

# **ABACUS MINING & EXPLORATION CORPORATION**

**Financial Statements  
December 31, 2006 and 2005**

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

The financial statements of Abacus Mining & Exploration Corporation are the responsibility of the Company's management. The 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 financial statements prior to their submission to the Board of Directors for approval.

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

*"Douglas A. Fulcher"*

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Douglas A. Fulcher  
President

Vancouver, British Columbia  
February 28, 2007

**Smythe Ratcliffe LLP**

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**SmytheRatcliffe**  
CHARTERED ACCOUNTANTS

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## **AUDITORS' REPORT**

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

We have audited the balance sheets of Abacus Mining & Exploration Corporation as at December 31, 2006 and 2005 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 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 LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
February 28, 2007

# ABACUS MINING & EXPLORATION CORPORATION

## Balance Sheets

December 31

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,370,464	\$ 271,566
Cash held for flow-through expenditures	0	900,000
Marketable securities (note 3)	1,001	1,001
Accounts receivable (note 4)	373,288	188,219
Accrued interest receivable	126,764	0
Loan receivable (note 4(b))	330,835	314,733
Advances to contractor (note 8(a))	0	24,862
Prepaid expenses	21,340	1,400
	5,223,692	1,701,781
<b>Mineral Interests</b> (note 4)	28,334,900	13,467,495
<b>Equipment</b> (note 5)	30,266	26,584
<b>Reclamation Deposits</b>	23,272	23,272
	\$ 33,612,130	\$ 15,219,132
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 373,238	\$ 196,670
Loans payable (note 6(c))	0	464,968
	373,238	661,638
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 6)	54,832,937	35,837,507
<b>Option Compensation</b> (note 6(f))	1,525,470	904,352
<b>Deficit</b>	(23,119,515)	(22,184,365)
	33,238,892	14,557,494
	\$ 33,612,130	\$ 15,219,132

Nature of Operations (note 1)

Subsequent Event (note 10)

Approved by the Board:

*"Douglas A. Fulcher"*

..... Director

Douglas A. Fulcher

*"J. Patrick Nicol"*

..... Director

J. Patrick Nicol

**ABACUS MINING & EXPLORATION CORPORATION**  
**Statements of Operations and Deficit**  
**Years Ended December 31**

	2006	2005
<b>General and Administrative Expenses</b>		
Stock-based compensation	\$ 706,310	\$ 469,234
Consulting	218,518	113,379
Travel and promotion	183,721	153,464
Salaries and benefits	125,731	78,310
Legal	101,694	46,602
Regulatory fees	57,508	55,953
Rent	35,847	30,592
Accounting and audit	30,470	22,920
Office and miscellaneous	28,238	20,422
Management fees	18,000	18,000
Transfer agent fees	16,156	14,851
Investor relations	14,125	12,000
Interest on financing (note 6(c))	10,872	104,968
Telephone	4,257	4,814
General exploration	1,084	849
Amortization	8,624	8,601
Less: Interest income	(300,661)	(35,272)
Expense recoveries	(4,764)	(425)
<b>Loss Before the Following</b>	1,255,730	1,119,262
Future income tax recovery (note 9)	(320,580)	(28,660)
<b>Loss for the Year</b>	935,150	1,090,602
<b>Deficit, Beginning of Year</b>	22,184,365	21,093,763
<b>Deficit, End of Year</b>	\$ 23,119,515	\$ 22,184,365
<b>Loss Per Common Share</b>	\$ 0.01	\$ 0.03
<b>Weighted Average Number of Common Shares Outstanding</b>	71,834,153	38,269,979

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

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Loss for the year	\$ (935,150)	\$ (1,090,602)
Items not involving cash		
Amortization	8,624	8,601
Stock-based compensation	706,310	469,234
Interest on financing (note 6(c))	0	104,968
Future income tax recovery	(320,580)	(28,660)
<b>Operating Cash Flow</b>	<b>(540,796)</b>	<b>(536,459)</b>
<b>Changes in Non-Cash Working Capital Items</b>		
Accounts receivable	(185,069)	495,322
Accrued interest receivable	(126,764)	0
Prepaid expenses	(19,940)	3,069
Loan receivable	(16,102)	(214,733)
Advances to contractor	24,862	(24,862)
Accounts payable and accrued liabilities	250,568	476,327
	(72,445)	735,123
<b>Cash Provided by (Used in) Operating Activities</b>	<b>(613,241)</b>	<b>198,664</b>
<b>Investing Activities</b>		
Cash, exploration funds	900,000	(900,000)
Mineral interests	(9,831,405)	(1,166,270)
Equipment purchases	(12,306)	(6,956)
<b>Cash Used in Investing Activities</b>	<b>(8,943,711)</b>	<b>(2,073,226)</b>
<b>Financing Activities</b>		
Issuance of capital stock for cash	14,120,818	976,071
Marketable securities	0	(1)
Loans payable	(464,968)	450,000
Proceeds on sale of Abacus Alaska, Inc.	0	1
<b>Cash Provided by Financing Activities</b>	<b>13,655,850</b>	<b>1,426,071</b>
<b>Increase (Decrease) in Cash During the Year</b>	<b>4,098,898</b>	<b>(448,491)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>271,566</b>	<b>720,057</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,370,464</b>	<b>\$ 271,566</b>

Supplemental disclosure with respect to cash flows (note 7)

# ABACUS MINING & EXPLORATION CORPORATION

## Notes to Financial Statements

Years Ended December 31, 2006 and 2005

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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 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, 2006, the Company has working capital of \$4,850,454 (2005 - \$1,040,143) and an accumulated deficit of \$23,119,515 (2005 - \$22,184,365). 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 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 financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following:

#### (a) Cash and Cash Equivalents

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

#### (b) 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.

#### (c) 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.

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.

## ABACUS MINING & EXPLORATION CORPORATION

### Notes to Financial Statements

Years Ended December 31, 2006 and 2005

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

(c) **Mineral Interests** (Continued)

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.

(d) **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.

(e) **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 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. Areas requiring the use of significant estimates include the rates of amortization for equipment, the recovery of resource property interests, estimates of accrued interest receivable and accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Actual results could differ from those reported.

(f) **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"). Costs incurred for the issue of shares are deducted from capital stock.

(g) **Loss Per Share**

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

(h) **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; 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 Financial Statements

Years Ended December 31, 2006 and 2005

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Financial Instruments

The carrying values of cash and cash equivalents, cash held for flow-through expenditures, accounts and accrued interest receivable, advances to contractor, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these instruments.

The estimated fair value of marketable securities and loan receivable (note 4(b)) at December 31, 2006 was \$1,336,500 (2005 - \$650,000). Included in this amount is the fair value of the 1,000,000 Niblack shares in the amount of \$960,000, of which 600,000 remain in escrow (note 4(b)).

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.

#### (j) Stock-Based Compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to option compensation under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from option compensation to capital stock.

#### (k) 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.

#### (l) Flow-Through Common Shares

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 renounced to the purchaser of the shares. 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. MARKETABLE SECURITIES

The Company has investments in marketable securities of companies that have directors in common. The marketable securities have been stated at cost.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**4. MINERAL INTERESTS**

At December 31, 2006 and 2005, expenditures incurred on mineral properties are as follows:

	Afton Mine Property				Total
	Afton	Rainbow	Iron Mask	DM/Audra	
Balance, December 31, 2005	\$ 9,102,946	\$ 2,525,148	\$ 1,839,401	\$ 0	\$13,467,495
Additions during year					
Acquisition costs	10,172,912	0	58,800	0	10,231,712
Exploration costs					
Drilling	0	0	2,611,438	565,067	3,176,505
Contract wages	0	825	518,026	72,780	591,631
Assay	0	1,237	351,222	26,683	379,142
Camp and field supplies	0	0	111,027	20,500	131,527
Travel and accommodation	0	0	169,046	43,425	212,471
Equipment rental	0	0	161,212	21,696	182,908
Geological consulting	0	0	54,217	7,356	61,573
Recording fees	0	0	16,913	0	16,913
Reports, drafting and maps	0	0	83,612	5,656	89,268
	0	2,062	4,076,713	763,163	4,841,938
Less: Recoveries	0	(88)	(173,536)	(32,621)	*(206,245)
Total additions during year	10,172,912	1,974	3,961,977	730,542	14,867,405
Balance, December 31, 2006	\$19,275,858	\$ 2,527,122	\$ 5,801,378	\$ 730,542	\$28,334,900

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

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**4. MINERAL INTERESTS (Continued)**

	<b>Afton</b>	<b>Rainbow</b>	<b>Iron Mask</b>	<b>Niblack</b>	<b>Total</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)
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

\* 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, DM/Audra 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.

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

The DM/Audra claims are part of the Iron Mask project and are presented separately due to the underlying net profit interests. The acquisition costs for DM/Audra have been included as part of the Iron Mask and Rainbow acquisition costs in prior years.

# ABACUS MINING & EXPLORATION CORPORATION

## Notes to Financial Statements

Years Ended December 31, 2006 and 2005

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### 4. MINERAL INTERESTS (Continued)

#### (a) Iron Mask, Rainbow, DM/Audra 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 (issued and paid); 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 on the transfer date.

On July 24, 2006, two purchase and sale agreements to acquire additional property adjoining the western edge of the Company's Rainbow property were completed. The first agreement dated March 24, 2006 to acquire three mineral properties required a cash payment of \$20,000 (paid) and the issuance of 50,000 common shares (issued) of the Company. The second agreement dated March 20, 2006 to acquire two mineral claims required a cash payment of \$2,500 (paid) and the issuance of 10,000 common shares (issued) of the Company. Both vendors retain a 1% net smelter royalty of which the Company may reduce to 0.5% upon payment of \$500,000 to each vendor.

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

The Company held a 100% interest in 47 mineral claims 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 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 entered into on December 16, 2004 by the Company, which is convertible into Niblack shares at a price of \$0.50 per share. The Company was also issued 1,000,000 (escrowed) Niblack shares as bonus for the foregoing loan. As at December 31, 2006, 400,000 shares have been released from escrow and the remaining 600,000 shares will be released from escrow as follows: 300,000 in the 2007 fiscal year and 300,000 in the 2008 fiscal year. The loan bears interest at a rate of 5% per annum, compounded monthly and was to be repaid on or before December 16, 2006. As at December 31, 2006, the loan balance and accrued interest of \$30,835 remains outstanding and will be converted into common shares of Niblack.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

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**4. MINERAL INTERESTS** (Continued)

(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.

(d) **Realization of Assets**

The investment in and expenditures on 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.

**5. EQUIPMENT**

Equipment is comprised of office, field and computer equipment recorded at cost, net of accumulated amortization of \$83,578 as at December 31, 2006 (2005 - \$74,954).

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**6. CAPITAL STOCK**

Authorized  
 Unlimited number of common shares without par value

	Number of Shares	Amount
Issued		
Balance, December 31, 2004	37,535,602	\$ 25,982,848
Issued for cash, private placements (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
Issued for cash, private placement (net of issue costs)	23,571,430	13,531,018
Issued for cash, exercise of warrants	816,000	448,800
Issued for cash, exercise of stock options	990,000	141,000
Issued for other consideration		
Shares for services	226,584	74,000
Issued for mineral property	5,060,000	5,036,000
Fair value of options exercised	0	85,192
Income tax effect on flow-through share renouncement	0	(320,580)
	30,664,014	18,995,430
Balance, December 31, 2006	80,348,494	\$ 54,832,937

**(a) Private Placements**

- (i) On February 17, 2006, the Company closed a private placement financing for gross proceeds of \$14,500,000 comprised of 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 on or before February 16, 2008 at a price of \$0.85 per share. The agents received a cash commission of \$942,500 and 2,357,143 share purchase warrants (note 6(d)). Each warrant will entitle the agent to purchase one common share on or before February 16, 2008 at a price of \$0.75 per share. Share issuance costs on the private placement totaled \$968,982, resulting in net proceeds received of \$13,531,018.
- (ii) On December 29, 2005, the Company completed a non-brokered private placement 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 of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.55 on or before January 13, 2007.

**ABACUS MINING & EXPLORATION CORPORATION**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

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**6. CAPITAL STOCK (Continued)**

**(b) Renounced Exploration Expenditures**

In March 2006, the Company renounced \$900,000 (2005 - \$84,000) of exploration expenditures under its flow-through share program, resulting in a future income tax liability of \$320,580 (2005 - \$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 \$320,580 (2005 - \$28,660) disclosed on the statement of operations under future income taxes (note 9).

**(c) Loan Consideration**

During the year ended December 31, 2005, the Company arranged three private loans for a total of \$450,000. The Company agreed to issue 450,000 common shares at an agreed 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 common shares issued. On January 26, 2006, the Company repaid these private loans in full plus accrued interest.

**(d) Share Purchase Warrants**

The Company has, as at December 31, 2006, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Outstanding as at December 31, 2005	Exercise Price	Expiry Date	Issued	Exercised	Expired	Outstanding as at December 31, 2006
1,000,000	\$0.55	January 13, 2007	0	(816,000)	0	184,000
0	\$0.85	February 16, 2008	11,785,715	0	0	11,785,715
0	\$0.75	February 16, 2008	2,357,143	0	0	2,357,143
1,000,000			14,142,858	(816,000)	0	14,326,858

**ABACUS MINING & EXPLORATION CORPORATION**  
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**6. 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, 2006, the Company had stock options outstanding to directors and employees for the purchase of up to 7,772,500 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>
352,500	\$0.16	April 16, 2007	352,500	\$0.16
720,000	\$0.08	April 4, 2008	720,000	\$0.08
475,000	\$0.15	September 4, 2008	475,000	\$0.15
300,000	\$0.29	October 9, 2008	300,000	\$0.29
1,175,000	\$0.16	September 17, 2009	1,175,000	\$0.16
1,450,000	\$0.32	October 23, 2009	1,450,000	\$0.32
800,000	\$0.28	March 4, 2010	800,000	\$0.28
500,000	\$0.34	May 20, 2010	500,000	\$0.34
2,000,000	\$0.90	April 7, 2011	1,000,000	\$0.90
<b>7,772,500</b>			<b>6,772,500</b>	

A summary of the status of the Company's stock options as at December 31, 2006 and 2005 and changes during the years then ended are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at beginning of year	7,012,500	\$0.26	5,715,000	\$0.25
Granted	2,000,000	\$0.90	1,300,000	\$0.30
Exercised	(990,000)	\$0.14	(2,500)	\$0.11
Cancelled/expired	(250,000)	\$0.25	0	\$0.00
<b>Outstanding at end of year</b>	<b>7,772,500</b>	<b>\$0.40</b>	<b>7,012,500</b>	<b>\$0.26</b>

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

(f) **Stock-Based Compensation**

During the year ended December 31, 2006, the Company granted stock options to acquire up to an aggregate of 2,000,000 common shares at an exercise price of \$0.90.

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

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	\$ 904,352	\$ 435,118
Stock-based compensation	706,310	469,234
Fair value of stock options exercised	(85,192)	0
Balance, end of year	\$1,525,470	\$ 904,352

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>2006</b>	<b>2005</b>
Risk-free interest rate	3.12% - 4.07%	3.12% - 3.29%
Expected dividend yield	0	0
Expected stock price volatility	81% - 108%	97% - 108%
Expected option life in years	5	5

**7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

- (a) During the year ended December 31, 2006, the Company issued 5,060,000 (2005 - 8,500,000) common shares valued at \$5,036,000 (2005 - \$8,500,000) for mineral property interests, plant and equipment (note 4(a)).
- (b) During the year ended December 31, 2005, the Company issued 450,000 common shares valued at \$90,000 for loan consideration.
- (c) During the year ended December 31, 2006, the Company issued 226,584 (2005 - 801,634) shares valued at \$74,000 (2005 - \$276,500) for settlement of certain accounts payable.
- (d) Interest paid during the year amounted to \$115,096 (2005 - \$64).
- (e) Interest received during the year amounted to \$173,897 (2005 - \$20,539).

# ABACUS MINING & EXPLORATION CORPORATION

## Notes to Financial Statements

Years Ended December 31, 2006 and 2005

### 8. 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 \$4,784,623 (2005 - \$689,586) for exploration costs and \$299,809 (2005 - \$167,796) to reimburse office and administrative costs that include management fees of \$125,731 (2005 - \$78,310). As at December 31, 2006, there was \$180,114 payable to that company. At December 31, 2005, there was \$24,862 advanced to that company.
- (b) A management fee of \$18,000 (2005 - \$18,000) and rent of \$31,247 (2005 - \$27,147) was paid or was owed to a company in which a director is a principal. As at December 31, 2006, there was \$4,514 (2005 - \$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, 2006 and 2005, \$2,146 was due from this company.
- (d) Legal fees in the amount of \$50,013 (2005 - \$46,297) 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 in 2006 and 2005. As at December 31, 2006, \$11,969 (2005 - \$37,673) was payable to this director.

### 9. 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 \$2,998,000 that expire in various years to 2026 as follows:

2007	\$	214,000
2008		206,000
2009		219,000
2010		331,000
2014		685,000
2015		627,000
2026		716,000
	\$	2,998,000

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:

	2006	2005
	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	\$ 428,455	\$ 381,892
Temporary differences not recognized in year	(2,943)	(2,935)
Stock-based compensation	(240,993)	(160,103)
Permanent differences not recognized	59,627	(4,881)
Unrecognized tax gains (losses)	76,434	(185,313)
	\$ 320,580	\$ 28,660

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

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

	<b>2006</b>	<b>2005</b>
Future income tax assets		
Temporary differences in assets	\$ 683,234	\$ 1,763,652
Permanent differences in assets	264,493	0
Non-capital losses carried forward	1,023,533	917,118
Capital losses carried forward	1,906,075	1,906,075
	3,877,335	4,586,845
Valuation allowance for future income tax assets	(3,877,335)	(4,586,845)
Future income tax assets, net	\$ 0	\$ 0

**10. SUBSEQUENT EVENT**

In January 2007, the Company received proceeds of \$70,675 on the exercise of 128,500 share purchase warrants at a price of \$0.55 per share. The remaining 55,500 share purchase warrants expired on January 13, 2007.