ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)

Financial Statements
December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Abacus Mining & Exploration Corporation (An Exploration Stage Company) are the responsibility of the Company's management. The financial statements are prepared in accordance with Canadian generally accepted accounting principles 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. 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 balance sheets as at December 31, 2010 and 2009 and the statements of operations, shareholders' equity and cash flows for the years then ended 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.

"James Excell"	*"Ian MacNeily"*
James Excell President	Ian MacNeily Chief Financial Officer

Vancouver, British Columbia
April 18, 2011

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)

We have audited the accompanying financial statements of Abacus Mining & Exploration Corporation (an exploration stage company), which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Abacus Mining & Exploration Corporation as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements, which indicates that the Company incurred a net loss of $25,620,271 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceed its current assets by $3,964,476. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"Smythe Ratcliffe LLC" (signed)

Chartered Accountants

Vancouver, British Columbia
April 18, 2011

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Vancouver, BC V6C 2G8

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ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)
Balance Sheets
December 31

	2010	2009
Assets		
Current		
Cash and cash equivalents	$ 2,372,507	$ 4,847,622
Marketable securities (note 6)	2,250	2,083
Amounts receivable (note 12)	1,247,047	45,568
Due from KGHM Ajax Mining Inc. (note 12)	1,980,694	0
Mining Exploration Tax Credit receivable	116,252	2,097,146
Prepaid expenses	261,319	66,744
	5,980,069	7,059,163
Mineral Interests (notes 3 and 7)	0	46,661,572
Equipment (note 8)	91,117	117,100
Reclamation Deposits (note 3)	0	35,000
Investment in KGHM Ajax Mining Inc. (notes 1 and 3)	36,641,809	0
	$ 42,712,995	$ 53,872,835
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	$ 4,237,971	$ 1,637,110
Loan payable (note 9)	0	2,057,725
Contractual obligation (notes 7 and 16)	5,706,574	0
	9,944,545	3,694,835
Contractual Obligation (notes 7 and 16)	5,000,000	0
Future Income Taxes (note 13)	0	1,251,502
	14,944,545	4,946,337
Shareholders' Equity		
Capital Stock (note 10)	76,243,267	72,121,063
Contributed Surplus	4,070,308	3,730,435
Accumulated Other Comprehensive Income	1,068	922
Deficit	(52,546,193)	(26,925,922)
	27,768,450	48,926,498
	$ 42,712,995	$ 53,872,835

Commitment (note 14)
Subsequent Events (notes 7 and 16)

Approved on behalf of the Board:

"James D. Excell"
…………………………………………… Director
James D. Excell

"Thomas McKeever"
…………………………………………… Director
Thomas McKeever

See notes to financial statements.

ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)
Statements of Operations
Years Ended December 31

	2010	2009
General and Administrative Expenses		
Contract wages (note 12(a))	$ 1,200,187	$ 508,846
Travel and promotion	502,324	330,103
Consulting (note 12(b))	413,524	431,960
Stock-based compensation (note 10(f))	360,180	646,990
Investor relations	212,869	94,148
Legal	169,165	114,505
Rent	142,153	95,329
Office and miscellaneous	96,435	51,239
Regulatory fees	75,809	21,877
Accounting and audit	53,296	5,440
Insurance	26,048	22,497
Transfer agent fees	25,380	8,141
Telephone	23,638	15,816
Amortization	34,353	30,236
Expense recoveries	(357,681)	0
Loss Before Other Items and Income Tax	2,977,680	2,377,127
Other Items		
Impairment of mineral interests (note 7)	13,279,478	0
Loss on transfer (note 3)	10,612,629	0
Interest and other expenses (note 9)	89,736	466,535
Realized loss on available-for-sale securities	0	17,777
Interest income	(68,616)	(41,465)
Debt forgiveness, net	(25,635)	0
Loss on equity investment (note 3)	787,772	0
Loss Before Income Tax	27,653,044	2,819,974
Future Income Tax Recovery (note 13)	(2,032,773)	(1,078,229)
Net Loss for the Year	25,620,271	1,741,745
Unrealized gain on available-for-sale securities, net of future income taxes	(146)	(1,305)
Comprehensive Loss for the Year	$ 25,620,125	$ 1,740,440
Loss per Share, basic and diluted	$ 0.15	$ 0.01
Weighted Average Number of Common Shares Outstanding	169,250,239	123,101,812

See notes to financial statements.

ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)
Statements of Shareholders' Equity
Years Ended December 31

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2008	121,295,679	$66,717,032	$2,988,881	$(25,184,177)	$ (383)	$44,521,353
Net loss for the year	0	0	0	(1,741,745)	0	(1,741,745)
Unrealized gain on available-for-sale securities, net of future income taxes	0	0	0	0	1,305	1,305
Issued for cash						
Private placement, net of issue costs (note 10(b)(ii))	32,002,000	6,046,057	0	0	0	6,046,057
Exercise of options	1,135,000	181,600	0	0	0	181,600
Issued for services	621,930	40,000	0	0	0	40,000
Issued for loan financing (note 9)	1,250,000	125,000	0	0	0	125,000
Fair value of options exercised	0	151,579	(151,579)	0	0	0
Fair value of agent options issued on private placement	0	(246,143)	246,143	0	0	0
Stock-based compensation	0	0	646,990	0	0	646,990
Income tax effect on flow-through share renouncement	0	(894,062)	0	0	0	(894,062)
Balance, December 31, 2009	156,304,609	72,121,063	3,730,435	(26,925,922)	922	48,926,498
Net loss for the year	0	0	0	(25,620,271)	0	(25,620,271)
Unrealized gain on available-for-sale securities, net of future income taxes	0	0	0	0	146	146
Issued for cash						
Private placement, net of issue costs (note 10(b)(i))	15,000,000	3,745,760	0	0	0	3,745,760
Exercise of options	170,058	32,512	0	0	0	32,512
Exercise of warrants	16,250	4,875	0	0	0	4,875
Issued for mineral property	5,000,000	1,100,000	0	0	0	1,100,000
Fair value of options exercised	0	20,307	(20,307)	0	0	0
Stock-based compensation	0	0	360,180	0	0	360,180
Income tax effect on flow-through share renouncement	0	(781,250)	0	0	0	(781,250)
Balance, December 31, 2010	176,490,917	$76,243,267	$4,070,308	$(52,546,193)	$1,068	$27,768,450

See notes to financial statements.

ABACUS MINING & EXPLORATION CORPORATION
(An Exploration Stage Company)
Statements of Cash Flows
Years Ended December 31

	2010	2009
Operating Activities		
Net loss for the year	$ (25,620,271)	$ (1,741,745)
Items not involving cash		
Amortization	34,353	30,236
Stock-based compensation	360,180	646,990
Loss on sale of marketable securities	0	17,777
Impairment of mineral properties	13,279,478	0
Loss on transfer	10,612,629	0
Loss on equity investment	787,772	0
Accrued interest on loan payable	0	264,004
Debt forgiveness, net	(25,635)	0
Future income tax recovery	(2,032,773)	(1,078,229)
	(2,604,267)	(1,860,967)
Changes in non-cash working capital items		
Amounts receivable	(1,210,315)	22,642
Due from KGHM Ajax Mining Inc.	(1,980,694)	0
Prepaid expenses	(194,575)	42,200
Accounts payable and accrued liabilities	2,635,332	309,098
	(750,252)	373,940
Cash Used in Operating Activities	(3,354,519)	(1,487,027)
Investing Activities		
Mineral interests expenditure	(6,176,985)	(2,837,876)
Mining exploration tax received	1,980,894	0
Equipment purchases	(78,034)	(73,129)
Reclamation deposit	0	(23,000)
Other consideration, net of direct costs incurred	3,428,107	0
Cash Used in Investing Activities	(846,018)	(2,934,005)
Financing Activities		
Issuance of capital stock for cash, net of issue costs	3,783,147	6,227,657
Proceeds on sale of marketable securities	0	83,146
Proceeds from loan payable	0	2,375,000
Repayment of loan payable	(2,057,725)	(456,279)
Cash Provided by Financing Activities	1,725,422	8,229,524
Increase (Decrease) in Cash During the Year	(2,475,115)	3,808,492
Cash and Cash Equivalents, Beginning of Year	4,847,622	1,039,130
Cash and Cash Equivalents, End of Year	$ 2,372,507	$ 4,847,622
Cash and Cash Equivalents Consists of:		
Cash	$ 1,872,507	$ 4,847,622
Temporary investments	500,000	0
	$ 2,372,507	$ 4,847,622

Supplemental Disclosure with Respect to Cash Flows (note 11)

See notes to financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Abacus Mining & Exploration Corporation (the "Company" or "Abacus"), incorporated in British Columbia, is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

On October 12, 2010, the Company entered into a definitive Joint Venture Shareholders Agreement with KGHM Poliska Miedz S.A. ("KGHM") ("Definitive Agreement") resulting in the Company reducing its interest in KGHM Ajax Mining Inc. ("KGHM Ajax") to 49% in conjunction with a cash contribution by KGHM for a 51% interest in KGHM Ajax. Accordingly, the Company's investment in KGHM Ajax is now accounted for using the equity method of accounting (see note 3).

The Company has incurred significant operating losses over the past several fiscal years, has a working capital deficit of $3,964,476 (2009 - working capital of $3,364,328), an accumulated deficit of $52,546,193 (2009 - $26,925,922), limited resources and no source of operating cash flow. The Company's current working capital is not sufficient to meet its financial obligations and administrative overhead costs in 2011.

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. Management is actively seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. The following is a summary of significant accounting policies:

(a) Significant influence investments

Investments in which the Company exerts significant influence are accounted for using the equity method whereby the original cost of the investment is adjusted annually for the Company's share of earnings, losses and dividends during the current year. The Company's share of net income and losses of such investments are included in the statements of operations. The Company's 49% investment in KGHM Ajax is accounted for under the equity method. This policy was adopted by the Company during the year ended December 31, 2010 with respect to its investment in KGHM Ajax.

(b) Cash equivalents

Cash equivalents comprise bank deposits or highly-liquid temporary investments, which are readily convertible into known amounts of cash and which mature within ninety days from the original dates of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. 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. Costs accumulated relating to projects that are abandoned are written-off in the period in which a decision to discontinue the project is made.

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.

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 not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Where recoveries exceed costs, such amounts are recognized in net income.

(d) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

(e) Equipment

Equipment is recorded at cost and amortized using the declining-balance method at an annual rate of 20% for office and other equipment and 30% for computer equipment. Amortization on leasehold improvements is recorded on a straight-line basis over the term of the lease of five years.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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. Significant areas requiring the use of management estimates include the collectability of amounts receivable, recovery of Mining Exploration Tax Credits, balances of accrued liabilities, the fair value of financial instruments, the rates for amortization of equipment, the recoverability of investment in KGHM Ajax, determination of asset retirement and environmental obligations, the utilization of future income tax assets and the determination of the variables used in the calculation of stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(g) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to re-purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

(h) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options or equity instruments issued is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral interests, with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(i) 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), and losses carried forward. 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 substantively enacted. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Mining and exploration tax recoveries

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

(k) Flow-through common shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock. 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.

A portion of the future income tax assets that were not previously recognized are recognized as a recovery of future income taxes in the statements of operations up to the amount of the future income tax liability or renouncement.

(l) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

(m) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Expenses, (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange in effect at the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income is removed from accumulated other comprehensive income and recognized in net income.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 Inputs, other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 Inputs that are not based on observable market data.

(o) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after January 1, 2011. The effective date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company is in the planning and scoping phase of the transition to IFRS and is in the process of selecting accounting policies. The Company will prepare IFRS financial statements for its first quarter of fiscal 2011.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Future accounting changes (Continued)

(ii) Business Combinations (Continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

3. INVESTMENT IN KGHM AJAX MINING INC.

On June 28, 2010, the Company incorporated a wholly-owned subsidiary, KGHM Ajax, pursuant to the Investment Agreement dated May 4, 2010 between the Company and KGHM to advance the Company's Afton-Ajax copper-gold project (the "Project") located near Kamloops, British Columbia, through a bankable feasibility study ("BFS") and into production. The terms of the Investment Agreement were incorporated into the Definitive Agreement. The following summarizes the terms of the Definitive Agreement.

- KGHM will invest US$37,000,000 into KGHM Ajax to fund the Project through a BFS for a 51% interest in the Project;
- Abacus will contribute its mineral properties (and certain related assets) with a value of $37,429,581 (US$35,549,020) for a 49% interest in the Project;
- KGHM will subscribe for $4,500,000 in common shares of Abacus (issued); and
- KGHM has an option to acquire a further 29% interest (for a total interest of 80%) in the Project upon completion of a BFS for an additional payment to Abacus of up to US$35,000,000 (based on US$0.025 per pound of copper for 29% of the proven and probable copper equivalent reserve).

On closing of the Definitive Agreement on October 12, 2010, the Company was required to fulfill its obligations pursuant to its Asset Purchase Agreement with Teck (see note 7), which together with other additional costs resulted in the recognition of a loss on transfer of $10,612,629.

3. INVESTMENT IN KGHM AJAX MINING INC. (Continued)

The series of transactions between KGHM, KGHM Ajax and the Company on October 12, 2010 is as follows:

Mineral interest assets transferred	$	40,659,079
Other assets transferred		35,000
Consideration to Teck Resources Limited (note 7)		10,706,574
Direct costs		1,551,853
		52,952,506
Fair value of mineral interest assets transferred		37,429,581
Other consideration received		4,910,296
		42,339,877
Loss on transfer	$	10,612,629

The Company is accounting for its investment in KGHM Ajax using the equity accounting method, as the Company has determined that it has significant influence. The Company has recorded its equity share of KGHM Ajax's loss from October 12, 2010 to December 31, 2010 in the amount of $20,864. The difference between the fair value and its share of the underlying net assets of KGHM Ajax as at December 31, 2010 has been accounted for as a dilution loss of $766,908.

The carrying value of the Company's investment in KGHM Ajax as of December 31, 2010 is as follows:

Fair value of mineral interests transferred to KGHM Ajax	$	37,429,581
Company's share of loss in KGHM Ajax		(20,864)
Dilution loss		(766,908)
Investment in KGHM Ajax as at December 31, 2010	$	36,641,809

A summary of 100% of the assets and liabilities of KGHM Ajax as at December 31, 2010 and the results of operations for the period from June 28, 2010 to December 31, 2010 are as follows:

Total current assets	$	26,443,954
Total non-current assets		50,349,089
Total assets	$	76,793,043
Total liabilities	$	2,013,841
Total shareholders' equity		74,779,202
Total liabilities and shareholders' equity	$	76,793,043
Net loss	$	42,579

4. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents and contractual obligations as held-for-trading; marketable securities as available-for-sale; amounts receivable as loans and receivables; reclamation deposits as held-to-maturity; and accounts payable and accrued liabilities and loan payable as other financial liabilities.

The carrying values of cash and cash equivalents, amounts receivable (excluding due from related parties), 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 carrying value of reclamation deposits approximates their fair value since amounts held earn interest at market rates. The loan payable approximated fair value as it was at a market rate of interest. The fair values of amounts due from related parties have not been disclosed as their fair values cannot be reliably measured since there are no quoted market prices for such instruments.

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

(a) Fair value

The Company's measurement of fair value of financial instruments at December 31, 2010 and 2009 in accordance with the fair value hierarchy is as follows:

2010	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities	$ 2,250	$ 2,250	$ 0	$ 0
Liabilities				
Contractual obligations	$ 10,706,574	$ 0	$ 10,706,574	$ 0

2009	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities	$ 2,083	$ 2,083	$ 0	$ 0

(b) Credit risk

The Company manages credit risk, in respect of 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:

	2010	**2009**
Bank accounts	$ 1,872,507	$ 4,847,622
Temporary investments	500,000	0
Due from KGHM Ajax Mining	1,980,694	0
Total	$ 4,353,201	$ 4,847,622

4. FINANCIAL INSTRUMENTS (Continued)

(c) 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 investing and financing activities. The Company has insufficient cash and amounts receivable at December 31, 2010 in order to meet its short-term liabilities of $9,944,545. Accounts payable and accrued liabilities of $4,237,971 are due in the first quarter of 2011 and the contractual obligation of $5,706,574 is due in fiscal 2011. The Company requires significant additional funding to meet its financial obligations and administrative overhead costs in 2011.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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

Interest rate risk consists of two components:

(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 because of changes in market prices, other than those arising from interest rate risk. The Company is exposed to other price risk for its contractual obligation of $10,706,574 (refer to note 7). A five percent increase in the Company's share price would decrease net loss by $35,334 and a five percent decrease in the Company's share price would increase net loss by $285,329.

5. CAPITAL MANAGEMENT

The Company's primary source of funds comes from the issuance of capital stock. The Company defines its capital as all components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests and general and administrative expenses. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activities.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurance that it will continue to be able to do so in the future.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

6. MARKETABLE SECURITIES

The Company has an investment in marketable securities of a company in which a former director and officer is a director. These marketable securities have been classified as available-for-sale.

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
8,333 (2009 - 8,333) common shares of Redstar Gold Corp.	$ 1,000	$ 2,250	$ 1,000	$ 2,083

7. MINERAL INTERESTS

During the years ended December 31, 2010 and 2009, expenditures deferred on mineral interests were as follows:

	Afton Mine Property					
	Afton	Rainbow	Iron Mask/ Ajax	DM/Audra	New Gold	Total
Balance, December 31, 2009	$16,450,502	$2,771,891	$20,917,918	$1,399,985	$5,121,276	$46,661,572
Additions during period						
Acquisition costs	1,576,171	0	0	0	0	1,576,171
Exploration costs						
Drilling	0	0	810,331	0	0	810,331
Contract wages	0	400	590,556	0	0	590,956
Assays	0	0	145,951	0	0	145,951
Camp support and field supplies	0	0	132,145	0	0	132,145
Travel and accommodation	0	0	83,644	0	0	83,644
Equipment rental	0	0	45,611	0	0	45,611
Geological consulting	0	0	186,166	0	0	186,166
Recording fees	0	0	17,112	0	0	17,112
Environmental impact assessment	0	0	492,525	0	0	492,525
Prefeasibility	0	0	1,008,034	0	0	1,008,034
Feasibility	0	0	2,188,339	0	0	2,188,339
	0	400	5,700,414	0	0	5,700,814
Net additions during period	1,576,171	400	5,700,414	0	0	7,276,985
Total expenditures to October 12, 2010	$18,026,673	$2,772,291	$26,618,332	$1,399,985	$5,121,276	53,938,557
Impairment of mineral properties						(13,279,478)
Mineral interests transferred to KGHM Ajax (note 3)						(40,659,079)
Balance, December 31, 2010						$ 0

7. MINERAL INTERESTS (Continued)

	Afton Mine Property					
	Afton	Rainbow	Iron Mask/ Ajax	DM/Audra	New Gold	Total
Balance, December 31, 2008	$16,245,747	$2,769,649	$17,102,264	$1,389,432	$4,907,328	$42,414,420
Additions during year						
Acquisition costs	204,755	0	0	0	0	204,755
Exploration costs						
Drilling	0	0	880,733	0	0	880,733
Contract wages	0	235	588,429	435	0	589,099
Assays	0	0	78,115	0	2,177	80,292
Camp support and field supplies	0	0	186,194	0	0	186,194
Travel and accommodation	0	0	138,013	0	0	138,013
Equipment rental	0	0	31,599	0	0	31,599
Geological consulting	0	0	82,243	0	0	82,243
Preliminary economic assessment	0	0	846,721	0	0	846,721
Recording fees	0	0	40,339	0	0	40,339
Environmental impact assessment	0	0	93,056	0	0	93,056
Prefeasibility	0	0	604,169	0	0	604,169
	0	235	3,569,611	435	2,177	3,572,458
Mineral exploration tax credit (note 13)	0	2,007	246,043	10,118	211,771	469,939
Net additions during the year	204,755	2,242	3,815,654	10,553	213,948	4,247,152
Balance, December 31, 2009	$16,450,502	$2,771,891	$20,917,918	$1,399,985	$5,121,276	$46,661,572

The Company's mineral interests transactions are as follows:

(a) Iron Mask/Ajax, Rainbow, DM/Audra, New Gold JV 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 for $200,000, the issuance of 850,000 common shares of the Company and incurring $1,500,000 in mineral exploration expenditures on the property. The properties are subject to two separate 1.5% net smelter royalties ("NSR"), of which the Company may purchase each 1.5% NSR for $3,000,000. Certain of the mineral claims are subject to various net profit interests or NSR 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 acquisition costs in prior years.

7. MINERAL INTERESTS (Continued)

(a) Iron Mask/Ajax, Rainbow, DM/Audra, New Gold JV and Afton Mine Property, Kamloops Mining Division, BC (Continued)

On November 25, 2005, the Company signed an Asset Purchase Agreement with Teck Resources Limited ("Teck") to purchase land, buildings, equipment, tailings pond and the back-in rights pursuant to the Rainbow and Iron Mask property agreements. Effective November 25, 2009, the parties amended the agreement to extend the date for the final payment to November 30, 2010. Total aggregate consideration for the transfer of the assets is $28,500,000 and is payable as follows:

- 8,500,000 shares on the execution date (issued);
- 5,000,000 shares and $5,000,000 cash on or before November 26, 2006 (issued and paid); and
- 5,000,000 shares and $5,000,000 cash on or before July 31, 2010 (issued and $3,000,000 paid).

On June 4, 2009, and subsequently on May 18, 2010 and July 31, 2010, the parties amended the Asset Purchase Agreement to include a further cash payment of $750,000 on or before July 31, 2010 for the purchase of certain additional lands, increasing the consideration from $28,500,000 to $29,250,000. On October 12, 2010, the remaining cash payment to Teck of $2,750,000 was made by KGHM Ajax.

Furthermore, upon completion of all share issuances and cash payments, Teck will transfer title (the "Transfer Date") of the assets to the Company, subject to a price adjustment clause. The final consideration is subject to a price adjustment ("Additional Consideration"). If the ten-day weighted average closing price of the Company's common shares issued to Teck is less than $18,500,000, the Company will pay to Teck Additional Consideration equal to 81.1% of the difference between $18,500,000 and the weighted average closing price of the Company's common shares (the "deficit") in the form of additional common shares of the Company sufficient to increase its ownership interest in the Company to not more than 19.9%, plus an additional cash payment of up to $5,000,000 for the balance of the deficit. Any reclamation liabilities that may be attributable to the assets acquired will be assessed and recorded on the Transfer Date.

The additional cash payment, if any, is payable at the earlier of 18 months after the Transfer Date or from 20% of net proceeds from any equity financing activities, within five days of receipt. The Company and Teck are negotiating to amend the terms of repayment of the cash payment component of the Additional Consideration.

The Company has the option to pay the Additional Consideration entirely in cash and has estimated the fair value to be $10,706,524 at December 31, 2010, based on the market price of the Company's shares as at that date. The Company has recorded the fair value of the common shares as a current liability of $5,706,574 (see note 16(b)) and as a long-term liability of $5,000,000.

All of the Company's mineral interests were transferred to KGHM Ajax as part of the Definitive Agreement, effective October 12, 2010 (note 3).

On April 1, 2011, the Company amended the Definitive Agreement whereby KGHM Ajax agreed to pay for the $5,000,000 cash component of the Additional Consideration in the event that KGHM exercises its option to acquire a further 29% interest in the Project.

7. MINERAL INTERESTS (Continued)

(a) Iron Mask/Ajax, Rainbow, DM/Audra, New Gold JV and Afton Mine Property, Kamloops Mining Division, BC (Continued)

Pursuant to a letter of intent dated October 19, 2007, the Company entered into an option agreement with New Gold Inc. ("New Gold") to acquire up to a 100% interest in additional claims surrounding the area of the Company's Ajax property. Under the terms of the option, from the date an exploration permit is obtained, the Company must incur $2,500,000 (incurred) in mineral exploration expenditures within 24 months and obtain an independent preliminary economic assessment within 30 months. Upon exercise of the option, New Gold has the option to form a joint venture on the property or revert to a 10% net profits interest royalty. The Company has earned a 100% interest in these claims and New Gold has elected to retain a 10% net profits interest royalty and not form a joint venture.

On June 29, 2010, the Company assigned its rights to the New Gold option to KGHM Ajax.

On July 13, 2009, the Company signed Option to Purchase Agreements ("Option Agreements") with subsidiaries of Teck - Afton Operating Corporation and Sugarloaf Ranches Limited to acquire approximately 6,000 acres of land around the Company's Afton Ajax deposit.

Under the terms of the Option Agreements, the Company will pay an aggregate of $100,000 (paid) to Teck for the options and will then have two years to elect to exercise the options, or have the right to extend the exercise period of the options by an additional year by making further option payments to Teck of an additional $100,000. Should the Company wish to exercise the options and purchase the land, payments of $4,795,500 and $8,131,175 would be due to Afton Operating Corporation and Sugarloaf Ranches Limited, respectively.

On June 29, 2010, the Company assigned its rights to the Option Agreements to KGHM Ajax.

(b) Title to mineral property interests

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mineral properties. Although the Company has taken steps to verify 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.

(c) Realization of assets

The investment in and expenditures on mineral interests 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, and the attainment of successful production from the properties or from the proceeds of their disposal.

7. MINERAL INTERESTS (Continued)

(c) Realization of assets (Continued)

The business of exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. 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. The amounts shown for acquisition and exploration costs represent costs incurred to date and do not necessarily reflect present or future values.

(d) Environmental matters

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.

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.

8. EQUIPMENT

		2010	
	Cost	Accumulated Amortization	Net
Computer equipment	$ 190,479	$ 122,468	$ 68,011
Office equipment	47,169	30,433	16,736
Other equipment	19,092	16,647	2,445
Leasehold improvements	9,814	5,889	3,925
	$ 266,554	$ 175,437	$ 91,117

8. EQUIPMENT (Continued)

	2009		
	Cost	Accumulated Amortization	Net
Computer equipment	$ 184,808	$ 94,535	$ 90,273
Office equipment	44,470	26,587	17,883
Other equipment	19,092	16,036	3,056
Leasehold improvements	9,814	3,926	5,888
	$ 258,184	$ 141,084	$ 117,100

9. LOAN PAYABLE

On April 1, 2009, the Company entered into a loan agreement whereby the Company was advanced a loan of $2,500,000 with a maturity date of April 1, 2010. As consideration to the lender, the Company issued 1,250,000 common shares at a value of $125,000 and paid $125,000 as finders' fees, which have been offset against the initial carrying value of the loan payable. The loan was to be repaid from the amounts received from the Company's BC METC. The interest rate on the loan was at 12% per annum, compounded monthly.

As collateral for the loan, the Company granted the lender a security interest in certain of the Company's assets, with the exception of its mineral interests.

The loan was accounted for at amortized cost which at December 31, 2009, was $2,057,725. The loan was amortized using the effective interest method at a rate of 26.01%, with a corresponding charge to interest expense. In February 2010, the Company repaid the loan including principal and interest payments totaling $2,147,461. During the year ended December 31, 2010, the Company incurred interest expense of $89,735 (2009 - $412,842).

10. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value

(b) Share issuances

(i) On May 7, 2010, the Company closed a private placement with KGHM for gross proceeds of $4,500,000 and issued 15,000,000 common shares of the Company at $0.30 per share. As at December 31, 2010, KGHM holds approximately 8.5% of the issued and outstanding shares of the Company.

Cash share issuance costs of $754,241 were incurred by the Company in respect of this private placement, resulting in net cash proceeds received of $3,745,759.

(ii) On May 18, 2010, the Company issued 5,000,000 common shares at a price of $0.22 per share for aggregate value of $1,100,000, pursuant to the Asset Purchase Agreement with Teck (refer to note 7(a)).

10. CAPITAL STOCK

(b) Share issuances (continued)

(iii) On December 29, 2009, the Company closed a brokered placement of 19,502,000 units and 12,500,000 flow-through common shares at a price of $0.20 per unit and $0.25 per flow-through share, for aggregate gross proceeds of $7,025,400. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to acquire one common share until December 29, 2012 at a price of $0.30 per share.

The agents received cash commissions of $491,778 and were issued 1,920,120 options to acquire units (“Agent option”). Each Agent option entitles the holder to acquire one common share plus one share purchase warrant until December 29, 2012 at a price of $0.20. Each warrant will entitle the holder to acquire one common share until December 29, 2012 at a price of $0.30 per share. The 1,920,120 Agent options were fair valued, using the Black-Scholes method, amounting to $246,143 (note 10(g)).

Other cash share issuance costs of $487,115 were incurred by the Company in respect of this public equity financing, resulting in net cash proceeds received of $6,046,057.

(c) Renunciation of exploration expenditures

In February 2010, the Company renounced $3,125,000 (2009 - $3,438,699) of exploration expenditures under its flow-through share program, resulting in a future income tax liability of $781,250 (2009 - $894,062) and an equal charge to capital stock.

(d) Share purchase warrants

At December 31, 2010 and 2009, the Company has outstanding share purchase warrants entitling the holders to acquire common shares as follows:

Outstanding as at December 31, 2009	Exercise Price	Expiry Date	Issued	Exercised	Expired	Outstanding as at December 31, 2010
5,756,332	$0.50	March 10, 2010	0	0	(5,756,332)	0
760,246	$0.30	March 10, 2010	0	0	(760,246)	0
19,502,000	$0.30	December 29, 2012	140,058	(16,250)	0	19,625,808
26,018,578			140,058	(16,250)	(6,516,578)	19,625,808

Outstanding as at December 31, 2008	Exercise Price	Expiry Date	Issued	Exercised	Expired	Outstanding as at December 31, 2009
535,254	$1.25	January 3, 2009	0	0	(535,254)	0
5,756,332	$0.50	March 10, 2010	0	0	0	5,756,332
760,246	$0.30	March 10, 2010	0	0	0	760,246
0	$0.30	December 29, 2012	19,502,000	0	0	19,502,000
7,051,832			19,502,000	0	(535,254)	26,018,578

10. CAPITAL STOCK (Continued)

(d) Share purchase warrants (Continued)

The fair value of the 140,058 warrants issued to finders in 2010 pursuant to the exercise of Agent options were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate - 1.62%, expected dividend yield - 0, expected stock price volatility - 138.33% and expected life in years - 2.19.

(e) Stock options

The Company has a fixed number stock option plan, which reserves a specified number of shares up to a maximum of 20% of the Company's issued shares as at the date of shareholder approval, currently 12,150,000. The exercise price of any option granted shall be equal to the greater of the amount designated at the time of the grant, or the discounted market price on the trading day immediately preceding the day on which the Exchange receives notice of the grant, subject in either case to a minimum of $0.10 per common share. The expiry date for each option, set by the board of directors at the time of issue, shall not be more than five years after the grant date. Options granted vest 25% on date of grant, 25% six months after grant, 25% twelve months after grant and 25% eighteen months after grant.

Options to purchase common shares have been granted to directors, officers and consultants at exercise prices determined by reference to the market value on the date of the grant. As at December 31, 2010, the Company had stock options outstanding to directors, officers and consultants for the purchase of 12,150,000 common shares exercisable as follows:

Options Outstanding			Options Exercisable	
Number of Options	Exercise Price	Expiry Date	Number of Options	Exercise Price
1,225,000	$0.90	April 7, 2011	1,225,000	$0.90
400,000	$0.65	March 15, 2012	400,000	$0.65
335,000	$0.45	January 11, 2013	335,000	$0.45
880,000	$0.45	February 1, 2013	880,000	$0.45
1,000,000	$0.14	May 5, 2013	1,000,000	$0.14
1,650,000	$0.26	August 29, 2013	1,650,000	$0.26
800,000	$0.15	February 20, 2014	800,000	$0.15
300,000	$0.10	March 3, 2014	300,000	$0.10
1,990,000	$0.20	June 29, 2014	1,990,000	$0.20
100,000	$0.25	September 17, 2014	75,000	$0.25
1,000,000	$0.18	July 21, 2015	250,000	$0.18
1,720,000	$0.19	August 27, 2015	430,000	$0.19
150,000	$0.19	September 7, 2013	37,500	$0.19
600,000	$0.24	December 17, 2015	150,000	$0.24
12,150,000			9,522,500	

The weighted average remaining contractual life of the stock options outstanding as at December 31, 2010 is 3.03 years.

10. CAPITAL STOCK (Continued)

(e) Stock options (Continued)

A summary of the status of the Company's stock options as at December 31, 2010 and 2009 and changes during the years then ended are as follows:

	2010		**2009**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	10,060,000	$0.35	10,280,000	$0.44
Granted	3,470,000	$0.19	3,270,000	$0.18
Re-priced – original	0	$0.00	(1,000,000)	$0.43
Re-priced – new	0	$0.00	1,000,000	$0.14
Exercised	(30,000)	$0.15	(1,135,000)	$0.16
Expired	(1,250,000)	$0.30	(1,450,000)	$0.32
Forfeited	(100,000)	$0.55	(905,000)	$0.77
Outstanding at end of year	12,150,000	$0.31	10,060,000	$0.35

(f) Stock-based compensation

During the year ended December 31, 2010, the Company granted 3,470,000 stock options to directors, officers, employees and consultants. The fair value of these stock options is recognized as stock-based compensation expense over the vesting period of the options. The total fair value of these options was calculated at $493,626, of which $192,502 was recognized in 2010.

During the year ended December 31, 2010, stock-based compensation expense for stock options granted and for prior year options that vested in the year was $360,180 (2009 - $608,290).

During the year ended December 31, 2009, the Company amended the exercise price of certain stock options to $0.14 from $0.43 resulting in additional stock-based compensation expense of $38,700.

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

	2010	**2009**
Risk-free interest rate	2.22%	2.32%
Expected dividend yield	0	0
Expected stock price volatility	98%	104%
Expected option life in years	4.91	5

The weighted average fair value of stock options granted in 2010 was $0.14 (2009 - $0.09) per share.

10. CAPITAL STOCK (Continued)

(g) Agent options

As at December 31, 2010 and 2009, Agent options to acquire one common share and one share purchase warrant were outstanding as follows:

Outstanding as at December 31, 2009	Exercise Price	Expiry Date	Issued	Exercised	Expired	Outstanding as at December 31, 2010
1,920,120	$0.20	December 29, 2012	0	(140,058)	0	1,780,062

Outstanding as at December 31, 2008	Exercise Price	Expiry Date	Issued	Exercised	Expired	Outstanding as at December 31, 2009
56,870	$0.85	January 3, 2009	0	0	(56,870)	0
0	$0.20	December 29, 2012	1,920,120	0	0	1,920,120
56,870			1,920,120	0	(56,870)	1,920,120

The fair value of Agent options granted during the year ended December 31, 2009, in the amount of $246,143 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009
Risk-free interest rate	1.89%
Expected dividend yield	0
Expected stock price volatility	113%
Expected option life in years	3

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2010	**2009**
The changes in non-cash working capital items comprise of:		
Common shares issued for settlement of certain amounts owing to third parties	$ 0	$ 40,000
Non-cash investing activities:		
Common shares issued for mineral interests	$ 1,100,000	$ 0
Non-cash financing activities:		
Common shares issued for settlement of loan payable	$ 0	$ 125,000
Mineral interests included in accounts payable	$ 0	$ 946,835
Equipment included in other consideration received, transferred to KGHM Ajax for no consideration	69,664	0
Cash items:		
Interest received	$ 68,616	$ 41,465
Interest paid	$ 89,735	$ 150,111
Taxes paid	$ 0	$ 0

12. RELATED PARTY TRANSACTIONS

(a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a former director and officer is a shareholder. For the years ended December 31, 2010 and 2009, the Company paid that contractor amounts as follows:

		2010		2009
Exploration costs	$	6,605,895	$	2,760,640
Office and administrative costs	$	427,064	$	419,518
Equipment	$	30,799	$	9,999
Contract wages	$	1,200,187	$	508,846

Included in the accounts payable and accrued liabilities, as at December 31, 2010, there was $3,022,046 (2009 - $1,076,956) payable to the contractor.

Included in the amount owing to that contractor is a charge to the Company for GST in the amount of $1,354,713 for the period February 1, 2007 to April 30, 2010. This amount is expected to be recovered by the Company from the Canada Revenue Agency in the first fiscal quarter of 2011. The receivable amount is included in amounts receivable net of HST due.

(b) For the year ended December 31, 2010, consulting fees of $60,000 (2009 - $60,000) were charged by a former director of the Company. As at December 31, 2010, $17,240 (2009 - $40,166) was payable to this former director.

(c) The Company acts as the operator for the Project on behalf of KGHM Ajax and is reimbursed for direct costs it incurs. The Company offsets amounts recovered against the respective expense item. As at December 31, 2010, there was $1,980,694 receivable from KGHM Ajax and from October 12, 2010, the Company was reimbursed the following amounts from KGHM Ajax:

		2010		2009
Exploration costs	$	4,450,651	$	0
Office and administrative costs	$	74,261	$	0
Equipment and vehicle	$	8,100	$	0
Contract wages	$	276,270	$	0

All advances to and amounts due from (to) related parties have repayment terms similar to the Company's other accounts receivable (payable) and are without interest. All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. INCOME TAXES

The Company has capital losses of approximately $11,431,000 available to be carried forward indefinitely to offset future taxable capital gains.

The Company has accumulated non-capital losses for Canadian tax purposes of approximately $3,826,000 that expire as follows:

2028	$ 1,086,000
2029	2,740,000
	$ 3,826,000

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

	2010	2009
Future income tax assets		
Share issue costs	$ 367,232	$ 371,782
Non-refundable mining income tax credit	685,584	247,679
Non-capital loss carry-forwards	956,509	2,122,177
Capital losses carry-forwards	1,461,062	1,461,062
Excess of tax values over accounting values of investment	98,472	0
Excess of tax values over accounting values of equipment	8,000	35,396
Excess of tax values over accounting values of mineral properties	129,446	0
	3,706,305	4,238,096
Valuation allowance	(3,706,148)	(1,461,062)
Net future income tax assets	157	2,777,034
Future income tax liabilities		
Mineral properties	0	4,028,401
Marketable securities	157	135
	157	4,028,536
Net future income tax liabilities	$ 0	$ (1,251,502)

13. INCOME TAXES (Continued)

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

	2010	2009
Income tax benefit computed at Canadian statutory rates	$ (7,881,118)	$ (845,992)
Non-deductable items	102,651	9,555
Change in timing differences	3,663,803	(346,194)
Change in tax rates	(163,194)	112,665
Changes in valuation allowance	2,245,085	(22,667)
	$ (2,032,773)	$ (1,078,229)

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. As at December 31, 2010, the amount of flow-through proceeds to be expended is $nil (2009 - $3,125,000).

The Company qualifies for a BC METC, as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred during the year. The Company received a refund of $2,056,915 with respect to the BC METC claim plus interest of $51,316 in February 2010.

14. COMMITMENT

During 2007, the Company entered into a lease agreement for the rental of office premises in Vancouver for a six-year period, expiring March 31, 2013. The cost of the entire premises is shared primarily between the Company and three other companies. In addition, commencing February 1, 2011, the Company entered into a three-year lease agreement for the rental of office premises in Toronto. The Company's proportionate share of minimum annual rental payments payable under these arrangements are as follows:

2011	$ 88,216
2012	90,191
2013	40,322
2014	1,975
	$ 220,704

15. SEGMENT DISCLOSURE

The Company operates in one industry and geographical segment, the mineral resource industry with all current exploration activities being conducted in Canada.

16. SUBSEQUENT EVENTS

(a) On January 12, 2011, 850,000 stock options were issued to officers of the Company at an exercise price of $0.27 per common share, for a term of five years.

(b) On April 1, 2011, the Company amended the Definitive Agreement whereby KGHM Ajax agreed to pay for the $5,000,000 cash component of the Additional Consideration payable to Teck in the event that KGHM exercises its option to acquire a further 29% interest in the Project.

(c) On April 8, 2011, the Company issued 20,751,176 common shares to Teck at a fair value of $4,461,503 ($0.215 per common share), being the share component of the Additional Consideration required under the Asset Purchase Agreement (note 7(a)).

(d) On April 7, 2011, 1,225,000 stock options expired unexercised.