

**ABACUS MINING & EXPLORATION CORPORATION**  
(An exploration stage company)

Management's discussion & analysis

For the period ended June 30, 2014

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August 28, 2014

The following Management's Discussion and Analysis ("MD&A") of the financial condition of Abacus Mining & Exploration Corporation (an exploration stage company) ("Abacus" or the "Company") and results of operations of the Company, should be read in conjunction with the unaudited condensed financial statements including the notes thereto for the six months ended June 30, 2014 and 2013 and the audited financial statements including the notes thereto for the years ended December 31, 2013 and 2012 (the "Financial Statements").

The Financial Statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Abacus' accounting policies are described in Note 3 of the Financial Statements. These Financial Statements, together with this MD&A dated August 28, 2014, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to potential future performance. All dollar amounts are in Canadian dollars unless otherwise noted.

#### **Special Note Regarding Forward-Looking Information**

The Company's condensed financial statements including the notes thereto for the six months ended June 30, 2014 and 2013, and the audited financial statements including the notes thereto for the years ended December 31, 2013 and 2012, and this accompanying MD&A, contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, *Continuous Disclosure Obligations* of the Canadian Securities Administrators. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future exploration plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading "RISKS AND UNCERTAINTIES" and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and

programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Additional information relating to the Company and its operations can be obtained from the offices of the Company or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Qualified Person**

The Company's disclosure of a technical or scientific nature has been reviewed and approved by Michael McInnis P.Eng., a qualified person under the definition of National Instrument 43-101.

### **Background and overall performance**

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In May 2010, the Company announced the signing of a significant strategic investment agreement (the "Agreement") with KGHM Polska Miedz SA ("KGHM") to form a joint venture to advance the Ajax Project through the bankable feasibility study ("BFS") and into production. KGHM is one of the world's largest copper and silver producers. On October 12, 2010 the parties executed the definitive joint venture shareholders' agreement ("Joint Venture Agreement"). These agreements included the following highlights:

- KGHM and the Company completed a \$4.5-million private placement involving the purchase of 15 million common shares of Abacus at a price of \$0.30 per share.
- Abacus incorporated a wholly-owned subsidiary, KGHM Ajax, and transferred all of its mineral property interests in the Ajax Project fair valued at US\$35,549,020 to KGHM Ajax in exchange for 4,900 common shares of KGHM Ajax.
- KGHM acquired a 51% interest in KGHM Ajax by investing US\$37,000,000 in cash in exchange for 5,100 common shares of KGHM Ajax at the closing of the transaction on October 12, 2010. These funds were used for: (a) the completion of the BFS and certain other obligations which occurred during 2010 and 2011; and (b) the acquisition of additional land areas and exploration of other targets in the Ajax Project area. By December 31, 2011 substantially all of these funds had been used to fund the planned activity.
- Abacus was the operator of the Ajax Project, and KGHM could elect to become the operator of the Ajax Project, as described below.

KGHM's development option (the "Development Option"):

- Following the completion of the BFS, KGHM had the option to acquire an additional 29% interest, for a total 80% direct interest, in KGHM Ajax, for cash consideration of US\$0.025 per pound for the corresponding 29% of proven and probable copper equivalent reserves (as defined in the BFS) up to a maximum of US\$35,000,000, with the payment to be applied directly toward Abacus' proportionate
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share of the project's capital costs. After acquiring the additional 29%, KGHM could elect to become the Operator of the Ajax Project.

- KGHM is responsible for arranging the financing for its proportionate share of 80% of the Ajax Project's capital costs and will offer to arrange the financing for the balance of Abacus's proportionate share of 20% of the project's capital costs on commercially reasonable terms.

In accordance with the provisions of the Agreement, in December 2011 the Company delivered the Ajax Project's BFS to KGHM which was followed by the filing of the BFS on SEDAR on January 6, 2012. This NI 43-101 independent study supports a 60,000 tonne per day conventional milling plant producing a copper-gold concentrate containing 25% Cu and 18 g/t Au. The BFS was led by Tetra Tech WEI (formally Wardrop) in conjunction with a team of globally recognized independent consultants.

The base case highlights of the Ajax Project include (all economic figures in US\$):

- Total proven and probable mineral reserves of 3 billion lbs Cu and 2.7 million ozs Au at 0.27% Cu and 0.17 g/t Au based on \$2.50 Cu and \$1,085 Au
- 23 year mine life at a processing rate of 60,000 t/d or 21.9 million t/a at a LOM stripping ratio of 2.4:1
- Life of mine production of 2.5 billion lbs Cu and 2.28 million ozs Au in concentrate
- Initial capital costs of \$795 million, including contingency of \$87 million
- Cash cost per lb of copper of \$1.28 net of gold credits
- The pre-tax economic model has an internal rate of return (IRR) of 14.5% and a net present value (NPV) of US\$416 million at an 8% discount rate, with payback of the initial capital of 7.8 years.

On April 2, 2012, KGHM exercised the Development Option, thereby increasing its ownership in KGHM Ajax to 80%, and paid \$30,159,107 (US\$29,907,881) to Abacus. The funds were placed in escrow with KGHM Ajax (the "Escrowed Funds").

On August 17, 2012, KGHM notified Abacus that it was exercising its option to appoint KGHM International Ltd. ("KGHMI") as the operator of the Ajax Project effective September 1, 2012 and a representative from KGHMI was appointed to KGHM Ajax's board of directors, thereby increasing KGHM's representatives on the board to three members and Abacus' representatives remaining at two. In addition, each of Abacus and KGHM selected a new appointee for the Chief Financial Officer and the Chief Operating Officer roles of KGHM Ajax.

With the change in operatorship, the Company is now in a more passive role with the Ajax Project, monitoring the progress and success of KGHMI as operator.

KGHMI has committed significant resources to the project's development since assuming the operatorship on September 1, 2012. With a strategy of engaging the community with a strong local presence, KGHMI has expanded the Ajax project team throughout 2013 which currently numbers 30 employees. Agreements have

been signed with the Stk'emlupsemc te Secwepemc ("STS"), represented by the Tk'emlups and Skeetchestn First Nations bands for a Cultural Heritage Study and a Memorandum of Understanding ("MoU"). Consultations continue with the STS on a Capacity Funding Agreement to assist them in the review of the Environmental Assessment and towards aligning an Impacts Benefits Project Agreement ("IBA"). The IBA would define the mutual responsibilities between KGHM Ajax and the STS in connection with the benefits, construction, operations, and closure of the Ajax project.

An extensive review was performed by KGHMI staff and outside consultants in late 2012 through to mid 2013 to optimize the Ajax mine plan including validation of the proposed capital and operating expenditures. On August 2, 2013, (please refer to Abacus' press release of same date), KGHMI informed Abacus and the community of Kamloops that it is evaluating opportunities to make modifications to the Ajax project layout in the BFS which, inter alia, may improve the economics of the project, increase the distance of the project's infrastructure from the closest residential neighbourhoods and public infrastructure, and improve the permissibility of the Ajax project. As a consequence of reviewing these opportunities, KGHMI has delayed the submission of the Ajax project Environmental Application Assessment ("EA"), which had been expected to be submitted in September 2013.

Management of Abacus currently cautions that depending on KGHMI's final decisions on the various opportunities being reviewed it is likely the submission of the EA will be delayed by approximately two years until mid-2015 and a projected mine startup delayed until mid-2018 if the Ajax project is eventually approved for development.

The 2013 actual expenditures on the Ajax project totaled \$30 million versus a forecasted 2013 budget of \$47 million as certain land acquisition costs and detailed engineering activities were delayed. The 2014 budget for KGHM Ajax has been proposed for \$55 million plus an additional \$9 million of carry forward from 2013's budget that was not incurred in 2013. Abacus' 20% share of the project costs are being funded by the Escrowed Funds, which at June 30, 2014 were approximately \$11,620,837.

In May 2014, KGHMI announced that it had made modifications to the site plan wherein several of the proposed mine's industrial facilities have been moved farther from the City of Kamloops. The new site plan represents an important adjustment to the Ajax Project as it concentrates mine activities to reduce the potential for adverse impacts from industrial activity to the city, nearby residents and other public infrastructure while optimizing the value of the project.

The key changes include:

- Redesign of the tailings storage facility from the previously proposed dry stack tailings storage to a more proven wet tailings technology. The tailings storage facility will be located closer to the mine operations.
- Relocation of a waste rock storage facility, the mine processing plant, primary crusher and temporary ore stockpiles. These sites, formerly situated inside City of Kamloops limits, will now be located more than 3.5 kilometers from the nearest city neighbourhoods and outside municipal boundaries.

A major work programme is planned for 2014 consisting of various permitting activities, detailed engineering work, metallurgical test work, optimization studies and exploration and condemnation drilling. The objective of the exploration drilling programme, estimated to comprise 13,500 metres, is to identify potentially economic mineral resources close to the Ajax mining complex for future resource definition, as well as to test several highly-prospective regional targets outside the Ajax area, which resources could add significant value to the project.

Of the Escrowed Funds, \$11,673,156 was available to Abacus at June 30, 2014, which is expected to be sufficient for its proportionate share of the cash calls for the year's programme at the Ajax project. The Ajax Project's project description and current information with respect to the permitting process is available at the British Columbia Environmental Assessment Office website at [www.eao.gov.bc.ca](http://www.eao.gov.bc.ca).

On February 1, 2014, James Excell resigned as CEO and Thomas McKeever retired as executive chairman of the Company. Michael McInnis (previously a Director) assumed the role of CEO and executive chairman effective that date. In April, Ian MacNeily (formerly CFO) reduced his involvement with the Company but has agreed to remain as a consultant.

### **Results of operations**

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Activities of the Company for the six months ended June 30, 2014 continued to focus on monitoring the environmental and permitting activities being performed by KGHMI now acting as operator of the Ajax Project. The Ajax Project and the status thereof are discussed in the section above titled *Overall performance*.

### **Analysis of the results of operations for the six months ended June 30, 2014**

Total expenditures on the Ajax Project's mineral interests, including exploration, evaluation, and acquisition costs, during the six months ended June 30, 2014 were \$nil as compared to the \$19,670 incurred during the same period in 2013. The decrease in expenditures is attributable to the shift away from exploration and BFS evaluation activities to the current focus on environmental and permitting activities and the Company ceasing to be the project operator effective with August 30, 2012. Commencing September 1, 2012, KGHMI became the operator of the Ajax project and the Company's involvement in day to day operations has decreased significantly. As at June 30, 2014 and December 31, 2013 Abacus owned 20% of KGHM Ajax, and all reimbursements of Abacus's activities as operator of the Ajax Project are recorded by KGHM Ajax as its mineral interests.

Net general and administrative expenses during the six months ended June 30, 2014 were \$385,658, which represented a 47% decrease over the same period in 2013 (\$722,746) due to reduced employee costs and general operating expenses associated with the reduced activities of the Company.

Significant differences in the general and administrative expenses for the six month period ended June 30, 2014 include:

- Salaries and contract wages of \$113,647 for the six months ended June 30, 2014 decreased 68% compared to \$357,386 in 2013, which is primarily attributable to the reduced number of employees effective with the change in operator of the Ajax Project on September 1, 2012.



- Consulting and director's fees for the six months ended June 30, 2013 of \$47,292 decreased by 64% as compared to \$129,612 in 2013 due to the directors taking a voluntary 50% decrease in their fees effective with July 1, 2013.
- Share-based payments is a non-cash item, resulting from the application of the Black-Scholes Option Pricing Model using assumptions in respect of expected dividend yield average risk-free interest rates, expected life of the options and expected volatility, is intended to represent the fair value determined under the Black-Scholes model of the vested portion of existing options during the period and does not reflect the normal operations of the Company. Share-based payment were \$82,521 for the six months ended June 30, 2014 as compared to \$16,187 in 2013.

Other items that impacted the Company's net income (loss) during the six month period ended June 30, 2014 as compared to 2013 consisted primarily of the following:

- During the period ended June 30, 2014, Abacus recorded its share of the losses incurred by KGHM Ajax in its equity investment in KGHM Ajax of \$47,718 versus a loss of \$151,950 in 2013, as administrative expenditures in KGHM Ajax were reduced in 2013.

#### **Analysis of the changes to the financial position of the Company**

On June 26, 2014 Abacus signed a loan and security agreement ("Loan Agreement") for a term loan facility of \$3,000,000 to be drawn from the then remaining Escrowed Funds. Under the terms of the Loan Agreement, the loan bears interest of 8% per annum and is collateralized by \$3,360,000 of the Escrowed Funds. With the release of Escrowed Funds, cash and cash equivalents at June 30, 2014 totaled \$2,922,196, an increase of \$2,517,680 from December 31, 2013 resulting in a decrease in the Company's restricted cash position from \$15,960,900 to \$11,673,156.

As a condition of the Loan Agreement, Abacus will continue to contribute its 20% share of the 2014 and 2015 programs and budget towards development of the Ajax Project from the Escrowed Funds.

During the six months ended June 30, 2014, Abacus contributed \$1,400,000 from the Escrowed Funds to KGHM Ajax, representing Abacus' 20% share of cash calls by KGHM Ajax

Other current assets (excluding cash and cash equivalents) comprised amounts receivable and prepaid expenses totaling \$278,370 (December 31, 2013: \$36,052). On June 27, 2014, Abacus and Burnstone Ventures Inc. ("Burnstone") entered into a loan (the "Loan") and security agreement pursuant to which Abacus advanced \$250,000 to Burnstone, which amount is included in amounts receivable. The Loan bears interest of 8% per annum, matures on December 31, 2015, and is secured by a first priority security interest over Burnstone's Tomichi Project. The Loan proceeds are to be used by Burnstone in relation to the Tomichi Project, located in Colorado.

Non-current assets as at June 30, 2014 (\$44,833,134) remained in line with December 31, 2013 totals (\$44,773,481).

Current liabilities of \$102,683 as at June 30, 2014 increased (December 31, 2013: \$47,190) due to the accrual of directors fees for the six months ended June 30, 2014. To conserve cash, the directors agreed to accrue their fees until the company improves its liquidity. Accrued directors' fees will be fully paid in the third quarter.

### Summary of quarterly results

The selected information set out below has been gathered from the previous eight quarterly financial statements for each respective three month financial period and are presented in accordance with IFRS.

|                    | Revenue | Income (Loss) | Income (Loss) per share |
|--------------------|---------|---------------|-------------------------|
|                    | \$      | \$            | \$                      |
| June 30, 2014      | Nil     | (432,513)     | 0.00                    |
| March 31, 2014     | Nil     | 88,150        | 0.00                    |
| December 31, 2013  | Nil     | (143,998)     | 0.00                    |
| September 30, 2013 | Nil     | (382,684)     | 0.00                    |
| June 30, 2013      | Nil     | (76,562)      | 0.00                    |
| March 31, 2013     | Nil     | (300,961)     | 0.00                    |
| December 31, 2012  | Nil     | (626,683)     | 0.05                    |
| September 30, 2012 | Nil     | (739,701)     | 0.00                    |

### Liquidity

The Company's cash and cash equivalents are comprised of bank deposits and highly liquid temporary investments and have no exposure to asset backed commercial paper. The Company is debt free.

The ability of the Company to continue is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its development partner and shareholders. There is no certainty that the Company will be able to receive continued financial support in the future. As of the date of this report, the Company has sufficient resources to fund its anticipated operations and working capital needs for the upcoming six months.

### Capital resources

The Company's primary capital asset is its 20% interest in KGHM Ajax: KGHM Ajax holds 100% of the mineral interests of the Ajax Project. There were no expenditures deferred on mineral interests by Abacus during the six months ended June 30, 2014 and 2013 and for the years ended December 31, 2013 and December 31, 2012.

On April 2, 2012, as a result of KGHM exercising its Development Option, cash consideration of \$30,159,107 was paid by KGHM to Abacus for 29% of its interest in KGHM Ajax. Under the terms of the Joint Venture Agreement, these funds are required to be held in escrow by KGHM Ajax and use of the funds is restricted to Abacus' participation in KGHM Ajax's investment activities. As at June 30, 2014, restricted funds in the amount of \$11,673,156 remained in escrow.





**Transactions with related parties**

Until September 1, 2012, the Company was the Operator of the Ajax Project and was reimbursed for direct costs it incurred as the Operator. The Company offsets amounts recovered against the respective expense item. The Company was reimbursed the following amounts from KGHM Ajax:

| <b>Amounts reimbursed to Abacus as the Operator of the Ajax Project</b>        | Six months<br>ended June<br>30, 2014 | Six months<br>ended June 30,<br>2013 |
|--|--------------------------------------|--------------------------------------|
| Exploration and evaluation, and acquisition expenditures for mineral interests | \$ -                                 | \$ 3,696                             |
| Contract wages   | -                                    | 4,276                                |
| Office and administrative expenditures   | -                                    | 15,394                               |
| Equipment  | -                                    | -                                    |
|  | <u>\$ -</u>                          | <u>\$ 23,366</u>                     |

As at June 30, 2014, \$nil is due from KGHM Ajax (December 31, 2013: \$nil).

**Compensation of Key Management Personnel**

Key management personnel consists of Michael McInnis (CEO and President from February 1st, 2014 to present, and a Director of the Company since 2002), James Excell (former CEO and President until January 31st, 2014), Ian MacNeily, CFO until March 31st, 2014 and currently an independent consultant to the Company, and the non-executive Directors of the Company (Thomas McKeever, Louis Montpellier, and Victor Lazarovici).

The remuneration, excluding any stock-based compensation, of key management personnel during the six month period ended June 30, 2014 and 2013 is summarized as follows:

|           | June 30, 2014 | June 30, 2013 |
|-----------|---------------|---------------|
|           | \$            | \$            |
| CEO, CFO  | 69,800        | 268,000       |
| Directors | 51,875        | 119,048       |

Key management personnel were not paid post-retirement benefits, termination benefits, or other long-term benefits during the six month period ended June 30, 2014 and 2013. On May 28, 2014, the company issued 400,000 common shares to the former CFO of the Company, as consideration for certain services rendered. The shares were valued at \$0.065 per share, for total value of \$26,000.



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### Outstanding share data

As at the date of this report, the Company had the following common shares and stock options outstanding:

|               |             |
|---------------|-------------|
| Common shares | 214,157,611 |
| Stock options | 7,860,000   |

During the year ended December 31, 2013, the company cancelled 1,207,500 stock options to former employees, pursuant to the terms in their employment contracts.

On October 8, 2013 the company granted 2,700,000 stock options to employees, directors and officers of Abacus. In considering the stock option grants, the board of directors took into account the 50% reductions in individual director fees (effective July 1, 2013) and officers' salaries (effective October 1, 2013) that have been made voluntarily by the directors and the executive officers to help preserve the cash resources of Abacus.

On January 17, 2013, pursuant to the exercise of stock options, the Company issued 200,000 shares for cash proceeds of \$20,000.

On May 28, 2014, the company issued 400,000 common shares to the former chief financial officer of the Company, as consideration for certain services rendered. The shares were valued at \$0.065 per share, for total value of \$26,000.

### Proposed transactions

As is typical of the mineral exploration and development industry, the Company is continually reviewing potential merger, acquisition, investment and joint venture transactions and opportunities that could enhance shareholder value. There are no specific transactions being contemplated by management or the Board of Directors that would affect the financial condition, results of operations and cash flows of any asset of the Company, other than those disclosed as subsequent events in this document (see "Subsequent events").

### Off Balance Sheet Transactions

The Company has no off-balance sheet arrangements.

### Subsequent events

- (a) Abacus has entered into a binding letter agreement ("Letter Agreement") with Burnstone, pursuant to which Abacus will acquire, in consideration of Abacus common shares ("Abacus Shares"), all of the outstanding securities of Burnstone by way of a statutory court-approved plan of arrangement (the "Arrangement"). Upon closing of the Arrangement, Burnstone will become a wholly-owned subsidiary of Abacus. Burnstone's principal asset is the Tomichi project.

Under the terms of the Arrangement:

- Burnstone shareholders will receive 0.43 of an Abacus Share for each one Burnstone common share (a "Burnstone Share").
- All outstanding Burnstone share purchase warrants will be assumed by Abacus and adjusted based on the 0.43 exchange ratio.
- Burnstone has agreed to complete a debt settlement with certain of its creditors for Burnstone Shares (the "Debt Settlement"), which will be exchanged for Abacus Shares under the Arrangement.
- A total of approximately 23 million Abacus Shares are expected to be issued in connection with the Arrangement, representing approximately 10% of the outstanding Abacus Shares on completion of the Arrangement.

The Arrangement is subject to a number of closing conditions including, but not limited to, a confirmatory due diligence review of Burnstone and its assets by Abacus, approval by the shareholders of each of Abacus and Burnstone, receipt of all court and regulatory approvals, including that of the Ontario Superior Court and the TSX Venture Exchange, completion of the Debt Settlement, and all outstanding Burnstone stock options being cancelled.

Abacus and Burnstone have agreed to enter into a definitive arrangement agreement incorporating the terms of the Letter Agreement and other terms and conditions customary for transactions of this nature.

- (b) On July 31, 2014, Abacus contributed \$2,600,000 from the Escrowed Funds to KGHM Ajax, representing Abacus' 20% share of a cash call of KGHM.
- (c) On August 7, 2014, Jeannine Webb was appointed CFO of the Company.

### **Financial instruments**

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The Company has classified its cash and cash equivalents, restricted cash and contractual obligations as fair value through profit and loss ("FVTPL"); marketable securities as available-for-sale; amounts receivable as loans and receivables; and accounts payable, accrued liabilities and loan payable as other financial liabilities.

The carrying values of cash and cash equivalents, amounts receivable (excluding due from related parties), restricted cash, and accounts payable and accrued liabilities (excluding due to related parties) approximate their fair values due to the short-term maturity of these financial instruments.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

**Fair value**

The Company's measurement of fair value of financial instruments in accordance with the fair value hierarchy is as follows:

| <b>Fair value hierarchy</b>        |                      |                       |                    |         |
|------------------------------------|----------------------|-----------------------|--------------------|---------|
| <b>As at December 31, 2013:</b>    | Total                | Level 1               | Level 2            | Level 3 |
| Financial assets                   |                      |                       |                    |         |
| Cash and cash equivalents          | \$ 404,516           | 404,516               | -                  | -       |
| Funds held in trust with KGHM Ajax | <u>15,960,900</u>    | <u>15,960,900</u>     | -                  | -       |
| Total financial assets             | <u>\$ 16,365,416</u> | <u>16,365,416</u>     | -                  | -       |
|                                    |                      | <u>Carrying value</u> | <u>Fair value</u>  |         |
| Total financial assets             | \$                   | 16,365,416            | 16,365,416         |         |
| Amounts receivable                 |                      | 8,397                 | 8,397              |         |
| Accounts payable and accruals      |                      | <u>(36,690)</u>       | <u>(36,690)</u>    |         |
| Net financial assets               | \$                   | <u>16,337,123</u>     | <u>16,337,123</u>  |         |
| <b>As at March 31, 2014:</b>       |                      |                       |                    |         |
| Financial assets                   |                      |                       |                    |         |
| Cash and cash equivalents          | \$ 2,922,196         | 2,922,196             | -                  | -       |
| Funds held in trust with KGHM Ajax | <u>11,673,156</u>    | <u>11,673,156</u>     | -                  | -       |
| Total financial assets             | <u>\$ 14,595,352</u> | <u>14,595,352</u>     | -                  | -       |
|                                    |                      | <u>Carrying value</u> | <u>Fair value</u>  |         |
| Total financial assets             | \$                   | 14,595,352            | 14,595,352         |         |
| Amounts receivable                 |                      | 265,891               | 265,891            |         |
| Accounts payable and accruals      |                      | <u>(3,102,683)</u>    | <u>(3,102,683)</u> |         |
| Net financial assets               | \$                   | <u>11,758,560</u>     | <u>11,758,560</u>  |         |

**Credit risk**

The Company manages credit risk, in respect to its cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at major Canadian financial institutions. The Company is exposed to credit risk from related party balances. Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:



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|  | June 30,<br>2014  | December 31,<br>2013 |
|--|-------------------|----------------------|
| <b>Concentration of credit risk and maximum exposure</b> |                   |                      |
| Bank accounts  | \$ 2,772,196      | \$ 29,516            |
| Temporary investments                                    | 150,000           | 375,000              |
| Restricted cash (Note 7)                                 | <u>11,673,156</u> | <u>15,960,900</u>    |
|  | \$ 14,595,352     | \$ 16,365,416        |

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### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty meeting obligations associated with financial liabilities. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated financing and investing activities. The Company is exposed to liquidity risk. As at June 30, 2014, accounts payable and accrued liabilities of \$102,683 are due in the third quarter of 2014. As at June 30, 2014, the Company has sufficient cash and amounts receivable in order to meet these current liabilities and obligations.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

- (i) *Interest rate risk*
  - (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
  - (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk.

- (ii) *Foreign currency risk*

The Company is not exposed to significant foreign currency risk.

- (iii) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk.

The Company is not currently exposed to other price risk.

## **Changes in accounting policies**

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The Company's Financial Statements were prepared in accordance with IFRS effective January 1, 2011.

### **Adoption of new IFRS pronouncements**

The Company has adopted the following new IFRS pronouncements:

- IAS 32 "Financial Instruments: Presentation" is effective for annual periods beginning on or after January 1, 2014.
- IAS 36, "Impairment of Assets" is effective for annual periods beginning on or after January 1, 2014.
- IFRIC 21, "Levies" is effective for annual periods beginning on or after January 1, 2014.

The Company has evaluated the impact of this standard on its financial statements, and believes it has no impact on the statements of financial position or results of operations.

### **New accounting standards not yet adopted**

- IFRS 9, "Financial Instruments: Classification and Measurement" is effective for annual periods beginning on or after January 1, 2018.

The Company is currently evaluating the impact of any new and amended standards on its financial statements. The impact is not expected to have a material impact on the statements of financial position or results of operations.

## **Disclosure Controls and Procedures**

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The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. In accordance with the requirements of National Instrument 52-109, Certification and Disclosure in the Company's annual and interim filings, evaluations of the design and operating effectiveness of disclosure controls and procedures ("DC&P") and the design effectiveness of internal control over financial reporting ("ICFR") were carried out under the supervision of the CEO and CFO as of the end of the period covered by this report. The CEO and CFO have concluded that the design and operation of disclosure controls and procedures were adequate and effective to provide reasonable assurance that material information relating to the Company would have been known to them and by others within those entities. The CEO and CFO have also concluded that the Company's internal controls over financial reporting are designed effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. While there were no changes that occurred for the most recent fiscal period that have materially affected the Company's internal control procedures, the CEO and CFO will continue to monitor and attempt to identify areas to improve controls and intend to incorporate such improvements over the next fiscal period. The Company has disclosed that:

- (1) it is not required to certify the design and evaluation of the Company's DC&P and ICFR and has not completed such an evaluation; and
  - (2) inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.
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## **Risks and uncertainties**

The Company's principal activity is mineral exploration and development, which is speculative and involves a high degree of risk. There is a significant probability that the expenditures made by the Company in the exploring of its properties will not result in discoveries of commercial quantities of minerals. A high level of ongoing expenditures is required to locate and estimate ore reserves, which are the basis for further development of a property. Capital expenditures to attain commercial production stage are also very substantial. The Company has a history of incurring losses and deficits, and is subject to a number of risks and uncertainties due to the nature of its business and present stage of explorations, such as, but not limited to, exploration, market, commodity prices, Aboriginal land claims, title, limited financial resources, share price volatility, key personnel, competition, environmental and regulatory requirements, uninsurable risks and critical accounting estimates.

The following sets out the principal risks faced by the Company:

Title: Although the Company has taken steps to verify the title to mineral properties in which it or KGHM Ajax have an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Aboriginal Land Claims: Aboriginal rights may be claimed on properties or other types of tenure with respect to which mining rights have been conferred. The Company is aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such cooperation. While there is, to the Company's knowledge, no existing claim in respect of any of its properties, the advent of any future aboriginal land claims and the outcome of any aboriginal land claims negotiations cannot be predicted.

Lack of Revenue and Limited Financial Resources: The Company has no significant source of operating cash flow and no revenues from operations. The Company has limited financial resources. The Company's ability to continue operating as a going concern is dependent upon management's success in raising additional monies to sustain the Company until cash flow from operations is adequate to sustain the Company's viability. Substantial expenditures are required to be made by the Company and/or its development partners to establish ore reserves and develop a mining operation. Exploration and development of mineral deposits is an expensive process, and frequently the greater the level of interim stage success the more expensive it can become. The Company has no producing properties and generates no operating revenues; therefore, for the foreseeable future, it will be dependent upon selling equity in the capital markets to provide financing for its continuing substantial exploration budgets. While the Company has been successful in obtaining financing from the capital markets for its projects in recent years, there can be no assurance that the capital markets will remain favourable in the future, and/or that the Company will be able to raise the financing needed to continue its exploration programs on favourable terms, or at all. Restrictions on the Company's ability to finance could have a material adverse outcome on the Company and its securities.

Exploration and Interest in Properties: The property interests owned by the Company or KGHM Ajax, or in which it has an interest in, are currently in the exploration and evaluation stages only, are without known

bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Mineral exploration may not result in any discoveries of commercial bodies of mineralization. If efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Ajax Project is located on the southwest side of Kamloops, BC and is progressing through the preliminary steps of the environmental assessment process administered jointly by the provincial Environmental Assessment Office and the federal Canadian Environmental Assessment Agency. As currently contemplated, some of the Ajax Project's mine components will be entirely or partially within Kamloops City limits, including the north and east waste rock management facilities and tailings storage facility. The proposed infrastructure will be located primarily on private land owned by KGHM Ajax, with some utilization of crown land. The Ajax Project has been designated as a Major Resource Project and constitutes a reviewable project under the Canadian Environmental Assessment Act, in addition to requiring a number of provincial permits before construction can begin. While KGHM Ajax has engaged environmental experts and consultants and is committed to working in consultation with the community, First Nations and government agencies to identify areas of environmental concern, and to developing local policies and procedures that minimize the impact of mining on surrounding areas, there can be no assurance that environmental approval will be granted in a timely manner.

Share Price Volatility, Price Fluctuations and Commodity price: The price of the common shares, financial results and exploration, development and mining activities of the Company or KGHM Ajax may in the future be significantly adversely affected by declines in the prices of base and precious metals. Metal prices fluctuate widely and are affected by numerous factors beyond the Company's control. There can be no assurance that such price fluctuations will continue, or that investors' evaluations, perceptions, beliefs and sentiments will continue to impact these target commodities. An adverse change in these commodities' prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its securities. There can be no assurance that these price fluctuations and volatility will not continue to occur.

Key personnel: The Company's operations are dependent to a large degree on the skills and experience of certain of its key personnel. The Company does not maintain "key man" insurance policies on these individuals. Should the availability of these persons' skills and experience be in any way reduced or curtailed, this could have a material adverse outcome on the Company and its securities.

Competition: Significant and increasing competition exists for the limited number of mineral property acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Company, the Company may be unable to acquire additional attractive mineral properties on terms it considers acceptable.

Environmental and Other Regulatory Requirements: The mining, processing, development and mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards, mine safety, land use, toxic substances, land claims of local people and

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other matters. These laws and other governmental policies may affect investments of the Company and/or its shareholders.

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.

Market: The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change, both in short term time horizons and longer term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

Uninsurable: The Company and its subsidiaries may become subject to liability for pollution, fire, explosion and other risks against which it cannot insure or against which it may elect not to insure. Such events could result in substantial damage to property and personal injury. The payment of any such liabilities may have a material, adverse effect on the Company's financial position.

Critical Accounting Estimates: In the preparation of financial information, management makes judgments, estimates and assumptions that affect, amongst other things, the carrying value of its mineral property assets. 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, a provision is made for the impairment in value. Management's estimates of exploration, operating, capital and reclamation costs, if any, are subject to certain risks and uncertainties which may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties. The Company also uses the Black-Scholes Option Pricing Model in relation to share based payments. 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 granted/vested during the period.



**Legal proceedings**

As at the date of this Report there were no legal proceedings against or by the Company.

On behalf of the Board,

*"Michael McInnis"*

Michael McInnis, President, CEO & Director