

# **ABACUS MINING & EXPLORATION CORPORATION**

**Consolidated Financial Statements  
December 31, 2005 and 2004**

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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The consolidated financial statements of Abacus Mining & Exploration Corporation are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised primarily of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by Smythe Ratcliffe, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

*"Douglas A. Fulcher"*

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Douglas A. Fulcher  
President

April 12, 2006

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF ABACUS MINING & EXPLORATION CORPORATION

We have audited the consolidated balance sheets of Abacus Mining & Exploration Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe" (signed)*

Chartered Accountants

Vancouver, British Columbia  
April 12, 2006

**ABACUS MINING & EXPLORATION CORPORATION**  
**Consolidated Balance Sheets**  
**December 31**

	2005	2004
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 271,566	\$ 720,057
Cash held for flow-through expenditures	900,000	0
Marketable securities	1,001	1,000
Accounts receivable (note 3)	188,219	683,542
Loan receivable (note 3(b))	314,733	100,000
Advances to contractor (note 7(a))	24,862	109,003
Prepaid expenses	1,400	4,469
	1,701,781	1,618,071
<b>Mineral Interests</b> (notes 3 and 10(c))	13,467,495	3,801,225
<b>Equipment</b> (note 4)	26,584	28,229
<b>Reclamation Deposits</b>	23,272	23,272
	\$ 15,219,132	\$ 5,470,797
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 196,670	\$ 105,846
Loans payable (notes 5(c) and 10(a))	464,968	0
	661,638	105,846
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 5)	35,837,507	25,982,848
<b>Share Purchase Warrants</b> (note 5(d))	0	40,748
<b>Option Compensation</b> (note 5(f))	904,352	435,118
<b>Deficit</b>	(22,184,365)	(21,093,763)
	14,557,494	5,364,951
	\$ 15,219,132	\$ 5,470,797

Nature of Operations (note 1)  
Subsequent Events (note 10)

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**  
**Years Ended December 31**

	<b>2005</b>	<b>2004</b>
<b>General and Administrative Expenses</b>		
Stock-based compensation	\$ 469,234	\$ 316,118
Travel	153,464	167,293
Consulting	113,379	187,287
Interest on financing (notes 5(c))	104,968	0
Salaries and benefits	78,310	60,004
Regulatory fees	55,953	39,105
Legal	46,602	70,081
Rent	30,592	36,313
Accounting and audit	22,920	18,140
Office and miscellaneous	20,422	21,672
Management fees	18,000	82,475
Transfer agent fees	14,851	12,965
Investor relations	12,000	23,312
Telephone	4,814	7,294
General exploration	849	63,367
Amortization	8,601	6,806
Less: Interest income	(35,272)	(25,642)
Expense recoveries	(425)	(2,992)
<b>Loss Before the Following</b>	<b>1,119,262</b>	<b>1,083,598</b>
Future income tax recovery (note 8)	(28,660)	0
<b>Loss for the Year</b>	<b>1,090,602</b>	<b>1,083,598</b>
<b>Deficit, Beginning of Year</b>	<b>21,093,763</b>	<b>20,010,165</b>
<b>Deficit, End of Year</b>	<b>\$ 22,184,365</b>	<b>\$ 21,093,763</b>
<b>Loss Per Share</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>38,269,979</b>	<b>32,940,159</b>

**ABACUS MINING & EXPLORATION CORPORATION**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31**

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Loss for the year	\$ (1,090,602)	\$ (1,083,598)
Items not involving cash		
Amortization	8,601	6,806
Stock-based compensation	469,234	316,118
Interest on financing (note 5(c))	104,968	0
Future income tax recovery	(28,660)	0
<b>Operating Cash Flow</b>	<b>(536,459)</b>	<b>(760,674)</b>
<b>Changes in Non-Cash Working Capital Items</b>		
Accounts receivable	495,322	(615,864)
Prepaid expenses	3,069	(1,774)
Loan receivable	(214,733)	(100,000)
Advances to contractor	(24,862)	(109,003)
Accounts payable and accrued liabilities	476,327	53,988
	735,123	(772,653)
<b>Cash Provided by (Used in) Operating Activities</b>	<b>198,664</b>	<b>(1,533,327)</b>
<b>Investing Activities</b>		
Mineral interests	(1,166,270)	(2,658,574)
Equipment purchases	(6,956)	(17,108)
<b>Cash Used in Investing Activities</b>	<b>(1,173,226)</b>	<b>(2,675,682)</b>
<b>Financing Activities</b>		
Issuance of capital stock for cash	976,071	3,673,861
Marketable securities	(1)	0
Loans payable	450,000	0
Proceeds on sale of Abacus Alaska, Inc.	1	0
<b>Cash Provided by Financing Activities</b>	<b>1,426,071</b>	<b>3,673,861</b>
<b>Increase (Decrease) in Cash During the Year</b>	<b>451,509</b>	<b>(535,148)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>720,057</b>	<b>1,255,205</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,171,566</b>	<b>\$ 720,057</b>

Supplemental disclosure with respect to cash flows (note 6)

# ABACUS MINING & EXPLORATION CORPORATION

## Notes to Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

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### 1. NATURE OF OPERATIONS

Abacus Mining & Exploration Corporation (the "Company"), incorporated in British Columbia, 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 December 31, 2005, the Company has working capital of \$1,040,143 (2004 - \$1,512,225) and an accumulated deficit of \$22,184,365 (2004 - \$21,093,763). 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 have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Basis of Presentation

The consolidated financial statements as at December 31, 2005 and 2004 include the accounts of the Company and its wholly-owned integrated subsidiary, Abacus Alaska, Inc. All intercompany balances and transactions have been eliminated. During 2005, Abacus Alaska, Inc. was sold, and as such, the financial statements for the year ended December 31, 2005 were not consolidated.

#### (b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments maturing within ninety days from the original date of acquisitions.

#### (c) Marketable Securities

Marketable securities are carried at the lower of cost or quoted market value. When market value is below cost, any unrealized loss is charged to operations.

#### (d) Mineral Interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) **Mineral Interests (Continued)**

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received.

(e) **Equipment**

Equipment is recorded at cost and amortized using the declining-balance method at an annual rate of 20% for office and field equipment and 30% for computer equipment.

(f) **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 reported.

(g) **Capital Stock**

Capital stock issued for non-monetary consideration is recorded at fair market value on the dates of issuance pursuant to the agreement to issue shares as determined by the Board of Directors of the Company based on the trading price of the shares on the TSX Venture Exchange (the "Exchange"). The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefits of the exploration expenditures incurred under these agreements are transferred to the purchaser of the shares. Costs incurred for the issue of shares are deducted from capital stock.

(h) **Loss Per Share**

Loss per share amounts have been calculated and presented in accordance with the treasury stock method. Diluted loss per share amounts have not been presented as the effect of outstanding options and warrants are anti-dilutive.

(i) **Foreign Currency Translation**

The accounts of the Company's foreign operations have been translated into Canadian dollars. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenues and expenses and exploration and development items, at the average rate of exchange for the period. Gains and losses arising from this translation of foreign currency are included in net loss.

## ABACUS MINING & EXPLORATION CORPORATION

### Notes to Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### (j) Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, loan receivable, advances to contractor, accounts payable, accrued liabilities and loans payable approximate their fair values due to the relatively short periods to maturity of these instruments.

The estimated fair value of marketable securities and \$300,000 loan receivable (note 3(b)) at December 31, 2005 was \$650,000 (2004 - \$1,250).

The Company is exposed to credit risk with respect to its cash and other amounts receivable. Cash and cash equivalents and flow-through exploration funds have been placed with a major Canadian financial institution. Other amounts receivable are primarily amounts owing from government agencies and related parties.

##### (k) Stock-Based Compensation

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*" for accounting for stock-based compensation expense whereby all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004, are accounted for using the fair value based method, and are recorded as an expense in the period the stock-based payments are vested or the awards or rights are granted, and a corresponding increase in option compensation. When the stock options are exercised the corresponding fair value is transferred to capital stock. When the stock options are forfeited, cancelled or expired the corresponding fair value is transferred to contributed surplus.

##### (l) Asset Retirement Obligations

The Company has adopted the CICA Section 3110, "*Asset Retirement Obligations*". This statement establishes standards for accounting for the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As at December 31, 2005, the Company did not have any asset retirement obligations.

##### (m) Impairment of Long-Lived Assets

The Company has adopted CICA Section 3063, "*Impairment of Long-Lived Assets*". This statement establishes standards for the recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. The adoption of this standard did not have a material impact on its financial position or results of operations.

##### (n) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) **Flow-Through Common Shares**

The Company follows the CICA accounting pronouncement EIC-146, relating to flow-through shares. Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to the subscribers. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

**3. MINERAL INTERESTS**

At December 31, 2005 and 2004, expenditures incurred on mineral properties are as follows:

	<b>Afton Mine Property</b>				<b>Total</b>
	<b>Afton</b>	<b>Rainbow</b>	<b>Iron Mask</b>	<b>Niblack</b>	
Balance, December 31, 2004	\$ 0	\$2,514,060	\$1,287,164	\$ 1	\$3,801,225
Additions during year					
Acquisition costs	9,102,946	0	0	0	9,102,946
Exploration costs					
Drilling	0	0	219,442	0	219,442
Contract wages	0	0	273,169	0	273,169
Assay	0	0	40,896	0	40,896
Camp and field supplies	0	0	9,688	0	9,688
Travel and accommodation	0	0	84,875	0	84,875
Geophysical consulting	0	0	732	0	732
Equipment rental	0	0	47,416	0	47,416
Geological consulting	0	13,845	8,818	0	22,663
Recording fees	0	0	2,900	0	2,900
Reports, drafting and maps	0	0	1,650	0	1,650
	0	13,845	689,586	0	703,431
Less: Recoveries	0	(2,757)	(137,349)	0	*(140,106)
	0	11,088	552,237	0	563,325
Total additions during year	9,102,946	11,088	552,237	0	9,666,271
Mineral property disposition during year	0	0	0	(1)	(1)
Balance, December 31, 2005	\$9,102,946	\$2,525,148	\$1,839,401	\$ 0	\$13,467,495

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**3. MINERAL INTERESTS (Continued)**

	<b>Rainbow</b>	<b>Iron Mask</b>	<b>Niblack</b>	<b>Total</b>
Balance, December 31, 2003	\$ 823,634	\$ 124,016	\$ 1	\$ 947,651
Additions during year				
Acquisition costs	395,000	0	0	395,000
Exploration costs				
Drilling	1,061,387	750,240	0	1,811,627
Contract wages	242,752	318,875	0	561,627
Assay	114,984	114,033	0	229,017
Camp and field supplies	80,079	51,637	0	131,716
Travel and accommodation	39,448	87,946	0	127,394
Geophysical consulting	32,536	42,649	0	75,185
Equipment rental	20,138	39,017	0	59,155
Geological consulting	10,000	21,731	0	31,731
Recording fees	4,171	15,278	0	19,449
Reports, drafting and maps	161	294	0	455
	1,605,656	1,441,700	0	3,047,356
Less: Recoveries	(310,230)	(278,552)	0	*(588,782)
	1,295,426	1,163,148	0	2,458,574
Total additions during year	1,690,426	1,163,148	0	2,853,574
Balance, December 31, 2004	\$2,514,060	\$1,287,164	\$ 1	\$3,801,225

\* British Columbia Mineral Exploration Tax Credit that is included in accounts receivable in these financial statements.

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

**(a) Iron Mask, Rainbow and Afton Mine Property, Kamloops Mining Division, BC**

During the year ended December 31, 2004, the Company exercised its options and acquired a 100% interest in the Iron Mask and Rainbow properties (a total of 52 mineral claims) through issuing 500,000 common shares of the Company and incurring \$2,000,000 in mineral exploration expenditures on the property.

The properties are subject to 1.5% net smelter royalties of which the Company may purchase one-third of each for \$1,000,000.

The optionor had also reserved a right to back-in and acquire up to a 65% interest in any specific mineral located.

Certain of the mineral claims are subject to various net profit interests or net smelter royalties held by underlying vendors of those claims.

## ABACUS MINING & EXPLORATION CORPORATION

### Notes to Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

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#### 3. MINERAL INTERESTS (Continued)

##### (a) Iron Mask, Rainbow and Afton Mine Property, Kamloops Mining Division, BC (Continued)

On November 25, 2005, the Company signed an Asset Purchase Agreement with the optionor to purchase land, buildings, equipment, tailings pond and the back-in rights pursuant to the Rainbow and Iron Mask property agreements ("Afton"). Total aggregate consideration for the transfer of the assets is \$28,500,000 to be paid as follows:

- (i) 8,500,000 shares at a deemed value of \$1 per share on the execution date (issued);
- (ii) 5,000,000 shares at a deemed value of \$1 per share and \$5,000,000 cash on or before November 26, 2006; and
- (iii) 5,000,000 shares at a deemed value of \$1 per share and \$5,000,000 cash on or before November 26, 2007.

Upon completion of all share issuances and cash payments, the optionor will transfer title (the "Transfer Date") of the assets to the Company, subject to any additional consideration. On the Transfer Date, if the ten-day weighted average closing price of the shares issued to the optionor is less than \$18,500,000, the Company will pay the optionor additional consideration equal to 81.1% of the difference between \$18,500,000 and the weighted average closing price of the Company's shares. Any reclamation liabilities that may be attributable to the assets acquired will be assessed and recorded upon closing.

##### (b) Niblack Project, Alaska, USA

The Company held a 100% interest in 47 mineral claims 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 had retained a variable 1% to 3% net smelter returns royalty based on the profitability of the property. Certain net profit interests were held by other parties with respect to a 29.51% interest in the property. An additional 100% interest in two patented mineral claims had been acquired subject to a final US \$10,000 payment. During 2002, the property was written-down to a nominal value of \$1.

On March 15, 2005, the Company received shareholder approval to transfer Abacus Alaska Inc., the holder of the Niblack property, into Niblack Mining Corp. ("Niblack"), a newly incorporated company. On April 15, 2005, shareholders of the Company received one new share of Niblack and four new shares of the Company for every four Company shares held. Initial capital for Niblack was provided by a \$300,000 plus interest loan by the Company, which is convertible into Niblack shares at a price of \$0.35 per share. The Company was also issued 1,000,000 (escrowed) Niblack shares as bonus for the foregoing loan.

##### (c) Title to Mineral Property Interests

Although the Company has taken steps to verify the title to mineral 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 or transfers and title may be affected by undetected defects.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**3. MINERAL INTERESTS** (Continued)

(d) **Realization of Assets**

The investment in and expenditures of resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements and possible aboriginal claims, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(e) **Environmental**

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

**4. EQUIPMENT**

Equipment is comprised of office, field and computer equipment recorded at cost, net of accumulated amortization of \$74,954 as at December 31, 2005 (2004 - \$66,353).

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. CAPITAL STOCK**

Authorized  
 Unlimited number of common shares without par value

	No. of Shares	Amount
Issued		
Balance, December 31, 2003	24,638,436	\$ 22,113,987
Issued for cash, private placements (net of issue costs)	6,307,333	2,557,590
Issued for cash, exercise of warrants	6,089,833	1,116,271
Issued for mineral property interests	500,000	195,000
	12,897,166	3,868,861
Balance, December 31, 2004	37,535,602	25,982,848
Issued for cash, private placement (net of issue costs)	2,000,000	900,000
Issued for cash, exercise of warrants	394,744	75,791
Issued for cash, exercise of stock options	2,500	280
Issued for other consideration		
Shares for debt	801,634	276,500
Bonus shares	450,000	90,000
Issued for mineral property	8,500,000	8,500,000
Fair value of warrants exercised	0	40,748
Income tax effect on flow-through share renouncement	0	(28,660)
	12,148,878	9,854,659
Balance, December 31, 2005	49,684,480	\$ 35,837,507

**(a) Private Placements**

- (i) On December 29, 2005, the Company completed a non-brokered private place of 2,000,000 units at a price of \$0.45 per unit for proceeds of \$900,000. Each unit consists of one common flow-through share and one-half share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.55 on or before January 13, 2007.
- (ii) On March 15, 2004, the Company completed a non-brokered private placement of 500,000 units at a price of \$0.35 per unit for proceeds of \$175,000. Each unit consists of one common share and one-half of one share purchase warrant. Each full warrant is exercisable to acquire one common share at \$0.50 per share on or before September 15, 2004. The share purchase warrants expired unexercised during 2004.
- (iii) On March 30, 2004, the Company completed a private placement of 5,600,000 units at \$0.45 per unit for gross proceeds of \$2,520,000. Each unit was comprised of one common share and one-half of one share purchase warrant. Each full warrant is exercisable to acquire one common share at \$0.60 per share on or before March 30, 2005. The agent was paid a corporate finance fee of \$15,000 and issued 207,333 units as a commission. Each agent's unit was comprised of one share and one-half of one agent's share purchase warrant. Each full agent share purchase warrant is exercisable to acquire one common share at \$0.60 per share on or before March 30, 2005. The agent was also granted 560,000 share purchase warrants to acquire common shares at \$0.65 per share on or before March 30, 2005. Subsequent to December 31, 2004, the share purchase warrants expired unexercised.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. CAPITAL STOCK (Continued)**

**(b) Renounced Exploration Expenditures**

In February 2005, the Company renounced \$84,000 of exploration expenditures under its flow-through share program, resulting in a future income tax liability of \$28,660, which was deducted from capital stock. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets equal to the amount of the future tax liability. This decrease in the valuation allowance has resulted in a future income tax recovery of \$28,660 disclosed on the statement of operations under future income taxes (note 8).

**(c) Bonus Shares**

During the year ended December 31, 2005, the Company arranged three private loans for a total of \$450,000. The Company agreed to pay bonus shares of 450,000 at a deemed value of \$90,000 as consideration for the loan. The loans have a term of one year bearing interest at a rate of 12% per annum, compounded monthly, resulting in an interest expense of \$104,968 including the deemed value of \$90,000 for the bonus shares issued. These three loans were outstanding at December 31, 2005.

**(d) Share Purchase Warrants**

The Company has, as at December 31, 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 December 31, 2005
394,744	*	\$0.24	October 29, 2005	0	(394,744)	0
2,903,666		\$0.60	March 30, 2005	0	0	(2,903,666)
560,000		\$0.65	March 30, 2005	0	0	(560,000)
0		\$0.55	January 13, 2007	1,000,000	0	0
3,858,410				1,000,000	(394,744)	(3,463,666)
						1,000,000

\* 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.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. CAPITAL STOCK (Continued)**

**(e) 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 December 31, 2005, the Company had stock options outstanding to directors and employees for the purchase of up to 7,012,500 common shares exercisable as follows:

<b>Options Outstanding</b>			<b>Options Exercisable</b>	
<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Number of Shares</b>	<b>Exercise Price</b>
225,000	\$0.11	June 1, 2006	225,000	\$0.11
462,500	\$0.16	April 16, 2007	462,500	\$0.16
775,000	\$0.08	April 4, 2008	775,000	\$0.08
750,000	\$0.15	September 4, 2008	750,000	\$0.15
300,000	\$0.29	October 9, 2008	300,000	\$0.29
1,500,000	\$0.16	September 17, 2009	570,000	\$0.16
1,500,000	\$0.32	October 23, 2009	750,000	\$0.32
200,000	\$0.30	December 23, 2009	100,000	\$0.30
800,000	\$0.28	March 4, 2010	500,000	\$0.28
500,000	\$0.34	May 20, 2010	250,000	\$0.34
<b>7,012,500</b>			<b>4,682,500</b>	

A summary of the status of the Company's stock options as at December 31, 2005 and 2004 and changes during the years then ended is as follows:

	<b>2005</b>		<b>2004</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at beginning of year	5,715,000	\$0.25	2,700,000	\$0.18
Granted	1,300,000	\$0.30	3,200,000	\$0.30
Exercised	(2,500)	\$0.11	0	\$0.00
Cancelled/expired	0	\$0.00	(185,000)	\$0.20
Outstanding at end of year	<b>7,012,500</b>	<b>\$0.26</b>	<b>5,715,000</b>	<b>\$0.25</b>

**ABACUS MINING & EXPLORATION CORPORATION**  
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**5. CAPITAL STOCK (Continued)**

(f) **Stock-Based Compensation**

During the year ended December 31, 2005, the Company granted stock options to acquire up to an aggregate of 1,500,000 common shares at exercise prices of \$0.28 or \$0.34.

The following summarizes information about the fair value of option compensation:

	<b>2005</b>	<b>2004</b>
Balance, beginning of year	\$ 435,118	\$ 119,000
Stock-based compensation	469,234	316,118
Balance, end of year	\$ 904,352	\$ 435,118

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2005</b>	<b>2004</b>
Risk-free interest rate	3.12% - 3.29%	3.17% - 3.36%
Expected dividend yield	0	0
Expected stock price volatility	97% - 108%	108% - 115%
Expected option life in years	5	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. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

- (a) During the year ended December 31, 2005, the Company issued 8,500,000 common shares valued at \$8,500,000 for mineral property interests, plant and equipment (note 3(a)).
- (b) During the year ended December 31, 2005, the Company issued 450,000 common shares valued at \$90,000 for loan consideration (2004 – nil).
- (c) During the year ended December 31, 2005, the Company issued 801,634 shares valued at \$276,500 for settlement of debt and services (2004 – nil).
- (d) During the year ended December 31, 2004, the Company issued 500,000 common shares valued at \$195,000 for mineral property interests.
- (e) Interest paid during the year amounted to \$64 (2004 - \$608).
- (f) Interest received during the year amounted to \$20,539 (2004 – \$16,582).

## ABACUS MINING & EXPLORATION CORPORATION

### Notes to Consolidated Financial Statements Years Ended December 31, 2005 and 2004

#### 7. RELATED PARTY TRANSACTIONS

- (a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid that contractor \$689,586 (2004 - \$2,907,845) for exploration costs and \$167,796 (2004 - \$279,251) to reimburse office and administrative costs that include management fees of \$78,310 (2004 - \$53,475). As at December 31, 2005, there was \$24,862 advanced to that company.
- (b) A management fee of \$18,000 (2004 - \$29,000) and rent of \$27,147 (2004 - \$29,018) was paid or was owed to a company in which a director is a principal. As at December 31, 2005, there was \$4,067 due to that company.
- (c) The Company shares office and administrative costs with a company with two directors in common. As at December 31, 2005, \$2,146 was due from this company.
- (d) Legal fees in the amount of \$46,297 (2004 - \$42,292) were paid to a firm in which an officer of the Company is a partner.
- (e) A director of the Company was paid \$60,000 for consulting services.

#### 8. INCOME TAXES

The Company has capital losses of approximately \$11,172,000 available to be carried forward to offset future taxable capital gains.

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$2,686,000 that expire in various years to 2015 as follows:

2006	\$	404,000
2007		214,000
2008		206,000
2009		219,000
2010		331,000
2014		685,000
2015		627,000
	\$	2,686,000

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values 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.

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2005	2004
	34.12%	35.62%
Income tax benefit computed at Canadian statutory rates	\$ 388,472	\$ 394,798
Temporary differences not recognized in year	(2,935)	(2,424)
Stock-based compensation	(160,103)	(112,601)
Permanent differences not recognized	(4,881)	(26,631)
Unrecognized tax losses	(191,893)	(253,142)
	\$ 28,660	\$ 0

**ABACUS MINING & EXPLORATION CORPORATION**  
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**8. INCOME TAXES (Continued)**

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2005	2004
Future income tax assets		
Temporary differences in assets	\$ 1,763,652	\$ 1,769,949
Non-capital losses carried forward	917,118	941,132
Capital losses carried forward	3,812,150	3,296
	6,492,920	2,714,377
Valuation allowance for future income tax assets	(6,492,920)	(2,714,377)
Future income tax assets, net	\$ 0	\$ 0

**9. SEGMENTED DISCLOSURE**

The Company had one operating segment, mineral exploration and development during the year ended December 31, 2004. All of the Company's assets were located in Canada with the exception of its mineral property that was located in Alaska, U.S.A. (note 3).

**10. SUBSEQUENT EVENTS**

(a) **Loans**

On January 25, 2006, the Company repaid in full the three private loans.

(b) **Financing**

On February 17, 2006, the Company closed a private placement financing for gross proceeds of \$14,500,000 and issued 20,000,000 units at a price of \$0.60 per unit and 3,571,430 flow-through units at a price of \$0.70 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each flow-through unit consists of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share for a period of two years from the closing date at a price of \$0.85.

(c) **Mineral Interests**

On March 3, 2006, the Company paid to the optioner \$3,000,000 of the \$5,000,000 first anniversary payment in accordance with Afton Asset Purchase Agreement dated November 26, 2005 (note 3(a)).

(d) **Mineral Interests**

In March 2006, the Company entered into two agreements to purchase 100% in three and two mineral claims respectively both of which are located in the Kamloops Mining Division. The Company will allot and issue 60,000 common shares to the vendors and make cash payments and grant a 1% net smelter royalty to each vendor.

**ABACUS MINING & EXPLORATION CORPORATION**  
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**10. SUBSEQUENT EVENTS** (Continued)

(e) **Stock Options**

On April 7, 2006, the Company granted director and employee incentive stock options to purchase up to 1,800,000 common shares of the Company at a price of \$0.90 per share for a period of five years.

The Company has received proceeds of \$127,320 on the exercise of 900,000 stock options.