

MERREX GOLD INC.
Form 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

August 31, 2006

BACKGROUND

The following discussion and analysis, prepared as of December 28, 2006, should be read together with the audited financial statements for the period ended August 31, 2006 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Certain statements in this report that are not historical facts may constitute forward-looking statements. Forward-looking statements are based on reasonable assumptions and current expectations and entail various known and unknown risks and uncertainties which could cause or contribute to actual results varying materially from those described in forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Corporation is available for view on SEDAR at www.sedar.com.

DESCRIPTION OF BUSINESS

The Corporation was incorporated on November 28, 1985.

On September 9, 2004 the TSX Venture Exchange NEX approved a special resolution passed by shareholders on July 12, 2004 to consolidate its share capital on a 1:10 basis and to change the name of the Corporation from LMX Resources Ltd. to Merrex Resources Inc.

On May 24, 2006 the TSX Venture Exchange approved a special resolution passed by shareholders on March 7, 2006 to change the name of the Corporation from Merrex Resources Inc. to Merrex Gold Inc. The Corporation also graduated from the TSX Venture Exchange NEX board to the TSX Venture Exchange tier 2.

On May 24, 2006, the Corporation acquired 100% of the shares of Jubilee Minerals Ltd. ("Jubilee"), a privately held Nova Scotia corporation incorporated January 16, 1997.

The Corporation and Jubilee are junior mineral exploration corporations engaged in the business of acquiring, exploring and evaluating natural resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is complete.

During fiscal 2006 the Corporation completed its restructuring, closed on the acquisition of new resource assets and secured additional equity financing.

As at the date of this MD&A, the Corporation has not earned any production revenue, nor has the Corporation found any proven reserves.

RESOURCE PROPERTIES

(Refer to Note 5 of the Audited Financial Statements)

Jubilee Property, Nova Scotia

The Jubilee Property, which includes the mineralized area known as the Jubilee Deposit, is a 228 claim land position located in Inverness and Victoria counties of Central Cape Breton, Nova Scotia. Of the 228 claims, 205 claims (the "Jubilee Claims") are 100% owned by the Corporation through its wholly owned subsidiary Jubilee Minerals Limited and 23 claims (the "Aur Claims") are held under option from Aur

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Resources Ltd. ("Aur"). Collectively, the Jubilee Claims and the Aur Claims are referred to as the "Jubilee Property".

Acquisition of Jubilee Minerals Limited

Pursuant to an agreement dated August 12, 2005 with thirteen individuals the Corporation optioned all of the issued shares of Jubilee. In consideration of the Corporation undertaking an approved exploration program by December 31, 2005 the Corporation secured a twelve-month option to purchase all of the issued shares of Jubilee for 10,000,000 common shares subject to Value Securities escrow conditions as prescribed by the TSX-V.

This option was exercised on May 24, 2006 with the approval of the shareholders of the Corporation and the acceptance of the TSX Venture Exchange.

Pursuant to a Valuation Report dated November 10, 2004 prepared by Mercator Geological Services Limited in accordance with NI 43-101, and revised June 30, 2005, valuation ranges for the acquired claims were estimated to be as follows:

The Primary Valuation Method - Cost Approach (Appraised Value Method)

Low value: \$452,000 High value: \$591,000

The Secondary Valuation Method - Market Approach (Comparable Transaction Method)

Low value: \$520,000 High value: \$636,000

For purposes of required calculations when determining the relative numbers of Value Securities and Excess Securities a value, as agreed between the Corporation and the Jubilee shareholders, of \$600,000 was used.

A total of 10,000,000 common shares were issued as consideration for the exercise of the option to purchase Jubilee of which 8,000,000 shares were 'Value Securities' and 2,000,000 shares were 'Excess Securities'. All 10,000,000 were issued subject to a Value Securities Escrow Agreement (all terms as defined by the TSX-V Listings Policies). The terms of the Value Securities Escrow Agreement provided for a straight line release from escrow of 10% (1,000,000) on May 24, 2006 and 15% (1,500,000) each six months thereafter over a total of 36 months.

During the year ending August 31, 2006 finder's fees aggregating 1,041,867 shares were issued to Fortress Management Services Limited in connection with the option and subsequent purchase of Jubilee.

Option of the Aur Claims

On July 31, 2006 the Corporation optioned from Aur a 100% interest in the 23 Aur Claims including that portion of the Jubilee Deposit not previously owned by the Corporation and gave Aur a one-time right to back-in to a 50% interest in the overall Jubilee Property. As previously defined, the Jubilee Property is the 228 claim combined land positions of Aur and the Corporation including the Jubilee Deposit.

The option agreement with Aur gives the Corporation control over the known mineralized areas of the Jubilee Deposit including the Main Zone and Northwest Extension, the Road Zone and the Northeast Extension.

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To earn the agreed interest the Corporation must pay to Aur annual cash payments aggregating \$80,000 and incur either \$1,000,000 of exploration expenditures on the Aur Claims (option A below) or \$2,000,000 of exploration expenditures on the combined Jubilee Property with a minimum of \$500,000 on the Aur Claims (option B below), all over a three-year period.

Due Date	Cash Payments	Plan A Exploration Expenditures On the Aur Claims	Plan B Exploration Expenditures On the Combined Claims
On Execution	\$10,000 (paid)		
By July 31, 2007	\$10,000	\$250,000 (guaranteed)	\$250,000 (guaranteed)
By July 31, 2008	\$20,000	\$250,000	\$250,000
By July 31, 2009	\$40,000	\$500,000	\$1,500,000
Total	\$80,000	\$1,000,000	\$2,000,000

The Corporation will be the operator during its earn-in period.

If the Corporation exercises its option and acquires the Aur Claims and upon the Corporation having incurred aggregate exploration expenditures of \$2,000,000 on the combined Jubilee Property, then Aur shall have the right for a period of 90 days to elect to back-in for a 50% interest in the combined Jubilee Property by incurring exploration expenditures equal to 200% of the Corporation's expenditures (a minimum of \$4,000,000) on the combined Jubilee Property. Aur will be the operator during its back-in period.

Upon the completion of the Aur back-in, the parties will enter into a joint venture for the further exploration and development of the Jubilee Property.

Further, if the Corporation acquires the Aur Claims and Aur declines to back in, then Aur shall receive a 2% Net Smelter Return provided that 1% of such Net Smelter Return may be purchased by the Corporation for \$1,000,000.

The Jubilee Property

The Jubilee Deposit occurs within the River Denys Sub-basin of the Late Devonian to Lower Permian age Maritimes Basin of eastern Canada. Basin fill sedimentary sequences evolved from Late Devonian–Early Carboniferous clastic sediments to overlying marine evaporite, carbonate and fine grained clastic sequences of the Windsor Group. The basal carbonate units of this succession host most of the significant zinc, lead and barite deposits defined to date in the region, foremost among these with respect to past development and mining being the Gays River zinc lead deposit and the Walton barite, lead, zinc silver deposit, located in central Nova Scotia.

The Jubilee Claims cover approximately one-half of the known mineralized breccia system defined by prior drilling in the Jubilee area. The remainder of the system occurs on an adjoining property owned

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by Aur and held under option by the Corporation. Collectively this system is called the "Jubilee Deposit".

The Jubilee Deposit is a carbonate-hosted, stratabound zinc, lead, barite deposit that has been classified to date as showing affinity with both "Irish Style" base metal deposits and the broad Mississippi Valley Type (MVT) deposit class. Mineralization at Jubilee is hosted by carbonate rocks of the Early Carboniferous (Visean) Windsor Group, with the principal base metal sulfides being galena and sphalerite. These occur as replacements of host rock and as breccia matrix phases, locally accompanied by barite.

Mineral resources or reserves considered compliant with National Instrument 43-101 (NI43-101) have not been established on the property to date. However, an in-house estimate in 1998 of 1,560,000 tonnes (rounded) grading 5.49% zinc and 1.4% Pb was prepared by Savage Resources Canada Company (Savage) and an earlier in-house estimate of 872,000 tonnes (rounded) grading 5.83% zinc and 1.44% lead was prepared in 1978 by Amax Minerals Exploration (a Division of Amax Potash Limited). The Savage estimate includes results from numerous drill holes completed subsequent to 1978 and therefore covers a larger portion of the mineralized zone. The resource was not classified in accordance with NI 43-101 in the cited estimates. The Corporation considers the historic figures to be relevant and reliable to future property evaluation by demonstrating continuity and character of mineralization. Associated drilling results are interpreted as showing that the deposit remains open to the northwest along the Jubilee Fault and also along mineralized, northeast trending secondary faults.

Mineralization similar to that in the deposit area occurs in drill holes elsewhere on the Jubilee properties and these represent targets for further investigation leading to drill testing. Additionally, numerous un-drilled structural targets, considered by the Corporation to be similar to the Jubilee deposit trend, have been identified on the Jubilee properties. These also require further investigation leading to drill testing.

During October and November 2005 the Corporation conducted a 872 meter, five-hole diamond drilling program which confirmed the presence, grade and character of zinc-lead mineralization within the previously drilled Jubilee Main Zone and Jubilee Fault Zone areas in the Jubilee deposit.

Based on the results of this program additional drilling was recommended for the Jubilee Main Zone to assess potential for up to 2.7 kilometres of strike extension to the northwest. With respect to the Jubilee Fault Zone, systematic angle hole drilling along the entire length of the structure northwest of the Jubilee surface showing was recommended. On each of the regional exploration licenses deeper drilling within specific structural corridors was recommended.

Subsequent to August 31, 2006 the Corporation completed a twelve-hole, 4000 – 5,000 meter diamond drilling program on the Jubilee Property. The program concentrated on the area known as the Jubilee Fault with a view to both expanding the known area of mineralization and developing further verification data towards establishing a National Instrument 43-101 (NI43-101) compliant resource for the Jubilee Deposit. Results are expected to be available in the first quarter of calendar 2007.

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Eastville Prospect, Nova Scotia

The Corporation has staked 224 claims under three licenses over a prospective zinc occurrence in Eastville, Nova Scotia at a cost of \$17,600 paid in lieu of assessment work requirements and an additional \$27,729 during the year.

Cape Breton Regional Zinc Claims, Nova Scotia

The Corporation has staked 1936 claims in Cape Breton, Nova Scotia over a number prospective zinc occurrences potentially hosting Jubilee type mineralization.

Winterland, Newfoundland

The Corporation has staked 32 claims under one license near Winterland, Newfoundland over a prospective zinc/molybdenum occurrence.

Mali Properties

Touba Mining Strategic Alliance

The Corporation has optioned from Touba Mining SARL (“Touba”) of Bamako, Mali certain mining permits within the west African country of Mali. The nature of the Corporation’s relationship with Touba is similar to a strategic alliance whereby Touba will assist the Corporation to acquire mineral permits other than those owned by Touba.

Pursuant to the terms of the Touba option the Corporation may earn up to a 95% interest in certain mining permits within a 4,100 square kilometer defined area of interest in the southern portion of what is referred to as the West Mali Gold Belt. The permits will include all minerals but the Corporation’s primary interest in the concessions is for their potential for gold exploration.

To earn the agreed interest the Corporation must make annual cash payments to Touba aggregating \$85,000 and incur exploration expenditures aggregating \$750,000 over three years as follows:

Due Date	Cash Payments	Exploration Expenditures	Interest Earned
On Execution	\$10,000 (paid)		
By October 18, 2006	\$25,000 (paid)	\$200,000 (completed)	30%
By October 18, 2007	\$50,000	\$250,000 (completed)	30%
By October 18, 2008		\$300,000 (completed)	35%

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If the optioned interests are earned and if the concessions are to be developed as a mine then the Corporation's interest will be diluted in favour of the government of Mali as required by the mining laws of Mali as follows:

Parties	Interest
Merrex	75% participating
Government of Mali	10% participating (optional) 10% carried
Touba	5% carried

If the government of Mali elects not to participate then their 10% participating interest reverts to the Corporation.

All concessions are subject to a 5% Net Profit Interest in favour of Touba.

The Corporation optioned from Touba the Siribaya (132 sq km) and Taya Malea (177 sq km) permits and, with the assistance of consultant Jean-Marc Gagnon and strategic partner Touba, has secured through Touba option rights from other parties for the Kambaya (formerly referred to as the Somageco) (143 sq km), Kofia (147 sq km) and Babara (142 sq km) permits. All required legalities have been completed for all permits except for the Kofia and Babara permits which are nearing completion. Collectively these permits are called the Siribaya Properties or Siribaya Project.

Permits optioned from other parties by Touba for the benefit of the Corporation have additional option payments which are paid by the Corporation and varying schedules of earned interests as follows:

For the Babara permit:

Due Date	Cash Payments (Canadian Dollars)	Interest Earned
On Execution (December 14, 2005)	\$13,000 (paid)	10%
Within Six Months	\$9,000 (paid)	10%
By First Anniversary	\$9,000 (paid)	25%
By Second Anniversary	\$43,000 (approx.)	30%
By Third Anniversary	\$45,000 (approx.)	25%
Total	\$119,000 (approx.)	100%

For the Kofia permit:

Due Date	Cash Payments (Canadian Dollars)	Interest Earned
On Execution (December 14, 2005)	\$18,000 (paid)	50%
Within Six Months	\$9,000 (paid)	25%
By First Anniversary	\$9,000 (paid)	25%
Total	\$36,000 (paid)	100%

For the Kambaya permit:

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Due Date	Cash Payments (Canadian Dollars)	Interest Earned
On Execution (May 10, 2006)	\$12,000 (paid)	5%
Within Six Months	\$12,000 (paid)	10%
By First Anniversary	\$12,000 (approx.)	10%
By Second Anniversary	\$34,000 (approx.)	30%
By Third Anniversary	\$66,000 (approx.)	45%
Total	\$136,000 (approx.)	100%

Siribaya Project

Previous exploration work by other parties in the area covered by the various Siribaya permits consisted of regional geochemical surveys (lines spaced one kilometre apart) that reported over 100 kilometres of broad gold anomalous zones associated with geological structures. This historic database reported several soil samples assaying over 1000 ppb and as high as 4000 ppb. These anomalous gold zones were never followed up and the Corporation has acquired the complete database of past work.

During 2006, an extensive geochemical program consisting of prospecting, mapping, detailed geochemistry, pitting and trenching was designed and conducted to confirm and detail gold zones previously outlined. The Corporation has also completed a small orientation diamond drilling program over the Berekegni orpailleur workings within the Siribaya Permit.

The geochemical program successfully outlined numerous gold anomalies in the area sampled including an eight kilometer gold anomalous structure that has produced trenching results of 3.1 g/t Au over 35 meters at Zone 1A, a grab sample of 76 g/t Au at Timeta 1 and soil samples as high as 14.89 g/t Au at Timeta 2.

The Corporation also undertook a small orientation diamond drill program over the orpailleur workings at Berekegni on the Siribaya Permit. Drilling was carried out by the drilling department of the Ministry of Mines of Mali and samples from both the drilling and geochemical program were sent to ABILAB, an accredited laboratory in Bamako, Mali, where they were assayed for gold by the Fire Assay method on pulverized fractions of 50 grams.

This program, which consisted of five shallow holes aggregating 435 meters, was designed to test the geology of the old surface workings. The orientation drilling program yielded gold intersections in four of the five holes and confirmed that the gold mineralization outlined in the geochemical anomalies continued at depth.

The orientation drill program demonstrated that the Siribaya Permit region has been affected by a strong gold bearing hydrothermal system with the hydrothermal activity being clearly evidenced by silicification and hematisation, and by the encountered chalcopyrite, pyrite, arsenopyrite, galena, and tourmaline mineralisation, in close correlation with a quartz veinlet system.

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Based upon the gold mineralization confirmed by drilling and upon the results of the geochemical survey the Corporation determined that a substantial follow-up Rotary Air Blast ("RAB") drill program was warranted.

In November, 2006 the Corporation commenced a 40,000 meter RAB drilling program to test the gold discovery in the Siribaya structure. Initial drilling is focusing on the Zone 1A anomaly. The driller is West African Drilling Services (WADS) of Bamako, Mali.

Jean-Marc Gagnon, Eng, MBA, is the named Qualified Person who supervised this program and reviewed and approved the technical information.

During the year ended August 31, 2006 \$1,149,370 in exploration expenditures were incurred on the Siribaya Project and the \$10,000 cash payment was made. The Corporation currently estimates 2007 expenditures for the Siribaya Project at \$3.3 million.

Kakadian Permit

The Corporation has optioned from la Societe Dianisse SUARL ("Dianisse") of Djelibougou, Bamako, Mali a 100% interest in the Kakadian mineral permit in west Mali. The Kakadian Permit, which covers approximately 109 square kilometers, will include rights to all minerals but the Corporation's primary interest in the concessions is for their potential for gold exploration.

The permit is located in the north portion of the prolific gold producing Sadiola-Kenieba Birimian window, approximately 10 kilometers west of the Sadiola gold mine. The property was acquired due to the presence of structural features and gold geochemical anomalies in the prospective Birimian rocks.

To earn the agreed interest the Corporation must make annual cash payments aggregating 35,000,000 Francs (Mali), or approximately \$80,000 as set forth in the table below. There are no exploration expenditure obligations.

Due Date	Cash Payments (Canadian Dollars)	Interest Earned
On Execution	\$12,000 (paid)	20%
By First Anniversary	\$23,000 (paid)	60%
By Second Anniversary	\$45,000 (approx.)	20%
Total	\$80,000 (approx.)	100%

If optioned interests are earned and if the concessions are to be developed as a mine then the Corporation's interest will be diluted in favour of the government of Mali as required by the mining laws of Mali as follows:

Parties	Interest
Merrex	80% participating
Government of Mali	10% participating (optional) 10% carried

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If the government of Mali elects not to participate then their 10% participating interest reverts to the Corporation. The permit has a 3% Net Profit Interest in favour of Dianisse.

Initial exploration consisted of follow-up on known geochemical anomalies including a small geochemical program of prospecting and sampling. Approximately 15% of the Kakadian Permit was sampled with peak values of 639 ppb and 405 ppb Au and, though sparse, do outline the mapped structure.

Jean-Marc Gagnon, Eng, MBA, is the named Qualified Person who supervised this program and reviewed and approved the technical information.

During the year ended August 31, 2006, the Corporation paid the first option payment and incurred \$67,838 in exploration expenditures on the Kakadian permit, and expects similar expenditures for the Kakadian property in 2007.

High River Acquisition

Pursuant to an Agreement dated May 3, 2006 with High River Gold Mines Ltd. ("High River") of Toronto, Ontario the Corporation acquired a bundle of five resource exploration property interests known and described as West Voisey's Bay Property, Hungry Hills Property, Sutherland Pond Property, Red Lake/Birch Lake Properties and a 50% back-in right into Fundy Minerals Ltd. Liberian project, certain details of which are provided below.

The consideration for the purchase was \$361,415 in cash and 2,245,000 common shares. The Corporation also issued 144,667 common shares to four directors in consideration of personal guarantees of performance granted to High River.

West Voisey's Bay Property

The Corporation acquired from High River a 50% interest in 451 claims comprising approximately 112.75 square kilometres in Labrador. These claims, the West Voisey's Bay Property, are held in joint venture with Celtic Minerals Ltd ("Celtic") as the West Voisey's Bay Joint Venture. Celtic is the West Voisey's Bay Joint Venture operator.

VB-2 Property

Subsequent to August 31, 2006, the Corporation and Celtic entered into an option agreement to acquire a 100% interest in the VB-2 property, a 60-claim (15 sq km) block contiguous to the West Voisey's Bay Property. Under the terms of the agreement, the Corporation and Celtic will make the following payments over four years: cash payments of \$250,000 (combined), share issuances of 125,000 shares each, and incur exploration expenditures of \$1.6 million (combined).

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The option obligations of the Corporation are as follows:

Due Date	Cash Payments	Share Issuances	Exploration Expenditures
On execution of formal agreement	\$12,500 (paid)	25,000 shares (issued)	
By September 6, 2007	\$25,000	25,000 shares	\$50,000 (firm)
By September 6, 2008	\$37,500	25,000 shares	\$125,000
By September 6, 2009	\$50,000	25,000 shares	\$250,000
By September 6, 2010		25,000 shares	\$375,000
TOTALS	\$125,000	125,000 shares	\$800,000

If the option is exercised, the vendors will receive a 2% Net Smelter Royalty of which the Corporation and Celtic can purchase one-half for \$2.0 million.

Combined, the West Voisey's Bay Property and the VB-2 property total 511 claims covering approximately 127.75 square kilometres.

West Voisey's Bay Exploration

The West Voisey's Bay Property borders Inco's Voisey's Bay property which contains Inco's operational nickel-copper-cobalt mine and a number of advanced exploration targets, including the Reid Brook zone. The Reid Brook zone is located 10 km to the northeast of the West Voisey's Bay Joint Venture's main exploration target.

In late 2005 an extensive MT survey identified four areas of exploration targets known as Mak Lake, West Mak Lake, Red Dog Fault and Konrad Brook. During the late spring 2006, the West Voisey's Bay Joint Venture completed infill ground geophysical surveys consisting of Magnetotellurics (MT), UTEM, Gravity and Magnetics over four previously identified target areas. This program was carried out with particular emphasis on the Mak Lake target area, which is 4km due south of mineralized troctolite at Inco's Ashley prospect.

In the Mak Lake area an east-west trending MT conductor with a combined length of 2.0 kilometers has been identified. The conductor is a broad, north dipping conductor up to 1000 meters deep at the west end shallowing to approximately 350 meters depth on the easternmost line surveyed. The 2006 MT survey in the Mak Lake area filled in the earlier 500 meter line spacing to a tighter 200 meter and 300 meter line spacing and confirmed continuity of the MT conductor for 1.5 kilometers and measured a stronger MT response between the original lines in one area. A separate offset MT conductor is now indicated for the eastern part of the original 2.0 kilometer response.

A detailed ground gravity survey has confirmed an anomalous gravity high in direct association with the 1.5 kilometer MT conductor with a weaker anomalous gravity high over the offset MT conductor. It

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should be noted that gravity surveys have been used to very effectively map out the troctolite magma chambers and their associated feeder zones at the Voisey's Bay deposits.

A UTEM survey completed over the shallower portion of the Mak Lake MT conductor, over the ice on Mak Lake and over the Red Dog Fault MT anomaly detected a multiple line, E-W trending UTEM conductor under Mak Lake coincidental with a strong MT conductor.

Detailed magnetics survey over the Mak Lake grid which overlaps the areas on which gravity, UTEM and MT were completed, outlined a magnetic anomaly in direct correlation with the 1.5 kilometer Mak Lake MT conductor and gravity high and further confirms the significance of the conductor as a priority drill target.

The West Voisey's Bay Joint Venture completed an airborne gravity gradiometry survey over its West Voisey's Bay project, in conjunction with a larger survey being conducted by Inco over its property holdings in the area. The survey was designed to explore for favourable troctolitic rocks, and potentially detect large shallowly buried accumulations of massive sulphides. Both Inco and the West Voisey's Bay Joint Venture shared portions of the data.

Professional geological service providers to the West Voisey's Bay Joint Venture included: Quantec Geosciences of Toronto, Ontario using their proprietary Titan 24 MT system carried out the MT geophysical survey and the detailed ground magnetics survey (a total of 41.40 line km's of MT was completed and 54.75 line km's of magnetics was completed.), the gravity survey was carried out by Eastern Geophysics of Nova Scotia (a total of 25.50 line km's of gravity was completed.), and the UTEM survey was carried out the Lamontagne Geosciences of Kingston, Ontario (A total of 39.00 line km's of UTEM was completed.).

For 2006 the West Voisey's Bay Joint Venture approved a \$3.0 million exploration program comprised of geophysics and diamond drilling. This program, which is partially completed, is in addition to the approximately \$2.2 million that had previously been spent on the West Voisey's Bay Project.

During 2006 the West Voisey's Bay Joint Venture started a planned six hole, 5000 metre diamond drilling program at the West Voisey's Bay property to test a number of previously identified geophysical targets with particular emphasis on the Mak Lake target area. Major Drilling was awarded the drill contract.

Four drill holes totalling approximately 2,900 meters were drilled. Two holes ended while still in the mafic intrusions which have an undetermined depth. A third hole ended in a zone of structural weakness prior to reaching the target MT anomaly. Subsequent wedging of the third hole also saw drilling end in the same zone of structural weakness prior to reaching the target. The fourth hole, which was collared in the Tasiuyak paragneiss, was testing a combined UTEM and MT anomaly. The hole encountered weakly graphitic paragneiss which explains the conductors.

Drilling has helped explain the prominent gravity and Magnetotelluric (MT) anomalies in the Mak Lake area as gabbroic to noritic intrusions with a resistivity contrast between the overlying Makhavinekh Lake granite and the underlying mafic intrusions. The mafic intrusions host very minor amounts of pyrrhotite-chalcopyrite sulphide along with disseminated magnetite. The drilling did not intersect any material amounts of sulphide mineralization. However, management considers that additional drilling is required to fully evaluate the property.

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Additional drilling, which would have included one hole in the West Mak Lake area and a second hole in the Konrad Brook area, was postponed due to the onset of winter. These two boreholes will be drilled as part of the 2007 program when drill testing will be expanded geographically to include targets on the West Mak Lake grid and Konrad grid.

Technical information regarding the West Voisey's Bay Joint Venture exploration activities and results thereof has been provided to the Corporation by Celtic Minerals Ltd., the operator of the West Voisey's Bay Joint Venture.

During the year, the Corporation incurred exploration expenditures of \$1,163,736 on the West Voisey's Bay property. The Corporation currently projects 2007 expenditures of approximately \$2.0 million. The timing of those expenditures is controlled by the operator of the West Voisey's Bay Joint Venture.

Hungry Hill Property

The Corporation holds a 50% interest in 232 claims in Labrador. These claims, the Hungry Hill Property, are held in joint venture with Celtic, the Hungry Hill Joint Venture operator. No expenditures have been authorized.

Sutherlands Pond Property

The Corporation holds a 50% interest in 50 claims in Labrador. These claims, the Sutherlands Pond Property, are held in joint venture with Celtic, the Sutherlands Pond Joint Venture operator. No expenditures have been authorized.

Red Lake/Birch Lake

The Corporation holds a 100% interest in 17 non-contiguous claim blocks totalling 229 claims in the Red lake and Birch Lake areas of Ontario, east of the active Red Lake, Ontario mining camp. To August 31, 2006 the Corporation had incurred \$97,521 on these claims to satisfy assessment work requirements, collecting rock and humus samples for analysis. A final report with analytical results is expected to be completed in early 2007. The Corporation expects to incur expenditures of approximately \$250,000 in 2007 for line cutting, geophysics and geological mapping to further evaluate the gold mineralization on the properties.

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SELECTED FINANCIAL DATA

The following table sets out selected financial information for the period indicated. The Corporation's financial statements have been prepared in accordance with generally accepted accounting principles in Canada and all amounts are in Canadian dollars.

	Years Ended August 31			
	2006	2005	2004	2003
	\$	\$	\$	\$
OPERATIONS:				
Revenue	Nil	Nil	Nil	Nil
Net Loss	(1,076,709)	(104,396)	(81,581)	(78,607)
Basic and diluted loss per share	(0.06)	(0.02)	(0.01)	(0.01)
BALANCE SHEET				
Working capital (deficiency)	817,806	(175,362)	(145,205)	(773,189)
Total assets	6,259,823	22,135	9,343	6,694
Total deferred exploration expenses	4,913,673	Nil	Nil	Nil

RESULTS OF OPERATIONS

The Corporation incurred a net loss of \$1,076,709 for the year ended August 31, 2006, as compared to a net loss of \$104,396 for the comparable period in 2005, due to an increase in expenses related to financings, acquisitions of mineral properties, and the commencement of exploration activity.

As at August 31, 2006, the Corporation has cash of \$1,128,572, taxes receivable of \$127,470, and prepaid expenses of \$18,750 and accounts payable and accrued liabilities of \$456,986 for total working capital of \$817,806 as compared to a working capital deficiency of (\$175,362) at August 31, 2005.

EXPENSES

Total expenses for the year ended August 31, 2006 were \$1,076,709 compared to \$104,396 in 2005. The increase of \$972,313 was due to increased corporate activity as the Corporation graduated from NEX to TSX Venture Tier 2 as well as increased financing, acquisition and exploration activity compared to the previous year. Particulars of these increased costs are as follows:

Amortization for the period under review was \$7,136 compared to \$135 in 2005, due to the amortization of leaseholds, office equipment and furniture for the newly-established Halifax office.

Filing and transfer fees increased to \$71,575 compared to \$21,954 for the same period in 2005 due to increased corporate activity, including financings and acquisitions.

Finders fees and commissions increased to \$83,718 compared to \$Nil in 2005, due to acquisitions and financings during the year.

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Interest and bank charges increased to \$26,637 compared to \$226 for the same period in 2005, primarily due to a loss on invested funds.

Management fees increased to \$85,100 compared to \$30,000 in the same period in 2005 due to increased office management and exploration project management related to the commencement of operations.

Marketing and public relations expense increased to \$37,819 for the period compared to \$Nil in same period in 2005 due to the costs of attendance at trade shows, web site creation and increased shareholder and other financial communications.

Office administration and rent expense increased to \$100,943 compared to \$12,709 for the same period in 2005 primarily due to establishing an office in Halifax, Nova Scotia.

Professional fees increased to \$166,582 from \$36,942 for the same period in 2005, as a result of increased legal and accounting costs related to financings and acquisitions, increased activity with regulatory authorities, and higher audit and accounting fees. Significant but not all legal work is carried out in-house by a director/officer of the Corporation who is qualified to practice law and is a member of the Law Society of British Columbia.

Stock-based compensation expense increased to \$362,600 compared to \$Nil in the prior year due to issuances of stock options to directors, officers and consultants during the year.

Travel and business expense increased to \$117,169 compared to \$2,430 for the same period in 2005 due to increased domestic and international travel relating to financing activities and exploration management activity.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the last twelve quarters ended August 31, 2006.

	Three Months Ended November 30 2005	Three Months Ended February 28 2006	Three Months Ended May 31 2006	Three Months Ended August 31 2006
	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net Income (Loss)	(50,739)	(76,236)	(262,363)	(687,371)
Basic/Diluted Loss per Share	(0.01)	(0.01)	(0.02)	(0.02)

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	Years Ended August 31, 2005				Year Ended August 31, 2004			
	Q1 \$	Q2 \$	Q3 \$	Q4 \$	Q1 \$	Q2 \$	Q3 \$	Q4 \$
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Income (Loss)	(15,423)	(28,708)	(24,547)	(35,718)	(94,835)	1,083	15,150	(2,979)
Basic/Diluted Loss per Share	(0.005)	(0.005)	(0.005)	(0.005)	(0.01)	0.01	0.01	(0.01)

FOURTH QUARTER

Net loss increased to \$687,371 in the fourth quarter compared to \$262,363 in the previous quarter and \$35,718 in the same quarter in 2005. The increase in expenses was primarily related to stock-based compensation expense and finders fees related to the financing.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has financed its acquisition and exploration of mineral properties and its ongoing operating costs with proceeds from equity subscriptions and the exercise of share purchase warrants. The Corporation expects to continue to raise capital primarily through the issuance of equity.

On December 6, 2006, the Corporation completed a best-efforts brokered private placement of 1,948,031 units at a price of \$0.70 per unit, and 5,000,000 flow-through shares at a price of \$0.80 per flow-through share, for total gross proceeds of approximately \$5,300,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each full purchase warrant entitles the holder to purchase one additional common share at a price of \$0.90 for a period of 12 months from closing, subject to certain accelerated expiry terms. Agents were paid commissions of \$375,453 and were granted 486,363 agents' compensation options exercisable for one year at a price of \$0.70 per unit. All securities issued are subject to a hold period until April 7, 2006.

Subsequent to August 31, 2006, 2,841,666 warrants with an exercise price of \$0.15, scheduled to expire on November 18, 2006, were exercised for total proceeds of \$426,250.

Funds raised from flow-through share issuances and flow-through warrant exercises must be incurred for exploration expenses qualifying as Canadian exploration expenses under the *Income Tax Act* (Canada).

	August 31, 2006	August 31, 2005
Working capital (deficiency)	817,806	(175,362)
Deficit	(\$11,341,436)	(\$10,264,727)

Cash used in operating activities was \$587,276 for the year compared to \$68,971 in 2005, primarily due to the increase in operating expenses in 2006.

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Cash used in investing activities was \$3,009,902 for acquisition of mineral properties and exploration costs (2005: \$Nil), and \$77,733 for the purchase of office furniture, equipment and leasehold improvements for the Halifax office (2005: \$896).

Cash provided by financing activities was \$4,797,541 for the period (2005: \$Nil), reflecting the issuance of common shares for \$4,303,791 (net of issuance costs) and the exercise of warrants for \$493,750.

During the year ended August 31, 2006 the Corporation issued the following shares:

- a) 3,666,667 common shares pursuant to a private placement for \$275,000;
- b) 366,667 common shares as commission on the above financing;
- c) 1,466,667 common shares in exchange for the extinguishment of \$110,000 in accounts payable, advances payable, loans payable and amounts due to related parties;
- d) 6,000,000 common shares pursuant to a private placement unit offering at a price of \$0.50 per unit for cash of \$3,000,000;
- e) 3,291,667 common shares for \$493,750 pursuant to the exercise of warrants;
- f) 10,000,000 common shares to acquire the Jubilee mineral claims;
- g) 1,041,867 common shares as finder's fees in respect of the Jubilee acquisition;
- h) 2,245,000 common shares to acquire the High River group of mineral claims;
- i) 144,667 common shares as a guarantee fee in respect of the High River mineral claims acquisition;
- j) 1,222,833 common shares pursuant to a private placement for \$733,700; and
- k) 622,629 common shares pursuant to a private placement for \$435,840.

Subsequent to year-end, the Corporation issued the following shares:

- a) 6,948,031 common shares pursuant to a private placement for \$5,363,622; and
- b) 2,841,667 common shares pursuant to the exercise of warrants.

RELATED PARTY TRANSACTIONS

During the year the Corporation entered into the following transactions with related parties:

- a) The Corporation acquired 100% of the issued shares of Jubilee Minerals Limited from a group of individual shareholders which included three directors of the Company. The parties were at arm's length at the time the option to acquire the shares was negotiated and signed;
- b) The Corporation paid or accrued the following amounts to related parties:

For management fees \$99,100 (2005 - \$7,500) to a director and officer of the Corporation, to a corporation of which a director and officer is a shareholder, and to a member of the immediate family of a director and officer of the Corporation;

For office rent and related overhead expenses \$15,000 (2005 - \$1,625) to a corporation of which a director is a shareholder; and

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For legal services \$92,290 (2005 - \$7,500) to a director and officer of the Corporation and to a legal firm in which a director is a partner.

As at August 31, 2006, \$259,944 (2005 - \$77,920) was payable to directors and officers of the Corporation for the services described above.

During the year, the Corporation issued 1,466,667 units to settle accounts payable, advances payable, loans payable and amounts due to two directors, totalling \$110,000. Each unit consists of one common share and one share purchase warrant, and one-half of each is flow-through. Each warrant entitles the holder to purchase one additional common share at a price of \$0.15 per share for a period of one year.

During the year, the Corporation issued 2,640,000 stock options to directors and officers, exercisable for five years from the date of issue at \$0.11, \$0.45 and \$0.75.

On November 6, 2006, the Corporation issued 50,000 stock options to officers, exercisable for five years at \$0.75 per share.

On December 19, 2006, the Corporation issued 955,000 stock options to directors and officers, exercisable for five years at \$0.90 per share.

During the year, the Corporation issued 144,667 common shares to four directors as a guarantee fee in respect of the High River acquisition.

During the year, the Corporation borrowed and repaid short term loans totaling \$70,500 made by two directors. The loans were made without interest and without specific terms of repayment.

Subsequent to year end, the Company borrowed and repaid \$400,000 from a director and officer of the Company. The amount was borrowed without interest and without specific terms of repayment.

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures for the Corporation. Based on an evaluation of the Corporation's disclosure controls and procedures as of the end of the period covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

CHANGES IN ACCOUNTING PRINCIPLES INCLUDING INITIAL ADOPTION

Foreign Currency Translation

Transactions recorded in Francs (Mali) have been translated into Canadian dollars using the temporal method, as follows: monetary items at the rate prevailing at the balance sheet date, non-monetary items at the historical exchange rate, and revenue and expenses at the average rate in effect during the applicable accounting period. Gains or losses arising on translation are included in the results of operations.

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INVESTOR RELATIONS

Investor relations activities are handled by the directors.

OUTSTANDING SHARE DATA

As at August 31, 2006 the Corporation had authorized an unlimited number of common shares without par value.

Issued capital as at August 31, 2006 was 35,992,275 common shares

As at August 31, 2006 there were 2,841,667 share purchase warrants outstanding, exercisable until November 18, 2006 at a price of \$0.15 per share and 611,417 share purchase warrants outstanding, exercisable until July 17, 2007 at a price of \$0.75 per share.

As at August 31, 2006 there were 590,000 stock options outstanding exercisable until August 29, 2010 at a price of \$0.11 per share, 100,000 stock options outstanding exercisable until December 5, 2010 at a price of \$0.45 per share, and 2,100,000 stock options outstanding exercisable until June 1, 2011 at a price of \$0.75 per share.

As at August 31, 2006 there were 11,156,250 shares subject to a Value Securities Escrow Agreement. These shares will be released on the following basis:

Release Dates	Number of Escrowed Securities to be Released
November 24, 2006	1,859,375
May 24, 2007	1,859,375
November 24, 2007	1,859,375
May 24, 2008	1,859,375
November 24, 2008	1,859,375
May 24, 2009	1,859,375
Total	11,156,250

RISK AND UNCERTAINTIES

The Corporation is in the business of acquiring and exploring mineral properties, a business with numerous inherent risks and uncertainties common to other junior mineral exploration companies. Management has identified the following potentially significant inherent risks and uncertainties specific to its operations and plans in the coming years.

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Funding Requirements

The Corporation and its mineral exploration programs are at an early stage and the Corporation has no profitable business and no source of revenues. The Corporation relies upon the placement of equity and the exercise of stock options for its financing. While it has been successful at raising equity in the past, there can be no assurance that it will be able to do so in the future.

Exploration and Development

There can be no assurance that the activities of the Corporation will result in the discovery of a mineral deposit or that any such discovery will be of sufficient size and grade to warrant production.

All of the mineral claims and exploration permits which the Corporation holds or has a right to acquire an interest are in the exploration stage only and are without a known body of commercial ore. After discovery of mineralization, significant stages of exploration and assessment are required before economic viability can be determined and development is dependent upon success at every stage. Very few precious or base metal properties that are explored are ultimately developed into production.

Exploration Risks

Mineral resource exploration activities involve risks which even a combination of experience, knowledge and prudence may not be able to overcome. The activities in which the Corporation is directly or indirectly involved will be subject to the hazards normally incidental to exploration activities which could result in injury and damage to life and property, possible adverse environmental impacts and possible legal liability for some or all of such injury, damage or impact. The Corporation maintains some liability insurance. However, any exposure may be outside the coverage of or exceed the limit of the insurance policy in which case the Corporation could be exposed to significant defence costs and ultimate financial liability.

Reliance on Personnel

The Corporation is highly dependent on its key executive and operating officers, the loss of any of which could have an adverse effect on the Corporation.

Recent increases in resource exploration activity worldwide have resulted in increased demand for and a resulting shortage of experienced technical field personnel and in increased costs of field personnel and related goods and services. The inability of the Corporation to secure such personnel when required or at affordable prices could have an adverse effect on the Corporation's performance.

Title Risks

The Corporation's exploration properties are in Canada and Mali, and both countries are politically stable with respect to the laws governing mining tenure and mining activities. Nevertheless, the possibility of political instability or changes to mining regulations could result in the impairment or loss of mining title or impairment of the value of interests held.

The Corporation exercises usual due diligence with respect to determining title to properties in which it has a material interest. However, the Corporation's property interests may be subject to prior unregistered

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agreements, or transfers or native land claims and title may be affected by undetected defects. There is no guarantee that property titles will not be challenged or impugned.

Foreign Currency Exchange Rate Risk

Certain of the Corporation's exploration permits are in Mali. The currency of commerce in Mali is the Mali franc and the United States dollar. Significant fluctuations in the Mali franc against the Canadian dollar could have a material effect on the Corporation's financial results, which are denominated and reported in Canadian dollars.