# ABACUS MINING & EXPLORATION CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

**September 30, 2005**

## NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company’s independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim statements by an entity’s auditors.

**ABACUS MINING & EXPLORATION CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(Prepared by Management)**

| | September 30, 2005 (Unaudited) | December 31, 2004 (Audited) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 263,891 | $ 720,057 |
| Marketable securities | 1,000 | 1,000 |
| Accounts receivable | 598,673 | 683,542 |
| Loan receivable (Note 3(d)) | 317,489 | 100,000 |
| Advances to contractor (Note 6) | 155,909 | 109,003 |
| Prepaid expenses | 800 | 4,469 |
| | 1,337,762 | 1,618,071 |
| MINERAL PROPERTIES (Note 3) | 4,123,482 | 3,801,225 |
| EQUIPMENT | 28,971 | 28,229 |
| RECLAMATION DEPOSITS | 23,272 | 23,272 |
| | $ 5,513,487 | $ 5,470,797 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 183,303 | $ 105,846 |
| Loans payable (Note 7) | 451,184 | - |
| | 634,487 | 105,846 |
| **SHAREHOLDERS' EQUITY** | | |
| SHARE CAPITAL (Note 5) | 26,031,128 | 25,982,848 |
| SHARE PURCHASE WARRANTS | 40,748 | 40,748 |
| OPTION COMPENSATION | 869,861 | 435,118 |
| DEFICIT | (22,062,737) | (21,093,763) |
| | 4,879,000 | 5,364,951 |
| | $ 5,513,487 | $ 5,470,797 |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

APPROVED BY THE BOARD

*"Douglas A. Fulcher"*

Director - Douglas A. Fulcher

*"J. Patrick Nicol"*

Director - J. Patrick Nicol

**ABACUS MINING & EXPLORATION CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

**For the Nine Months Ended September 30**

**(Unaudited – Prepared by Management)**

| | For the Three Months Ended September 30, 2005 | For the Three Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 |
|---|---|---|---|---|
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| Stock-based compensation | $ 127,504 | $ 81,575 | $ 434,745 | $ 144,565 |
| Consulting | 90,914 | 32,845 | 241,553 | 124,154 |
| Travel and promotion | 31,107 | 35,224 | 123,355 | 93,646 |
| Salaries and benefits | 18,600 | 15,927 | 53,600 | 47,504 |
| Regulatory fees | 2,196 | 5,106 | 21,273 | 30,160 |
| Office and miscellaneous | 5,507 | 6,045 | 14,527 | 15,877 |
| Investor relations | 2,000 | 3,000 | 12,000 | 15,312 |
| Legal | 7,386 | 3,579 | 17,411 | 66,305 |
| Rent | 7,868 | 8,708 | 22,021 | 28,664 |
| Management fees | 4,500 | 21,300 | 13,500 | 63,325 |
| Transfer agent fees | 1,774 | 848 | 13,787 | 10,927 |
| Amortization | 2,386 | 1,717 | 6,215 | 5,089 |
| Accounting and audit | - | 1,260 | 1,970 | 4,345 |
| Telephone | 1,393 | 1,501 | 4,250 | 5,328 |
| Interest expense | 1,184 | - | 1,184 | - |
| | 304,319 | 218,635 | 981,391 | 655,201 |
| Less: Interest income | (4,033) | (2,878) | (13,265) | (5,661) |
| LOSS BEFORE THE FOLLOWING | 300,286 | 215,757 | 968,126 | 649,540 |
| General exploration | - | 20,077 | 848 | 63,175 |
| LOSS FOR THE PERIOD | 300,286 | 235,834 | 968,974 | 712,715 |
| DEFICIT, BEGINNING OF PERIOD | 21,762,451 | 20,487,045 | 21,093,763 | 20,010,164 |
| DEFICIT, END OF PERIOD | $ 22,062,737 | $ 20,722,879 | $ 22,062,737 | $ 20,722,879 |
| LOSS PER SHARE | $ 0.01 | $ 0.01 | $ 0.026 | $ 0.02 |

**ABACUS MINING & EXPLORATION CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended September 30**

**(Unaudited – Prepared by Management)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| CASH PROVIDED BY (USED FOR): | | | | |
| OPERATING ACTIVITIES | | | | |
| Loss for the period | $ (300,286) | $ (235,834) | $ (968,975) | $ (712,715) |
| Less: non-cash charges | | | | |
| Amortization | 2,386 | 1,717 | 6,214 | 5,089 |
| Stock-based compensation | 127,504 | 81,575 | 434,743 | 144,565 |
| | (170,396) | (152,542) | (528,018) | (563,061) |
| Net changes in non-cash working capital balances | | | | |
| Accounts receivable | 3,008 | 47,076) | 78,181 | 12,783 |
| Prepaid expenses | - | (18,209) | 3,669 | (24,434) |
| Advances to contractors | (76,613) | 116,872 | (46,906) | - |
| Accounts payable and accrued liabilities | 54,608 | 45,517 | 77,457 | (11,040) |
| Loan receivable | (3,884) | - | (210,799) | - |
| | (22,881) | (52,320) | (98,398) | (585,752) |
| INVESTING ACTIVITIES | | | | |
| Mineral properties | (100,417) | (428,475) | (322,258) | (2,246,918) |
| Equipment purchases | (6,295) | - | (6,956) | (17,108) |
| | (106,712) | (428,475) | (329,214) | (2,264,026) |
| FINANCING ACTIVITIES | | | | |
| Share issue costs refunded | - | 4,141 | - | 4,141 |
| Issuance of share capital for cash | 36,280 | 105,000 | 48,280 | 3,364,474 |
| Loans payable | 450,000 | - | 450,000 | - |
| Accrued interest on loans payable | 1,184 | - | 1,184 | - |
| | 487,464 | 109,141 | 499,464 | 3,368,615 |
| INCREASE (DECREASE) IN CASH | 187,475 | (371,654) | (456,166) | 518,837 |
| CASH, BEGINNING OF PERIOD | 76,416 | 2,145,696 | 720,057 | 1,255,205 |
| CASH, END OF PERIOD | $ 263,891 | $ 1,774,042 | $ 263,891 | $ 1,774,042 |

## 1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development and the future proceeds from the disposition of those reserves.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2005, the Company has a working capital of $703,275 and an accumulated deficit of $22,062,737. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following policies.

### (a) Principles of Consolidation

The consolidated financial statements as at December 31, 2004 and 2003 included the accounts of the Company and its wholly owned subsidiary, Abacus Alaska, Inc.

### (b) Basis of Presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. The accounting policies used in the preparation of the accompanying unaudited interim financial statements are the same as those described in the annual consolidated financial statements and the notes thereto for the year ended December 31, 2004, with the exception of the change in accounting policy for stock based compensation, as disclosed in Note 2(b). In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements including the notes thereto for the year ended December 31, 2004.

### (c) 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 the assets and liabilities and disclosure 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 reported.

## 3. MINERAL PROPERTIES

The Company has acquired or has an option to acquire mineral properties as follows:

(a) **Rainbow Property, Kamloops Mining Division, B.C.**

The Company entered into an option agreement to acquire 100% of the optionor's 70% interest in 13 mineral claims on the issue of 150,000 common shares (issued) and a commitment to incur $1,000,000 in exploration expenditures (incurred) on the property in stages prior to January 17, 2006. The optionor has reserved the right to back-in and acquire up to a 65% interest in any specific mineral deposit located or retain a 1.5% net smelter royalty on which the Company may purchase one-third of for $1,000,000.

In 2004 the Company paid $200,000 and issued 500,000 common shares at a deemed value of $195,000 to the holder of the other 30% vested interest to acquire their right of refusal under their agreement with the optionor.

(b) **Iron Mask Property, Kamloops Mining Division, B.C.**

The Company entered into an option agreement to acquire 100% of the optionor's interest in 39 mineral claims and 20 Crown granted mineral claims on the issue of 100,000 common shares (issued) and the commitment to incur $1,000,000 in exploration expenditures (incurred), in stages, on the property before January 17, 2006. The optionor has reserved the right to back-in and acquire up to a 65% interest in any specific mineral deposit located or retain a 1.5% net smelter royalty of which the Company may purchase one-third for $1,000,000.

(c) **Combined Property**

On March 3, 2004, the Rainbow and Iron Mask properties were combined pursuant to an agreement which required an aggregate expenditures of $1,300,000 with a minimum of $250,000 to be incurred on the Iron Mask property.

The Company has incurred the required expenditures and its interest has been vested.

Once the Company has notified the optionor that it has incurred $5,000,000 in expenditures on an ore deposit on the property or prepared a preliminary feasibility study on such specific deposit, the optionor will have 120 days in which to exercise its back-in right.

(d) **Niblack Project, Alaska, U.S.A.**

The Company has acquired a 100% interest in 123, reduced to 47 claims during the year ended December 31, 2003 and 16 patented mineral claims subject to the issue of 500,000 common shares upon making a decision to place the property into production. The optionor of a 70.49% interest in the property has retained a variable 1% to 3% net smelter returns royalty based on the profitability of the property. Certain net profit interests are held by other parties with respect to a 29.51% interest in the property. An additional 100% interest in 2 patented mineral claims have been acquired subject to a final US $10,000 payment. During 2002 the property was written-down to a nominal value of $1.

The Company received approval on March 15, 2005 to reorganize the Company and its wholly owned Niblack property. The property has been transferred into a new company, incorporated under the name Niblack Mining Corp. ("Niblack Mining"). Shareholders at record on April 18$^{th}$ received one new Abacus share for every old Abacus share held and also received one Niblack share for every four shares of Abacus held.

3. **MINERAL PROPERTIES (continued)**

Initial capital has been provided by a $300,000 loan from Abacus which will be convertible by Abacus into Niblack Mining shares and warrants at a conversion price equal to the offering price. In addition, 1,000,000 shares of Niblack Mining will be issued pursuant to an escrow agreement over an 18 month period as a bonus for the foregoing loan and to provide an initial measure of control over the direction of Niblack Mining. On completion of the reorganization and prospectus financing, the Company will hold approximately 6.5% of Niblack Mining, the Abacus shareholders will hold an estimated 61%, and the prospectus purchasers will hold the remaining 32.5%.

At September 30, 2005, expenditures incurred on mineral properties are as follows:

| | Rainbow | Iron Mask | Niblack | Joker | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2004 | $2,514,061 | $1,287,163 | $ 1 | $ - | $3,801,225 |
| Additions during period | | | | | |
| Acquisition costs | - | - | - | - | - |
| Exploration costs | | | | | |
| Assay | - | 19,685 | - | 2,534 | 22,219 |
| Drilling | - | 6,341 | - | - | 6,341 |
| Geological consulting | 13,845 | 7,222 | - | - | 21,067 |
| Geophysical consulting | - | - | - | - | - |
| Contract wages | - | 184,306 | - | 8,325 | 192,631 |
| Travel and accommodation | - | 48,001 | - | 945 | 48,946 |
| Reports, drafting, maps | - | - | - | 1,650 | 1,650 |
| Recording fees | - | 2,015 | - | - | 2,015 |
| Equipment rental | - | 24,099 | - | - | 24,099 |
| Camp, field supplies | - | 3,289 | - | - | 3,289 |
| | 13,845 | 294,958 | - | 13,454 | 322,257 |
| Total additions during period | 13,845 | 294,958 | - | 13,454 | 322,257 |
| Balance, September 30, 2005 | $2,527,906 | $1,582,121 | $ 1 | $ 13,454 | $4,123,482 |

4. **EQUIPMENT**

Equipment is comprised of office, field and computer equipment and are recorded at cost net of accumulated amortization of $72,568 as at September 30, 2005.

## 5. SHARE CAPITAL

Authorized
100,000,000 common shares without par value

| | No. of Shares | Amount |
|---|---|---|
| Issued: | | |
| Balance at December 31, 2004 | 37,535,602 | $ 25,982,848 |
| Issued in settlement of debts | 212,601 | 48,000 |
| Issued for cash, exercise of stock options | 2,500 | 280 |
| | 215,101 | 48,280 |
| Balance, September 30, 2005 | 37,750,703 | 26,031,128 |

### (a) Share Purchase Warrants

The Company has, as at September 30, 2005, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

| Outstanding as at December 31, 2004 | Exercise Price | Expiry Date | Issued | Exercised | Expired | Outstanding as at September30, 2005 |
|---|---|---|---|---|---|---|
| 394,744*1,2 | $0.192 | October 29, 2005 | - | - | - | 394,744 |

* 1. The share purchase warrants issued as part of units in the settlement of outstanding debts have been ascribed a fair value of $40,748 calculated using the Black-Scholes Option Pricing Model.

2. All outstanding warrants have been exercised subsequent to the period ending September 30, 2005.

### (b) Stock Options

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. As at September 30, 2005 the Company had stock options outstanding to directors and employees for the purchase of up to 6,512,500 common shares exercisable as follows:

5. **SHARE CAPITAL (continued)**

(b) **Stock Options (continued)**

| Number Of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 225,000 | $0.112 | June 1, 2006 |
| 462,500 | $0.16 | April 16, 2007 |
| 775,000 | $0.08 | April 4, 2008 |
| 750,000 | $0.152 | September 4, 2008 |
| 300,000 | $0.288 | October 9, 2008 |
| 1,500,000 | $0.16 | September 17, 2009 |
| 1,500,000 | $0.32 | October 23, 2009 |
| 200,000 | $0.30 | December 23, 2009 |
| 800,000 | $0.28 | March 4, 2010 |
| 500,000 | $0.34 | May 20, 2010 |
| 7,012,500 | | |

A summary of the status of the Company's stock options as at September 30, 2005 and changes during the period then ended is as follows:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2004 | 5,715,000 | $ 0.18 |
| Granted | 1,300,000 | 0.30 |
| Exercised | (2,500) | 0.112 |
| Cancelled/expired | - | |
| Outstanding, September 30, 2005 | 7,012,500 | $ 0.20 |

(c) **Stock based compensation**

Pursuant to the CICA standard of accounting for stock-based compensation, the fair value of stock options granted and vested in the period, in the amount of $127,504 has been recorded as an expense in the period.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| | | 2005 |
|---|---|---|
| Risk-free interest rate | | 3.12 |
| Expected dividend yield | - | - |
| Expected stock price volatility | | 108% |
| Expected option life in years | | 3 |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the

Company's stock options.

## 6. RELATED PARTY TRANSACTIONS

(a) The Company conducts the majority of its exploration activities through an exploration services contractor in which two directors are principals. The Company paid that contractor $308,413 (2004 - $1,909,139) for exploration costs and $119,348 (2004 - $198,223) to reimburse office and administrative costs. As at September 30, 2005 the Company had advanced $155,909 to that contractor.

(b) A management fee of $13,500 (2004 - $22,500) was paid or was owed to a company controlled by a Company director.

(c) The Company shares office and administrative costs with a company with three directors in common. As at September 30, 2005, $3,837 was due to this company.

## 7. LOANS PAYABLE

On September 22, 2005 the Company negotiated private loans for the amount of $450,000. The terms of the loan agreements are for a period of one year bearing an interest rate of 12% per annum compounded monthly. The Company has also agreed to pay the lenders 450,000 shares at a deemed price of $0.20 per share as consideration of the loans.

## 8. SEGMENTED DISCLOSURE

The Company has one operating segment, mineral exploration and development. All of the Company's assets are located in Canada (refer to Note 3).

## 9. SUBSEQUENT EVENTS

### Corporate Reorganization

The Company received shareholder, court and regulatory approval of the arrangement to transfer the Company's Niblack property to the newly incorporated Niblack Mining Corp.("Niblack"). Under the terms of the plan of arrangement, shareholders of the Company at April 15, 2005 have received four new common shares of the Company and one common share of Niblack for each four common shares held in the Company. Pursuant to the plan of arrangement the exercise price of all outstanding share purchase warrants and stock options of the Company have been reduced by 20%.