



Form 51-102F1

Management's discussion & analysis for the three months ended March 31, 2012

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**ABACUS MINING & EXPLORATION CORPORATION**

(An exploration stage company)

Management's discussion & analysis

For the period ended March 31, 2012



May 29, 2012

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 interim financial statements including the notes thereto for the three months ended March 31, 2012, and the audited financial statements including the notes thereto for the years ended December 31, 2011 and 2010 (the "Financial Statements").

The Financial Statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP") which were revised to incorporate 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 May 29, 2012, 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 unaudited condensed interim financial statements for the three month period ended March 31, 2012 including the notes thereto, and the audited financial statements for the year ended December 30, 2011 and 2010 including the notes thereto, 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).

## Overall performance

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Abacus is engaged in the acquisition, exploration, and development of mineral resource properties. The Company is a Tier One Issuer that trades on the TSX Venture Exchange under the symbol AME. As at the date hereof, the Company holds a 20% interest in KGHM Ajax Mining Inc. ("KGHM Ajax"); KGHM Ajax holds a 100% interest in six copper-gold mineral resource properties in the former Afton-Ajax Mine Camp near Kamloops, British Columbia (the "Ajax Project").

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 with annual production of over 500,000 tonnes of copper and 1,100 tonnes of silver. This transaction was overwhelmingly approved by the shareholders of Abacus at a special meeting of its shareholders held on June 22, 2010 and the parties executed the definitive joint-venture shareholders' agreement ("Joint-Venture Agreement") and ancillary agreements on October 12, 2010. The Agreement included the following investment highlights:

- KGHM and the Company completed a \$4.5-million private placement involving the purchase of 15 million common shares (approximately 8.5 per cent of the shares issued and outstanding following the private placement) 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 camp, in accordance with a jointly approved budget. By December 31, 2011 substantially all of these funds had been used to fund the planned activity.
- Abacus is the Operator of the Ajax Project. KGHM has the option to become the Operator of the Ajax Project, as described below.

### Development Option:

- Following the completion of the BFS, KGHM has 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. This payment will be applied directly toward Abacus' proportionate share of the project's capital costs. After acquiring the additional 29%, KGHM can elect to become the Operator of the Ajax Project at any stage thereafter.
- KGHM will arrange 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.

On January 6, 2012, the Company filed the Ajax Project's BFS on SEDAR, and in accordance with the provisions of the Agreement the Company delivered the BFS to KGHM in December 2011. This NI 43-101 compliant 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.

The base case pre-tax net present value of US\$416 million, almost quadruples to US\$1.6 billion with a 2.2 year payback of the initial capital when assuming a scenario of US\$3.50/lb Cu and US\$1,700/oz Au, which is more reflective of current prices

On April 2, 2012, KGHM exercised the Development Option and thus increased its ownership in KGHM Ajax to 80%. As a result, cash consideration of US\$29,907,881 was paid by KGHM on April 2, 2012, which under the terms of the Agreement, Abacus is required to invest into KGHM Ajax to fund Abacus' share of the investment activities of KGHM Ajax. KGHM has indicated that they wish for Abacus to continue to act as the Operator of the Ajax Project until mid-2012 after which KGHM is expected to exercise its right to become the Operator.

In December 2010, the Company filed the project description for the Ajax Project with the British Columbia Environmental Assessment Office and the Canadian Environmental Assessment Agency; the permitting process required for the Ajax Project is well underway. Currently, the Company is developing the document that will specify the Ajax Project's requirements for the eventual studies and analyses which will be submitted to the provincial and federal governments for evaluation. This document will follow a template which is expected to be supplied to the Company in July 2012 by the governments: the Application Information Requirement from a provincial government perspective and the Environmental Impact Statement Guidelines from federal government perspective. 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).

## **Results of operations**

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Activity of the Company for the three month period ending March 31, 2012 continued to focus on environmental and permitting activities being performed by Abacus in its role as Operator of the Ajax Project. The Company completed the BFS with respect to the Ajax Project in December 2011 and filed it on SEDAR on January 6, 2012. Highlights of the BFS are summarized above.

Total expenditures on the Ajax Project's mineral interests, including exploration, evaluation, and acquisition costs, during the three months ended March 31, 2012 were \$1,392,762 of which 100% were recovered from KGHM Ajax, a decrease of 53% as compared to the \$2,970,150 incurred during the same period in 2011. 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: as the Ajax Project advances the requirement for advanced engineering and environmental studies has increased and the requirements for exploration and feasibility activities has decreased. There were no expenditures deferred on Abacus' mineral interests during the three months ended March 31, 2012 and 2011, and the year ended December 31, 2011, because in 2010 Abacus transferred 100% of its mineral interests to KGHM Ajax. As at March 31, 2012 and December 31, 2011 and 2010, Abacus owned 49% 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 ("G&A") during the three months ended March 31, 2012, were \$511,236 which represented essentially no change over the same period in 2011 of \$508,837. For the three month period ended March 31, 2012, \$401,525 of gross general and administrative expenses totalling \$912,761 were recovered from KGHM Ajax as compared to the same period in the prior year when \$360,725 of gross expenses of \$869,562 were recovered. Significant differences in the G&A expenses for the three month period ended March 31, 2012 as compared to the same period in 2011 include:

- Salaries and contract wages in 2012 of \$325,233 increased by 20% as compared to \$270,674 in 2011, which is attributed to a higher average staff head count in 2012.
- Share-based payments expense in 2012 of \$222,127 increase by 36% as compared to \$162,593 in 2011, which is due to the stock option grants that vested in 2012 having a higher cost, as estimated using the Black-Scholes option pricing model (Note 7(e) of the March 31, 2012 condensed interim financial statements), as compared to the those stock option grants that vested in 2011.
- The recoveries of G&A expenses from KGHM Ajax in 2011 were \$401,825, an increase of 11% as compared to \$360,725 in 2011, which is attributed to increased G&A activities being performed during 2012 by Abacus in the role of Operator of the Ajax Project.

### 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 reflects the impacts of the Company's transition to IFRS:

	Revenue \$	Income (Loss) \$	Income (Loss) per share \$
March 31, 2012	Nil	(792,285)	0.00
December 31, 2011	Nil	(696,362)	0.00
September 30, 2011	Nil	(505,619)	0.00
June 30, 2011	Nil	(488,100)	0.00
March 31, 2011	Nil	377,222	0.00
December 31, 2010	Nil	(11,900,230)	(0.06)
September 30, 2010	Nil	(1,319,363)	(0.01)
June 30, 2010	Nil	(12,571,671)	(0.07)

Fluctuations in the Company's expenditures reflect the variations in the timing of exploration and evaluation activities, general operations, and the ability of the Company to raise capital for its projects. During the first half of 2011, a significant non-cash gain of \$1,348,827 was incurred with respect to the partial settlement of the Company's contractual obligation to Teck Resources Limited ("Teck"). During the second quarter of 2010, significant one-time non-cash amounts were recognized with respect to a \$13,279,478 impairment arising from the Company's mineral interest transaction with KGHM Ajax and a related \$2,032,600 income tax recovery (Notes 7 and 13 of the December 31, 2011 annual Financial Statements).

### 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 ability of the Company to continue as a going concern is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its exploration partners and shareholders. At March 31, 2012 and December 31, 2011, the Company accrued a \$5,000,000 contractual

obligation payable to Teck. However, as KGHM exercised its development option on April 2, 2012, this obligation was transferred on that date to KGHM Ajax. Accordingly, as of the date of this MD&A the Company has sufficient resources to fund its 2012 operations.

Other outstanding commitments of the Company include rent of Vancouver office space in which the lease terminates on March 31, 2013. The cost of the premises is shared among the Company and three other companies. In addition, the Company entered into a three-year lease agreement for office space in Toronto, commencing February 1, 2011. The Company's proportionate share of minimum annual rental payments under these office lease arrangements are as follows: The remainder of 2012 - \$147,554, 2013 - \$86,859 and 2014 - \$4,186.

### **Capital resources**

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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 three months ended March 31, 2012 or the year ended December 31, 2011.

Subject to the amended asset purchase agreement with Teck, as at December 31, 2010, the Company had then recorded the fair value of the common shares component of an amount owed to Teck as a \$5,706,574 current liability and the \$5,000,000 cash component due in the fourth quarter of 2012 as a long term liability (Note 7(b) of the December 31, 2011 annual financial statements). These contractual obligations have been partially settled during the periods presented in the condensed interim financial statements as follows:

- The common share component was settled by the Company on April 8, 2011, and consequently for the period from December 31, 2010 to March 31, 2011, the Company realized a \$1,141,315 gain due to the change in the Company's share price.
- As at December 31, 2011 and March 31, 2012, the Company has provided for the remaining \$5,000,000 cash component of the contractual obligation as a current liability, as it is potentially due in the fourth quarter of 2012.
- Pursuant to the amended agreement to the Joint Venture Agreement dated April 1, 2011, KGHM Ajax agreed to assume the obligation to make the final \$5,000,000 cash payment. KGHM Ajax's obligation to make the cash payment is conditional on KGHM increasing its interest in KGHM Ajax to 80% as outlined in the Joint Venture Agreement; otherwise the payment remains an obligation of Abacus. On April 2, 2012, KGHM exercised this option, and accordingly on this date the \$5,000,000 cash component ceased to be an obligation of Abacus.

The Company does not have any off-balance sheet arrangements.

### **Transactions with related parties**

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The Company acts as the Operator of the Ajax Project on behalf of KGHM Ajax and is reimbursed for direct costs it incurs as the Operator. The Company offsets amounts recovered against the respective expense item. The Company was reimbursed the following amounts from KGHM Ajax:

	Three months ended March 31, 2012	Three months ended March 31, 2011
<b>Amounts reimbursed to Abacus as the Operator of the Ajax Project</b>		
Exploration and evaluation, and acquisition expenditures for mineral interests	\$ 869,745	\$ 4,126,983
Contract wages	114,522	337,997
Office and administrative expenditures	616,666	109,955
Equipment	-	122,478
	\$ 1,600,933	\$ 4,697,413

As at March 31, 2012, \$932,559 (December 31, 2011: \$632,125) is due from KGHM Ajax. As at March 31, 2012, \$nil (December 31, 2011: \$35,000) was due to KGHM Ajax.

For the three month period ended March 31, 2012, \$15,000 (March 31, 2011: \$45,000) of consulting fees were charged by a former director of the Company. As at March 31, 2012, included in accounts payable and accrued liabilities is \$5,600 (December 31, 2011: \$5,780) payable to the former director.

#### **Outstanding share data**

As at May 29, 2012, the Company had the following common shares, stock options and warrants outstanding:

Common shares	212,557,611
Stock options	13,430,000
Warrants	27,617,917
Agent option	1,011,362

On January 26, 2012, the Company granted 2,670,000 stock options to employees, directors, and officers of the Company. The options have an exercise price of \$0.235 and vest over an 18-month period, exercisable for five years from the date of the grant thereof.

On March 15, 2012, the Company completed a non-brokered private placement for gross proceeds of \$3,178,300 which involved the issuance of 14,446,818 Units at price of \$0.22 per Unit. Each Unit is comprised of one common share and one-half common share purchase warrant. Each full warrant is exercisable to purchase one common share at a price of \$0.32 for twelve months from March 15, 2012. Estimated cash issuance costs of \$215,080 were incurred by the Company in respect of this private placement, resulting in estimated net cash proceeds of \$2,963,220.

On March 26, 2012, 14,700 agent options were exercised for cash proceeds of \$2,940, which resulted in the issuance of 14,700 common shares and the issuance of 14,700 share purchase warrants.

On May 14, 2012, 754,000 agent options were exercised for cash proceeds of \$150,800, which resulted in the issuance of 754,000 common shares and the issuance of 754,000 share purchase warrants.

On May 28, 2012, 100,000 stock options were exercised for cash proceeds of \$10,000, which resulted in the issuance of 100,000 common shares.

**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. On April 17, 2012, Abacus appointed Stifel Nicolaus Canada Inc. ("Stifel") as financial advisor to explore and evaluate potential strategic alternatives to maximize the Company's current 20% interest in the Ajax Project. At present 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.

**Financial instruments**

The Company has classified its cash and cash equivalents, restricted cash and contractual obligations as 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 loan payable approximated fair value as it was at a market rate of interest.

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:

Fair value hierarchy	Total	Level 1	Level 2	Level 3
<b>As at December 31, 2011:</b>				
Liabilities				
Contractual obligation	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -
<b>As at March 31, 2012:</b>				
Liabilities				
Contractual obligation	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -

**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:

Concentration of credit risk and maximum exposure	March 31, 2012	December 31, 2011
Bank accounts	\$ 71,723	\$ 99,016
Temporary investments	2,400,000	385,000
Due from KGHM Ajax	932,559	632,125
	\$ 3,404,282	\$ 1,116,141

### **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. Accounts payable and accrued liabilities of \$474,831 (December 31, 2011: \$976,175) are due in the second quarter of 2012, and the contractual obligation of \$5,000,000 (December 31, 2011: \$5,000,000) is potentially due the fourth quarter of 2012; however, on April 2, 2012, KGHM exercised its option and accordingly this \$5,000,000 obligation became an obligation of KGHM Ajax.

### **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 Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these financial statements.

Other than the adoption of new accounting policies as described below, the same accounting policies have been used in the preparation of these condensed interim financial statements as those used in the most recent audited annual financial statements and reflect all the adjustments necessary for the fair presentation in accordance with IFRS of the result of the interim periods presented.

### **Accounting standards adopted during the period**

Effective January 1, 2012, the company adopted the following new accounting standards and interpretations:

- The Company adopted IFRS 7, Financial Instruments: Disclosures, which involves increases in disclosure with regard to the transfer of financial assets, especially in cases where there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. There was no impact to the Company arising from the adoption of this standard.
- The Company adopted certain amendments to IAS 12, Income Taxes, which removed some subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment

introduced a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. There was no impact to the Company arising from the adoption of this standard.

#### **Accounting standards issued for adoption in future periods**

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2012 reporting period:

- On January 1, 2013, Abacus will be required to adopt IFRS 11, Joint Arrangements, which applies to accounting for interests in joint arrangements where there is joint control. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- On January 1, 2013, Abacus will be required to adopt IFRS 12, Disclosure of Interests in Other Entities, which includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- On January 1, 2013, Abacus will be required to adopt IFRS 13, Fair Value Measurement. Upon adoption, the Company will utilize a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. IFRS 13 is required to be applied for accounting periods beginning on or after January 1, 2013. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- On January 1, 2013, Abacus will be required to adopt IAS 28 (2011), Investments in Associates. As a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will further provide the accounting and will set out the requirements for the application of the equity method. This standard will be applied by the Company when there is joint control or significant influence over an investee. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.
- On January 1, 2015, Abacus will be required to adopt IFRS 9, Financial Instruments, which addresses classification and measurement of financial instruments and replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss ("FVTPL"). IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at FVTPL or at fair value through other comprehensive income. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

#### **Risks and uncertainties**

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The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to; environmental, metal prices, mining, and governmental policies.

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.

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.

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.

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.

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 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.

On behalf of the Board,

*"James D. Excell"*

James D. Excell, President, CEO & Director