of Chartered Accountants, who expressed an opinion without reservation on these consolidated statements in their report dated October 28, 2005.

Edmonton, Alberta
December 20, 2006

Meyers Norris Penny LLP

Chartered Accountants

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Consolidated Statement of Loss
FOR THE YEARS ENDED AUGUST 31

	2006	2005
	\$	\$
Revenue	<u>-</u>	<u>-</u>
Expenses		
Stock based compensation (Note 6)	188,673	81,776
Consulting fees	147,863	111,318
Subcontract	121,685	92,617
Professional fees	52,414	33,163
Office and sundry	14,274	11,885
Amortization	8,307	11,858
Travel and promotion	9,935	9,702
Telephone and utilities	6,968	6,045
Automotive	3,914	3,822
Insurance	1,458	1,888
Miscellaneous	1,000	-
Bank charges	<u>968</u>	<u>911</u>
Loss from operations	(557,459)	(364,985)
Other charge		
Impairment of long-lived assets	<u>(270,023)</u>	<u>(3,105)</u>
Loss before income taxes	(827,482)	(368,090)
Income taxes (recovered)		
Future taxes	<u>(115,228)</u>	<u>(113,436)</u>
Net loss for the year	<u>(712,254)</u>	<u>(254,654)</u>
Loss per common share (Note 7)	<u>(0.024)</u>	<u>(0.010)</u>

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Consolidated Statement of Deficit
FOR THE YEARS ENDED AUGUST 31

	2006	2005
Deficit, beginning of year	(5,490,638)	(5,235,984)
Net loss for the year	<u>(712,254)</u>	<u>(254,654)</u>
Deficit, end of year	<u><u>(6,202,892)</u></u>	<u><u>(5,490,638)</u></u>

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Consolidated Balance Sheet
AS AT AUGUST 31

	August 31, 2006	August 31, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	64,349	133,754
Accounts receivable	8,744	11,153
Prepaid expenses	10,000	10,000
	<u>83,093</u>	<u>154,907</u>
Mineral properties and equipment (Note 4)	<u>2,835,013</u>	<u>2,709,710</u>
	<u><u>2,918,106</u></u>	<u><u>2,864,617</u></u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	27,848	43,583
Advances from shareholders and directors (Note 5)	127,040	194,776
	<u>154,888</u>	<u>238,359</u>
Going concern (Note 2)		
Subsequent events (Notes 6(c), 6(e) and 12)		
Shareholders' equity		
Share capital (Note 6)	8,568,253	7,943,905
Contributed surplus (Note 6(f))	397,857	172,991
Deficit	(6,202,892)	(5,490,638)
	<u>2,763,218</u>	<u>2,626,258</u>
	<u><u>2,918,106</u></u>	<u><u>2,864,617</u></u>

Approved on behalf of the Board

Director *(signed)* "Stan Marshall" _____

Director *(signed)* "Max Morpurgo" _____

The accompanying notes form part of these financial statements

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Consolidated Statement of Cash Flows
FOR THE YEARS ENDED AUGUST 31

	2006	2005
	\$	\$
Cash flows from operating activities		
Net loss for the period	(712,254)	(254,654)
Adjustment for:		
Stock-based compensation	188,673	81,776
Impairment of long lived assets	270,023	3,105
Amortization	8,307	11,858
Future income taxes	(115,228)	(113,436)
	<u>(360,479)</u>	<u>(271,351)</u>
Change in non cash working capital items		
Accounts receivable	2,409	(3,132)
Prepaid expenses	-	448
Accounts payable and accrued liabilities	(15,735)	19,481
	<u>(373,805)</u>	<u>(254,554)</u>
Cash flows from investing activity		
Mineral property exploration costs	(288,633)	(185,459)
Cash flows from financing activities		
Advances from shareholders and directors	269,637	194,776
Repayments of advances from shareholders and directors	(337,373)	-
Proceeds of share capital issuance, net of share issuance costs	660,769	243,837
	<u>593,033</u>	<u>438,613</u>
Decrease in cash and cash equivalents	<u>(69,405)</u>	<u>(1,400)</u>
Cash and cash equivalents, beginning of year	133,754	135,154
Cash and cash equivalents, end of year	<u>64,349</u>	<u>133,754</u>

Supplemental cash flow disclosures (Note 9)

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

1. Basis of presentation

The consolidated financial statements of Micrex Development Corp. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles and include the financial statements of the company and those of Gold Standard Mining Corp. in which the company holds a 100% interest. Gold Standard Mining Corp. is the registered owner of the Big Horn Mine property and related equipment and has no other assets or liabilities and has no separate ongoing operations.

The Company holds a 51% interest in Gee Cee Mines Ltd. This company essentially acts as a bare trustee and owns claims relating to the Wild Horse placer mine. The Company has recorded its 51% proportionate interest in these claims at the purchase price of the shares plus amounts expended on development. Gee Cee Mines Ltd. has no other operations, assets or liabilities.

2. Nature of operations and going concern

Micrex Development Corp. was incorporated under the Business Corporations Act of Alberta on February 16, 1987.

The Company is considered to be primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The Company has a working capital deficiency and has suffered recurring losses. The recoverability of the amounts shown for mineral properties is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing, receive continued support from its creditors and to commence profitable operations in the future.

These consolidated financial statements do not give effect to any adjustments which might be necessary if the "going concern" basis were not appropriate.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, transfers or Native land claims and may be affected by other undetected items.

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

3. Significant accounting policies

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates pertain to the recovery of deferred exploration expenditures, the physical and economic lives of equipment and mining properties and to assumptions utilized in determining fair value of stock-based compensation and warrants.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of 3 months or less.

Equipment

Equipment is recorded at cost. The Company provides for amortization at rates designed to amortize the cost of the equipment over their useful lives. The annual amortization rates are as follows:

	<u>Methods</u>	<u>Rates</u>
Mining equipment	Diminishing balance	30%
Automotive equipment	Diminishing balance	30%
Computer equipment	Diminishing balance	30%
Furniture and fixtures	Diminishing balance	20%

Half year amortization is recorded in the year of acquisition. Amortization is not recorded in the year of disposal.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

3. Significant accounting policies (continued)

Mineral properties

Development Properties

At present, all activities of the Company are in the exploration stage. The cost of mineral properties or interests therein and all related exploration costs excluding administration costs are being capitalized until the respective properties are determined to be capable of sustained commercial production, or there has been an impairment in value. Each property is assessed periodically by management. When a property is determined to be non-commercial, non-productive or its carrying value is not considered to be fully recoverable based on the net present value of future expected cash flows, or its value is otherwise impaired, those costs in excess of estimated future recoveries are charged to operations. The ultimate recovery of the costs of deferred exploration expenditures and the satisfaction of future commitments is dependent on the Company's ability to raise sufficient capital in order to further develop and determine the commercial viability of the properties. The Company expenses administration costs as incurred. On commencement of commercial production, net acquisition costs and exploration and development costs on a property-by-property basis will be amortized to operations on the unit-of-production basis, based on the economic reserves of the property.

Asset Retirement Obligations

The Company recognizes the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, with a corresponding increase in the carrying amount of the long-lived asset. The liability accretes until the Company expects to settle the retirement obligation. These asset retirement costs are depleted using the unit of production method and actual costs to retire the asset will be deducted from the liability as incurred. At this time, the Company does not foresee the necessity to make any material expenditures in this area and the Company is not committed to any significant reclamation or other asset retirement obligations until such time as production commences.

Value

The amounts shown for the mineral properties represent costs to date (net of impairment write-downs), and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future reserves.

Future income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized and are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

3. Significant accounting policies (continued)

Flow-through shares

The Company has issued flow-through shares to fund Canadian exploration and development expenses. Under this financing arrangement, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation, allowing the shareholder to claim the tax deductions arising from the exploration and development expenditures. In accordance with the recommendations of EIC 146 (Emerging Issues Committee Abstract of the Canadian Institute of Chartered Accountants) a future tax liability and a reduction to share capital is recorded when the related exploration and development expenditures are renounced.

If accumulated tax losses and deductions have not previously been recognized as future tax assets, a portion of such unrecognized losses are recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. Under this method, compensation expense related to these programs is recorded in the statement of loss with a corresponding increase to contributed surplus. The fair value of options and warrants granted is determined using the Black-Scholes option pricing model at the date of grant and expensed over the vesting period.

The fair value of warrants issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants issued to subscribers is recorded as a reduction in the proceeds from share issuance with a corresponding increase to contributed surplus.

Consideration received on the exercise of stock options and warrants is credited to share capital. In addition, the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents' warrants that will not vest, but accounts for forfeitures as they occur.

MICREX DEVELOPMENT CORP.
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3. Significant accounting policies (continued)

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market price.

Recent accounting pronouncements

In January 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006. Section 3855 *Financial Instruments – Recognition and Measurement* establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 *Financial Instruments – Disclosure and Presentation* discusses the presentation and disclosure of these items. The application of hedge accounting is covered in Section 3865 *Hedges*. Section 1530 *Comprehensive Income* establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to hedges or other derivative instruments, outside of net income, in a statement of comprehensive income. Section 3251 *Equity* establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. There have also been numerous consequential amendments made to other Sections. Transitional provisions are complex and vary based on the type of financial instruments under consideration. Therefore, the Company has not yet determined the effect of these new standards on its consolidated financial statements.

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4. Mineral properties and equipment

Title to mineral properties involves certain inherent risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to the mineral properties and, to the best of its knowledge, title to the properties are in good standing.

a) Net book value

Given below are the net book values of equipment and mining development properties.

	August 31, 2006	August 31, 2005		
	Equipment	Mining Development Properties	Net Book Value	Net Book Value
	\$	\$	\$	\$
Burmis Magnetite Deposit	-	1,349,320	1,349,320	1,033,139
Big Horn Mine	3,149	758,450	761,599	740,687
Deadwood and Sunburst Mines	-	357,498	357,498	346,688
Quebec Magnetite deposit	-	350,323	350,323	297,121
Other	9,817	-	9,817	14,006
Banks Mine	3,590	-	3,590	5,129
Wild Horse Mine	2,866	-	2,866	4,095
Buffalo Head Hills	-	-	-	128,196
Mount Royal Mine	-	-	-	110,473
Clear Hills	-	-	-	30,176
	19,422	2,815,591	2,835,013	2,709,710

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4. Mineral properties and equipment (continued)

- c) The Company has interest in the following mining development properties:
- (iii) 51% interest in Banks hard rock mine located in the Steeple Rock district of New Mexico, U.S.A. This property was originally acquired in 1996 by the issuance of 200,000 common shares having a value of \$50,000, plus a \$100,000 expenditure commitment which was fulfilled in a previous year. This interest is subject to a 2% net smelter royalty interest to the vendor upon commencement of production. Management has assessed this property and has determined there to be an impairment in value. As a result \$964,498 of costs accumulated to date have been charged to operations over the past three years (2006 - \$586, 2005 - \$475, 2004 - \$963,437).
 - (iv) 100% interest in Deadwood patented hard rock mine and Sunburst patented hard rock mine claim located in Catron County, New Mexico, U.S.A. The Company owns the land and mineral rights.
 - (v) 33% interest in Mount Royal patented hard rock mine claim located in the Steeple Rock district of New Mexico, U.S.A. The Company owns the land and mineral rights. Management has assessed this property and has determined there to be an impairment in value. As a result \$111,065 (2005 – nil) of costs accumulated to date have been charged to operations in the current period.
 - (vi) 30%; (2005 - 28%) equity interest in the claims and 100% interest in all production from the claims relating to the Burmis Magnetite deposit located in the Crowsnest Pass area of Alberta. The Company originally acquired a 12% equity interest in this property in 1997 by the issuance of 100,000 common shares having a value of \$103,000, plus \$10,000 cash, plus a \$200,000 expenditure commitment which was fulfilled in a previous year. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$70,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. Accordingly, future payments totaling \$2,450,000 would acquire the remaining 70% interest, although there is no commitment to acquire this additional interest.

During the year the Company acquired an additional 2%; (2005 – 2%) equity interest by the issuance of 155,555; (2005 - 280,000) common shares at their fair value of \$70,000; (2005 – 70,000).

The equity interest is subject to a gross overriding royalty to the vendor upon commencement of production at the greater of 1% of gross sales or \$0.25 per ton.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

4. Mineral properties and equipment (continued)

- c) The Company has interest in the following mining development properties:
- (vii) 100% interest in the Clear Hills diamond exploration project consisting of 72 square miles located in the Clear Hills and Chinchaga Hills, Alberta, Canada. Management has assessed this property and has determined there to be an impairment in value. As a result \$30,176 (2005 – nil) of costs accumulated to date have been charged to operations in the current period.
 - (viii) 100% interest in the Buffalo Hills diamond exploration project consisting of 72 square miles located in the Buffalo Head Hills, Alberta, Canada. Management has assessed this property and has determined there to be an impairment in value. As a result \$128,196 (2005 – nil) of costs accumulated to date have been charged to operations in the current period.
 - (ix) 20%; (2005 - 18%) equity interest in the claims and 100% interest in all production from the claims relating to the Quebec magnetite deposit located near Chicoutimi, Quebec, Canada. The Company originally acquired a 12% equity interest in this property in the preceding fiscal year by the issuance of 290,323 common shares having a fair value of \$90,290. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$45,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. Accordingly, future payments totaling \$1,800,000 would acquire the remaining 80% interest, although there is no commitment to do acquire this additional interest.

During the year the Company acquired an additional 2%; (2005 - 2%) equity interest by the issuance of 90,000; (2005 – 180,000) common shares at their fair value of \$45,000; (2005 - \$45,000).

The equity interest is subject to a gross overriding royalty to the vendor upon commencement of production at the greater of 1% of gross sales or \$0.25 per ton.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

4. Mineral properties and equipment (continued)

d) Acquisition costs and deferred exploration costs for the properties are as follows:

August 31, 2006

	Acquisition Costs	Deferred Exploration Costs	Total
	\$	\$	\$
Burmis Magnetite deposit	743,000	606,320	1,349,320
Big Horn Mine	472,606	285,844	758,450
Deadwood and Sunburst Mines	343,482	14,016	357,498
Quebec Magnetite deposit	270,290	80,033	350,323
	1,829,378	986,213	2,815,591

August 31, 2005

	Acquisition Costs	Deferred Exploration Costs	Total
	\$	\$	\$
Burmis Magnetite deposit	673,000	360,139	1,033,139
Big Horn Mine	472,606	263,582	736,188
Deadwood and Sunburst Mines	343,482	3,206	346,688
Quebec Magnetite deposit	225,290	71,831	297,121
Buffalo Head Hills	5,448	122,748	128,196
Mount Royal Mine	44,780	65,693	110,473
Clear Hills	13,420	16,756	30,176
	1,778,026	903,955	2,681,981

5. Advances from shareholders and directors

The advances are due on demand, non-interest bearing, unsecured and have no set repayment terms. These advances were made in conjunction with share subscriptions, which did not close prior to the year-end and will be recorded as share capital in the subsequent fiscal period.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

6. Share capital

a) Share capital consists of:

Authorized

Unlimited number of common voting shares
10,000,000 preferred shares
10,000,000 convertible preferred shares

Preferred shares and convertible preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

	August 31, 2006	August 31, 2005
	\$	\$
Issued		
30,118,303 common shares (2005 - 26,931,499)	8,568,253	7,943,905

Certain of the common shares issued by private placement for cash or other consideration are held in escrow. As at year end 958,649 (2005 – 958,649) common shares were deposited in performance escrow and are to be released on the basis of one share for each \$0.23 of development expenditures on the Big Horn mining property. During the year, nil; (2005-323,211) common shares were released from escrow.

On September 12, 2005 the Company completed a private placement of 333,333 common shares at \$0.15 per share.

On October 25, 2005 the Company finalized a private placement for 665,000 share units consisting of one common share and one common share purchase warrant for \$0.155 per unit.

On November 15, 2005 the Company finalized the placement of 114,000 share units comprised of one common share and one common share purchase warrant for proceeds of \$0.22 per unit.

On December 21, 2005 the Company completed a flow-through private placement of 111,951 units at a price of \$3.60 per unit. Each unit consisted of nine flow-through common shares, three common shares and twelve common share purchase warrants.

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Notes to the Consolidated Financial Statements
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

6. Share capital (continued)

b) Transactions during the year:

	#	\$
Balance August 31, 2004	25,280,703	7,734,342
Common and flow through shares issued for cash	1,190,796	206,484
Issued for acquisition of mining properties	460,000	115,000
Tax benefit renounced to shareholders	-	(58,059)
	26,931,499	7,997,767
Cost of issuing shares	-	(53,862)
Balance August 31, 2005	26,931,499	7,943,905
Common and flow through shares issued for cash	2,455,749	533,088
Issued for acquisition of mining properties	245,555	115,000
Issued on exercise of options	425,500	97,049
Issued on exercise of warrants	60,000	22,800
Tax benefit renounced to shareholders	-	(115,228)
	30,118,303	8,596,614
Cost of issuing shares	-	(28,361)
Balance August 31, 2006	30,118,303	8,568,253

c) Warrants

At August 31, 2006, the Company had 3,021,065 (2005 – 4,309,749) warrants outstanding:

- i) 958,649 warrants attached to shares which have been deposited in performance escrow. These warrants expire 6 months after the release of the performance shares from escrow.
- ii) 665,000 warrants expiring October 25, 2006 (subsequent to year-end extended to October 25, 2007) entitling the subscribers to acquire one common share per warrant at a price of \$0.45 per share. These warrants were issued as part of a private placement share issue on October 25, 2005. The fair value of these warrants issued is estimated to be \$6,650. The assumptions used were a spot rate of \$0.25, strike price of \$0.45, risk-free rate of 3.76%, volatility of 50.0%, no expected dividend yield and one year to maturity.

MICREX DEVELOPMENT CORP.
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Notes to the Consolidated Financial Statements
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6. Share capital (continued)

c) Warrants (continued)

iii) 114,000 warrants expiring November 15, 2006 (subsequent to year-end extended to November 15, 2007) entitling the subscribers to purchase one common share per warrant at a price of \$0.45 per share. These warrants were issued as part of a private placement share issue on November 15, 2005. The assumptions used were a spot rate of \$0.25, strike price of \$0.45, risk-free rate of 3.79%, volatility of 50.0%, nil dividend yield and a maturity period of 1.0 year.

iv) 1,283,416 warrants expiring December 20, 2006 entitling the subscribers to purchase one common share per warrant at a price of \$0.35 per share, issued as part of the December 21, 2005 flow-through share issue. The fair value of the 1,343,416 warrants issued (60,000 were subsequently exercised) was estimated to be \$40,302. The assumptions used were a spot rate of \$0.26, strike price of \$0.35, risk-free rate of 3.81%, volatility of 50.0%, expected dividend yield of nil and a maturity period of 1.0 year.

d) Stock options

The Company has a stock option plan administered by the Board of Directors under which the Company may reserve a maximum of 10% of the issued and outstanding listed common shares. Under this plan, the Company has currently granted options for 2,973,224 common shares, having various exercise prices as determined on the date of issuance of the options. The options have no vesting period, may be exercised at any time within five years of issuance and expire thirty days following the date the optionee ceases to be a director, officer or employee, or one year following the date of death of the optionee. All options issued are exercisable as at the period-end.

The following summarizes option activities:

	Number of Options	Weighted avg exercise price
Options outstanding August 31, 2004	2,442,203	\$ 0.28
Granted	479,000	\$ 0.17
Expired	(358,000)	\$ 0.23
	<hr/>	
Options outstanding August 31, 2005	2,563,203	\$ 0.26
Granted	1,045,521	\$ 0.37
Expired	(210,000)	\$ 0.24
Exercised	(425,500)	\$ 0.20
	<hr/>	
Options outstanding August 31, 2006	<u>2,973,224</u>	<u>\$ 0.32</u>

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6. Share capital (continued)

The following summarizes the options outstanding at August 31, 2006.

Number of Options	Exercise Price	Expiry Date
40,087	\$ 0.26	January 2007
307,200	\$ 0.32	May 2007
75,000	\$ 0.36	June 2007
218,416	\$ 0.30	February 2008
230,000	\$ 0.35	December 2008
238,000	\$ 0.32	January 2009
225,000	\$ 0.31	February 2009
200,000	\$ 0.23	June 2009
85,000	\$ 0.22	November 2009
384,000	\$ 0.16	April 2010
75,000	\$ 0.23	September 2010
375,521	\$ 0.30	December 2010
520,000	\$ 0.50	March 2011
<hr style="width: 100%; border: 0.5px solid black;"/>		
2,973,224		
<hr style="width: 100%; border: 0.5px solid black;"/>		

e) Stock based compensation

The fair values of share options granted in the year ended August 31, 2006, using the Black-Scholes option pricing model, are as follows:

September 29, 2005: The assumptions utilized in determining this value of the 150,000 stock options issued to consultants was a spot rate of \$0.23, a strike price of \$0.23, a risk-free rate of 3.54%, volatility of 50.0%, expected dividend yield of nil and a maturity period of 5 years. The estimate of the fair value of options issued is \$16,500.

December 28, 2005: The assumptions utilized in determining this value of the 375,521 stock options issued to consultants was a spot rate of \$0.30, a strike price of \$0.30, a risk-free rate of 3.85%, volatility of 50.0%, expected dividend yield of nil and a maturity period of 5 years. The estimate of the fair value of options issued is \$52,573.

March 23, 2006: The assumptions utilized in determining this value of the 520,000 stock options issued to contractors and consultants was a spot rate of \$0.48, a strike price of \$0.50, a risk-free rate of 4.09%, volatility of 50.0%, expected dividend yield of nil and a maturity period of 5 years. The estimate of the fair value of options issued is \$119,600.

Subsequent to the year-end, the Company granted 100,000 stock options at an exercise price of \$0.28 to a director.

Total stock based compensation expense for the year was \$188,673 (2005 - \$81,776). Option pricing models require the input of subjective assumptions, and, accordingly, the fair value estimates can vary as a result of changes in the assumptions.

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6. Share capital (continued)

f) Contributed surplus

Transactions affecting contributed surplus during the year are as follows:

	2006	2005
Balance, beginning of year	172,991	-
Fair value of stock based compensation	188,673	81,776
Fair value of warrants issued	48,092	91,215
Fair value of options exercised – to share capital	(10,099)	-
Fair value of warrants exercised – to share capital	(1,800)	-
	397,857	172,991
Balance, end of year	397,857	172,991

7. Loss per share

The numerator used in the yearly calculation of basic loss per common share is the Company's net loss of \$712,254; (2005 - \$254,654); the denominator used in the calculation is the weighted average number of common shares outstanding during the year of 29,109,848; (2005 – 26,331,192). This results in a basic loss per common share of \$0.024; (2005 - \$0.010).

Diluted loss per common share has not been presented for 2006 or 2005 as the effect of the conversion of options and warrants is anti-dilutive.

8. Financial instruments:

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Fair value

The carrying amount of cash and short term deposits, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

Canadian generally accepted accounting principles require the disclosure of fair value information for all financial instruments, except in cases where time and cost constraints make such information too difficult to reliably determine. Because relevant and reliable fair value information was not obtainable, the Company has not disclosed fair value information for its advances from shareholders and directors, which are non-interest bearing and have no set terms of repayment.

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9. Supplemental cash flow disclosures

Significant non-cash transactions for the year consisted of the issuance of common shares as consideration for acquisition of interests in mining properties.

- a) Burmis Magnetite deposit – issuance of 155,555; (2005 - 280,000) common shares with an attributed value of \$70,000; (2005 - \$70,000) to acquire an additional 2%; (2005 – 2%) equity interest in the property.
- b) Quebec deposit – issuance of 90,000; (2005 – 180,000) common shares with an attributed value of \$45,000; (2005 - \$45,000) to acquire an additional 2%; (2005 – 2%) equity interest in the property.

No interest or income taxes were paid or received during the current and prior years.

10. Income taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to earnings before income taxes as follows:

	2006	2005
Statutory tax rate	32.5%	33.6%
Expected tax recovery	(268,932)	(125,150)
Increase (decrease) resulting from:		
Non-deductible stock-based compensation	61,319	27,804
Impairment of long-lived assets	87,757	1,056
Other adjustments	(11,325)	(5,978)
Effect of change in tax rate utilized	9,641	59,715
Benefit of income tax losses not recognized	6,312	(70,883)
	(115,228)	(113,436)
Income tax recovery	(115,228)	(113,436)

The components of future income tax balances are as follows:

	2006	2005
<u>Future tax assets</u>		
Tax basis of equipment in excess of carrying values	154,095	158,407
Non-capital loss carryforwards	647,166	664,973
Undeducted share issue costs	32,371	37,404
Other	2,591	-
	836,784	860,784
Net future tax assets	836,784	860,784
Less valuation allowance	(836,784)	(860,784)
	-	-
Future tax liabilities	-	-

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10. Income taxes (continued)

The valuation allowance reflects management's assumption that the tax assets, more likely than not, will not be realized.

Flow-Through Shares and Future Tax Liability

During the year ended August 31, 2006 the Company renounced expenditures totaling \$302,269 (2005 - \$223,274) as management expects this amount to be incurred in Canadian exploration and development expenses. The Company has until August 31, 2007 to incur qualifying expenditures. If these expenditures are not incurred, penalties will be assessed by the Canada Revenue Agency under the Income Tax Act.

The Company has non-capital income tax losses carried forward for tax purposes aggregating to \$1,991,587, (2005 - \$1,955,803) which are available for reduction of future years' taxable income. The losses expire as follows:

	\$
2007	168,518
2008	312,189
2009	297,323
2010	276,012
2011	270,442
2012 and thereafter	667,103
	1,991,587

In addition to the loss carryforwards, the Company has tax pools relating to its depreciable capital assets which exceed their book values by \$474,210; (2005 - \$465,904) as well as share issue costs deductible in future years of \$99,618 (2005 - \$110,011).

Mineral development properties with an original cost of \$1,504,568 (2005 - \$1,024,720) have no cost base for income tax purposes.

Other than the benefit of renounced exploration expenses, no further recognition has been made in these financial statements for potential tax savings arising from utilization of these items, as it is likely that the losses will expire prior to being realized.

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11. Related party transactions

During the year, the Company paid \$147,863; (2005 - \$111,318) to a director for consulting and management services provided. The Company paid \$5,760 (2005 - nil) to another director for consulting services provided.

Of the amount owing to shareholders, the balance owing to directors as at August 31, 2006 was \$28,140; (2005 - \$105,040).

During the year, the Company paid \$115,925 (2005 - \$90,800) to certain shareholders for subcontract services.

The above transactions occurred in the normal course of operations and are recorded at the exchange amount, which represents the consideration established and agreed to by the related parties.

12. Subsequent events

Subsequent to the date of the financial statements, the Company announced that production had commenced at its St. Charles Magnetite property in Quebec, with operations being managed by a third party mining company.

On October 27, 2006 the Company closed a private placement of 83,586 units of shares and warrants for total proceeds of \$401,213.

13. Segment disclosure

The Company is segmented based on how management analyzes performance and makes decisions. Management has assessed that the Company operates in one business segment, being precious metals mining, geographically contained within the North American mining segment.