

MICREX DEVELOPMENT CORP.
Management Discussion and Analysis

The following discussion of the financial condition, changes in financial condition and results of operations of the Corporation for the year ended August 31, 2004 should be read in conjunction with the financial statements of the Corporation and related notes included therein.

Overall Performance

Over the past 6 years, the Corporation has continued its focus as a natural resource corporation with interest in precious metal, industrial minerals and gemstone properties located in Alberta, BC and New Mexico. The Corporation focuses the majority of its attention on the "proving up" of prospective properties as exploration dollars can be focused in a direct manner. Active exploration for undiscovered resources is, at present, not a priority. The Corporation is interested in properties which have a demonstrated resource, usually through historical production or testing by credible authorities such as Government Geological Survey personnel. The Corporation gives high priority to those properties which can be brought to production with relatively low cost and in a timely manner.

Two gold exploration properties are located in British Columbia and have excellent potential for future development. Three properties are located in Alberta. The Burmis Magnetite property, is in the development stage and the Clear Hills and Buffalo Hills properties, which have diamond and poly metallic mining potential and the Quebec magnetite property are in the first stages of examination. The Corporation also has four gold properties in New Mexico.

The Corporation has started the permitting process for both of its magnetite properties, with a view of putting them both in production as soon as possible. A recent exploration program on the Corporation's Big Horn gold property yielded encouraging results, resulting in the staking of additional ground around existing claims.

Year Ended August 31, 2004

Results of Operation

During the year ended August 31, 2004, the Corporation incurred a loss from operations of \$291,088, and recorded a charge for impairment of long-term assets of \$1,231,733 for a total net loss of \$1,522,821. The Corporation had no revenue. General and administrative expenses amounted to approximately \$274,825, including wages in the form of consulting fees. Amortization was \$16,263.

Liquidity and Capital Resources

As at August 31, 2004 the Corporation had 25,280,703 common shares outstanding. During the year a total of 3,346,245 shares were issued. 650,981 shares were issued, which includes shares issued as option payments on the Burmis and Quebec magnetite properties for proceeds of \$185,000. 2,160,264 were issued (75% flow through) as part of a \$0.30 unit. Each unit consisted of one share and one \$0.40 warrant. 635,000 shares were issued for \$119,300 on the

exercise of outstanding stock options. 100,000 shares were returned to treasury. Proceeds were used for working capital and property development.

Year Ended August 31, 2003

Results of Operation

During the year ended August 31, 2003, the Corporation incurred a loss of \$302,618. The Corporation had no revenue. General and administrative expenses amounted to approximately \$280,420, including wages in the form of consulting fees. Amortization was \$22,198.

Liquidity and Capital Resources

As at August 31, 2002 the Corporation had 19,850,622 common shares outstanding. During the year a total of 1,675,092 shares were issued for cash of \$502,528, which was used for property development and working capital. 408,744 shares were issued as an option payment on the Corporation's Quebec magnetite property.

Quarter Ended August 31, 2004

Results of Operation

During the quarter ended August 31, 2004, the Corporation incurred a loss of approximately \$74,200. The Corporation had no revenue. General and administrative expenses amounted to approximately \$70,198, including wages in the form of consulting fees.

Liquidity and Capital Resources

As at August 31, 2004 the Corporation had 24,629,722 common shares outstanding. During the quarter 425,000 shares (\$85,000) were issued upon the exercise of options, and 450,981 shares (\$115,000) were issued on a private place basis.

The Corporation's ability to continue to fund its operations depends upon its ability to sell shares to raise equity both on a flow-through and non flow-through basis as it has no source of revenue. The Corporation plans to put both the Burmis Magnetite and Quebec Magnetite property into production in early 2006, so the Corporation anticipates being able to generate some cash flow by the end of 2006.

The Corporation has no long term debt or leases. It plans to raise the funds necessary to put the Burmis property into production with a combination of debt and equity. The total funds required to be raised in this respect is approximately \$2,000,000. This project requires the necessary permits from the Alberta government. The permitting process is currently underway. The Corporation is currently resubmitting an updated application.

The Quebec permitting process has just been undertaken. The capital budget and timing is expected to be approximately the same as for the Burmis property.

Additional capital will need to be raised for additional exploration programs on the Corporation's other properties. The amount and timing of such will depend upon the results of current exploration programs and market conditions at the time.

Outlook

For 2005, the Corporation plans to continue to focus its efforts on its Burmis and Quebec Magnetite properties. Progress has been made towards getting these deposits into production, and the Corporation anticipates receiving production revenue during the 2006 calendar year.

With the improved gold price and renewed investor interest in gold exploration, the Corporation is planning to conduct an exploration program on its Big Horn gold property. A small program has been conducted on its diamond exploration property.

Risk Factors

(a) Operating History

The business of the Corporation should be considered highly speculative due to its present stage of development. The Corporation has limited cash and other assets and a limited business history.

(b) Mining Operations

Exploration for minerals involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Further, most of the properties of the Corporation (the "Properties") have no known commercial reserves. There is no assurance that further commercial quantities of ore will be discovered by the Corporation. Except for the Magnetite properties, none of the Properties contain a known body of commercial ore and any exploration programs thereon are exploratory searches for commercial ore, which increases the degree of risk substantially as compared to properties in the development stage. In addition, each of the Properties may be difficult or impossible to access during periods of inclement weather, which are risks normally encountered by most industry participants.

Mineral exploration and development involve significant risks and few properties which are explored are ultimately developed into producing mines. There is no assurance that commercial quantities of minerals will be discovered on the Properties nor is there any guarantee that the exploration programs thereon will yield positive results. The discovery of mineral deposits depends upon a number of factors, not the least of which is the technical skill for the exploration personnel involved. The exploration and development of mineral properties and the marketability of any minerals contained in such properties will also be affected by numerous factors beyond the control of the Corporation. These factors include government regulation, high levels of volatility in market prices, availability of adequate transportation and refining facilities and the imposition of new, or amendments to existing, taxes and royalties. The effect of these factors cannot be accurately predicted.

Whether a mineral deposit once discovered will be commercially viable also depends on a number of factors some of which include the particular attributes of the deposit, such as size,

grade and proximity of infrastructure, as well as metal prices, which are highly cyclical. Most of the above factors are beyond the control of the Corporation. The Corporation must also compete with a number of companies that have greater technical or financial resources. The Corporation is unable to predict the amount of time which may elapse between the date when any new mineral reserve may be discovered and the date when production will commence from any such discovery.

(c) Government Regulations and Market

Mining operations are subject to government regulation. Operations may be affected in varying degrees by government regulation such as restrictions on production, price controls, tax increases, expropriation of property, environmental and pollution controls or changes in conditions under which minerals may be marketed. Should the Corporation be unable to obtain the necessary regulatory approvals, or should obtaining or complying with the terms of the necessary approvals require funds in excess of the resources of the Corporation, the Corporation may be forced to relinquish its interest in the Properties.

An excess supply of certain minerals may exist from time to time due to lack of markets and restrictions on exports. The marketability of both base and precious metals will be affected by numerous factors beyond the control of the Corporation. These factors include market fluctuations and government regulations relating to prices, taxes, royalties, allowable production and importing and exporting minerals. The effect of these factors cannot be accurately determined.

(d) Conflicts

The directors of the Corporation are engaged and will continue to be engaged in the search for mining interests on their own behalf and on behalf of other companies, and situations may arise where the directors and officers may be in direct competition with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the *Business Corporations Act* (Alberta) which require a director or officer of a corporation who is a party to, or is a director or an officer of or has a material contract with the Corporation to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the *Business Corporations Act* (Alberta).

(e) Need for Additional Funds

The Corporation has limited financial resources and has no assurance that additional funding will be available to it for further exploration and development of its projects. There can be no assurance that the Corporation will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties. If financing is raised through the issuance of shares from the Corporation's treasury, control of the Corporation may change and investors may be subject to further dilution.

(f) **Operating Hazards and Environmental Liabilities**

The operations to be conducted by the Corporation will be subject to all of the operating risks normally attendant upon mineral exploration and development. The Corporation carries basic liability insurance with other insurance needs met on a project by project basis.

The Corporation may become subject to liability for destruction of mineral properties or facilities, personal injury, pollution and other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. The payment for such liabilities would reduce the funds available for exploration and mining activities, and may have a material adverse effect on the Corporation's financial position.

(g) **Industry Conditions**

The mining industry is highly competitive and the Corporation must compete with many companies with greater financial strength and technical resources. Generally, there is intense competition for the acquisition of resource properties considered to have commercial potential. Prices paid for minerals produced are subject to market fluctuations and will directly affect the profitability of producing any mineral reserves which may be developed by the Corporation. Mining operations, including exploration, are subject to extensive government regulation. Operations may be affected from time to time in varying degrees by political and environmental developments, such as restrictions on production, price controls, tax increases, expropriation of property, pollution controls and changes in conditions under which certain minerals may be exported.

(h) **Foreign Jurisdiction**

Certain of the Properties are located in foreign jurisdiction. The enforceability, certainty and permanence of laws in foreign countries are not always like that in Canada. The Corporation's title to its foreign Properties, the right to work the same and to expatriate profits, if any, may be adversely affected. The Corporation is also at risk to adverse foreign exchange movements.

Mining operations in Canada, United States and elsewhere are subject to extensive regulation by local, provincial and federal governments. Future changes in governments and regulation could adversely affect mining in Canada and the United States. The development of mines and related facilities is contingent upon government approval which must be obtained through statutory review processes.

No current title opinion or report has been obtained regarding the Properties. The Properties may be subject to prior unregistered agreements, interests or native land claims and title may be effected by undetected defects.

Selected Financial Information

Annual Financial Data for the Three Fiscal Years ended August 31, 2004

	August 31, 2004	August 31, 2003	August 31, 2002
1. Net sales or total revenues	Nil	Nil	Nil
2. Income (loss) from continuing operations in total	(\$291,088)	(\$302,618)	(\$331,961)
Income (loss) per share	(\$0.01)	(\$0.01)	(\$0.02)
3. Net Income (loss) in total	(\$1,522,821)	(\$302,618)	(\$331,901)
Net loss per share on a fully diluted basis	(\$0.05)	(\$0.01)	(\$0.02)
4. Total assets	\$2,577,834	\$3,439,471	\$3,099,914
5. Total long-term financial liabilities	Nil	Nil	Nil
6. Cash dividends declared	Nil	Nil	Nil

As the Corporation is a mineral exploration company which has never recorded any mining production operations or revenue, the above annual figures are not particularly significant, other than to indicate the amount of the expenditures by the Corporation on exploration work in each of the years. The figures represent variances in the Corporation's levels of activity which, in turn, has been largely dictated by the amount of funding which the Corporation has had available from time to time to expend on exploration.

Summary of Quarterly Results

Two Year Quarterly Financial Data

2004	Nov 30/03	Feb 29/04	May 31/04	Aug 31/04
Total Revenue (\$)	nil	nil	nil	nil
Total Income (loss) (\$)	(42,287)	(196,451)	(78,009)	(1,206,074)
Income (loss) per share (\$)	(0.002)	(0.008)	(0.004)	(0.048)
2003	Nov. 30/02	Feb 28/03	May 31/03	Aug 31/03
Total Revenue (\$)	nil	nil	nil	nil
Total Income (loss) (\$)	(46,750)	(124,169)	(89,441)	(42,258)
Income (loss) per share (\$)	(0.002)	(0.006)	(0.004)	(0.002)

Transactions with Related Parties

During the year Micrex paid \$111,000 (2003 - \$100,000) to a director for consulting and management services provided. The balance owing to directors at August 31, 2004 was \$0 (2003 - \$55,639).

Outstanding Share Data

As at August 31, 2004 the following shares, warrants and options are outstanding:

25,280,703 common voting shares

Management and Directors' Options Outstanding at August 31, 2004:

Number	Exercise Price	Expiry Date
153,000	0.20	February 7, 2005
205,000	0.26	April 5, 2005
150,000	0.25	November 21, 2005
400,500	0.20	February 13, 2006
40,087	0.26	January 15, 2007
307,200	0.32	May 28, 2007
75,000	0.36	June 17, 2007
218,416	0.30	February 19, 2008
230,000	0.35	December 9, 2008
238,000	0.32	January 4, 2009
225,000	0.31	February 5, 2009
200,000	0.23	June 9, 2009

The following warrants were outstanding as at August 31, 2004:

- i. 1,281,900 warrants with an exercise price of \$0.40 per share are attached to shares that have been deposited in performance escrow. These warrant expire 6 months after the release of the performance shares from escrow.
- ii. 2,160,264 warrants expiring December 31, 2005 at \$0.40 per share

Additional Disclosure

	August 31 2003	August 31, 2004
Consulting fees and sub-contracting fees	\$185,584	\$204,375
Listing and share issuance costs	\$40,543	nil
Professional fees	\$26,580	\$32,929
Total general and administrative costs	\$280,420	\$274,825

Deferred Exploration costs, by property, after impairment write downs:	August 31, 2003	August 31, 2004
Big Horn Mine	198,415	nil
Wild Horse Mine	204,337	nil

Deferred Exploration costs, by property, after impairment write downs:	August 31, 2003	August 31, 2004
Banks Mine	936,921	938,437
Deadwood and Sunburst Mines	1,581	1,581
Mount Royal Mine	64,911	64,911
Burmis Magnetite Deposit	184,723	265,219
Clear Hills	16,756	16,756
Buffalo Head Hills	43,829	114,829
Quebec Deposit	31,215	57,441
Accumulated deferred exploration total	1,682,688	721,601

Further information with respect to the Corporation can be found on the SEDAR website.