SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Financial Statements
July 31, 2011 and 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Solomon Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded, and financial records are properly maintained to facilitate the preparation of consolidated financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

"Randall S. Rogers" (signed)
Randall S. Rogers
President and Chief Executive Officer

"Paul Maarschalk" (signed)
Paul Maarschalk
Chief Financial Officer

Vancouver, British Columbia
November 24, 2011

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Solomon Resources Limited (an exploration stage company), which comprise the consolidated balance sheets as at July 31, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Solomon Resources Limited as at July 31, 2011 and 2010, 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 consolidated financial statements, which indicates that the Company incurred a net loss of $1,154,891 during the year ended July 31, 2011 and has an accumulated deficit of $28,182,451 as at July 31, 2011. 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 LLP

Chartered Accountants

Vancouver, British Columbia
November 24, 2011

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SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Balance Sheets
July 31

	2011	2010
Assets		
Current		
Cash	$ 263,179	$ 573,353
Reclamation deposit (note 8)	0	18,000
Tenement bond (note 6)	2,101	11,164
Receivables	47,658	37,326
Prepaid expenses (note 12)	49,515	78,360
	362,453	718,203
Reclamation Deposit (note 8)	10,000	10,000
Equipment (note 7)	82,460	23,224
Mineral Property Interests (notes 9 and 12)	1,875,498	1,176,543
	$ 2,330,411	$ 1,927,970
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	$ 181,615	$ 190,484
Shareholders' Equity		
Share capital (note 10)	29,093,672	27,754,111
Contributed surplus	1,237,575	1,010,935
Deficit (note 10(g))	(28,182,451)	(27,027,560)
	2,148,796	1,737,486
	$ 2,330,411	$ 1,927,970

Commitment (note 13)
Subsequent Event (note 17)

Approved on behalf of the Board:

"Randall S. Rogers" (signed)
…………………………………………. .... Director
Randall S. Rogers

"Ronald Netolitzky" (signed)
…………………………………………................................ Director
Ronald K. Netolitzky

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
Years Ended July 31

	2011	2010
General and Administrative Expenses		
Management fees (note 12)	$ 241,511	$ 200,951
Stock-based compensation (note 10(d))	110,274	140,999
Travel, promotion and shareholder costs	105,332	72,777
Professional fees	89,019	64,293
Property investigation	81,960	0
Office and miscellaneous	71,223	61,888
Rent	27,054	18,372
Property maintenance	20,286	0
Transfer agent fees	11,199	14,528
Stock exchange fees	10,681	18,623
Flow-through share financing costs	211	803
Amortization	24,779	23,156
Loss Before Other Items	(793,529)	(616,390)
Other Items		
Oil and gas revenue	13,865	20,252
Interest income	5,865	808
Recovery of mineral property interests	0	3,833
Loss on sale of marketable securities	0	(12,222)
Write-down of expenditures on mineral property interests (note 9)	(591,938)	(2,007,772)
	(572,208)	(1,995,101)
Loss Before Future Income Tax Recovery	(1,365,737)	(2,611,491)
Future Income Tax Recovery (note 11)	210,846	127,875
Net Loss for the Year	(1,154,891)	(2,483,616)
Transfer to income on sale of marketable securities	0	47,678
Comprehensive Loss for the Year	$ (1,154,891)	$ (2,435,938)
Loss Per Share – Basic and Diluted	$ (0.05)	$ (0.24)
Weighted Average Number of Common Shares Outstanding	22,297,893	10,539,320

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity
Years Ended July 31

	Share Capital		Contributed	Subscriptions	Accumulated Other Comprehensive		Total Shareholders'
	Shares	Amount	Surplus	Received	Income (Loss)	Deficit	Equity
Balance, July 31, 2009	6,270,160	$ 25,941,179	$ 753,438	$ 25,000	$ (47,678)	$ (24,522,175)	$ 2,149,764
Net loss for the year	0	0	0	0	47,678	(2,483,616)	(2,435,938)
Share issuances							
Private placement	8,625,535	1,838,769	0	0	0	0	1,838,769
Share issue costs	0	(174,377)	0	0	0	0	(174,377)
Warrants issued as finder's fees	0	(76,585)	76,585	0	0	0	0
Shares issued for mineral property interests	1,316,000	328,000	0	0	0	0	328,000
Stock-based compensation	0	0	140,999	0	0	0	140,999
Warrants issued as a part of mineral property agreements	0	0	18,144	0	0	0	18,144
Subscriptions closed	100,000	25,000	0	(25,000)	0	0	0
Income tax effect on flow-through share renunciation	0	(127,875)	0	0	0	0	(127,875)
Warrants revaluation	0	0	21,769	0	0	(21,769)	0
Balance, July 31, 2010	16,311,695	27,754,111	1,010,935	0	0	(27,027,560)	1,737,486
Net loss for the year	0	0	0	0	0	(1,154,891)	(1,154,891)
Share issuances							
Private placement	7,232,157	1,474,408	0	0	0	0	1,474,408
Share issue costs	0	(250,880)	113,749	0	0	0	(137,131)
Warrants exercised	767,858	230,357	0	0	0	0	230,357
Agent's options exercised	208,262	74,022	(32,197)				41,825
Shares issued for mineral property interests	150,000	22,500	0	0	0	0	22,500
Stock-based compensation	0	0	110,274	0	0	0	110,274
Stock-based compensation attributed to mineral property interests	0	0	34,814	0	0	0	34,814
Income tax effect on flow-through share renunciation	0	(210,846)	0	0	0	0	(210,846)
Balance, July 31, 2011	24,669,972	$ 29,093,672	$ 1,237,575	$ 0	$ 0	$ (28,182,451)	$ 2,148,796

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Years Ended July 31

	2011	2010
Operating Activities		
Net loss for the year	$ (1,154,891)	$ (2,483,616)
Items not involving cash		
Stock-based compensation	110,274	140,999
Future income tax recovery	(210,846)	(127,875)
Write-down of expenditures on mineral property interests	591,938	2,007,772
Loss on sale of marketable securities	0	12,222
Unrealized foreign exchange gain	0	(444)
Amortization	24,779	23,156
	(638,746)	(427,786)
Changes in non-cash working capital items		
Receivables	(10,332)	123,483
Prepaid expenses	28,845	(55,880)
Accounts payable and accrued liabilities	(76,157)	(624)
	(57,644)	66,979
Cash Used in Operating Activities	(696,390)	(360,807)
Financing Activities		
Proceeds on issue of shares, net	1,609,459	1,664,392
Repayment of loans from directors	0	(100,000)
Cash Provided by Financing Activities	1,609,459	1,564,392
Investing Activities		
Cash expenditures on mineral property interest	(1,153,974)	(913,639)
Purchase of equipment	(96,332)	(1,080)
Reclamation deposit	18,000	(10,000)
Tenement bond	9,063	0
Proceeds on sale of marketable securities, net	0	192,409
Cash Used in Investing Activities	(1,223,243)	(732,310)
Inflow (Outflow) of Cash	(310,174)	471,275
Cash, Beginning of Year	573,353	102,078
Cash, End of Year	$ 263,179	$ 573,353

Supplemental disclosure with respect to cash flows (note 14)

1. NATURE OF OPERATIONS AND GOING CONCERN

Solomon Resources Limited (the "Company") was incorporated on August 1, 1989 under the laws of British Columbia. The Company is in the process of exploring and developing its mineral property interests and has not determined whether the properties contain economically recoverable reserves of ore. The Company has not earned significant revenues from its mineral property interests and is considered to be in the exploration stage.

The Company's financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Several conditions cast doubt on the validity of this assumption. The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead, pay its debts and liabilities, and maintain its mineral interests. The ability of the Company to continue as a going concern and meet its commitments as they become due, including the acquisition, exploration and development of mineral properties, is dependent on the Company's ability to obtain the necessary financing. Management is planning to raise additional capital to finance operations and continue to explore mineral property interests. There is no assurance that these plans will be successful.

The Company reported net losses of $1,154,891 and $2,483,616 for the years ended July 31, 2011 and 2010, respectively, and has an accumulated deficit in the exploration stage of $28,182,451 as at July 31, 2011 (2010 - $27,027,560). Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this financing due to uncertain economic conditions.

2. COMPARATIVE FIGURES

Certain of the figures for 2010 have been reclassified to conform to the presentation adopted for the current year.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars, which is the Company's functional and reporting currency. These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, SRM XXK (a Mongolian corporation), Avasca Inc. (a British Columbia company), Valhalla Minerals U.S. Incorporated (a Delaware corporation), Thor Gold Alaska Inc. (an Alaskan Corporation) and Solomon (Australia) Pty. Ltd. (an Australian corporation). Due to a change in circumstances in the Australian subsidiary in the year ended July 31, 2010, its operations were reclassified from self-sustaining to integrated and the translation method was changed prospectively. All significant intercompany balances and transactions have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Mineral property interests and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral property interests are capitalized on a property-by-property basis. If economically recoverable ore reserves are developed, capitalized costs of the related property will be reclassified as mining assets and amortized using the unit-of-production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property interest is impaired, that property is written down to its estimated fair value.

Mineral property interests are reviewed annually for impairment or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

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. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(c) Oil and gas properties

Substantially all oil and gas exploration and production activities are conducted through joint ventures and, accordingly, these consolidated financial statements reflect only the Company's proportionate share of assets, liabilities, revenues and expenses of the joint ventures.

(d) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years.

(e) Share capital

Share capital issued for non-monetary consideration is recorded at fair market value pursuant to the agreement to issue shares as determined by the board of directors of the Company based on the trading price of the shares on the TSX Venture Exchange (“TSX-V”) as of the date of issuance.

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are issued, and any excess is allocated to warrants.

(f) 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 is measured at the date of grant. For non-employees, the fair value of the options or warrants is measured on the earlier of the date at which the counterparty performance is complete 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Stock-based compensation (Continued)

For directors, employees and non-employees, the fair value of the options and warrants is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus, over the vesting period. If and when the stock options and warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

(g) 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 to the extent of the liability recorded are charged against the amount provided. Actual costs incurred in excess of the liability recorded are charged to operations in the period incurred.

(h) Revenue recognition

Revenues are recognized on the following bases:

(i) Interest income is recorded on an accrual basis as earned at the effective interest rate over the term of the related instrument; and

(ii) Revenue from the sale of petroleum and natural gas is recorded when the petroleum is sold or the natural gas is delivered and collectability is reasonably assured.

(i) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated to 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) Revenues and expenses, at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include rates of amortization of equipment, accrued liabilities, the carrying value of mineral property interests, AROs, the assumptions used in the calculation of the fair value of stock-based compensation expense and agent options, and the determination of the valuation allowance for future income tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(k) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. 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 repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(l) Flow-through 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 share capital. The tax impact to the Company of the renouncement is recorded on the date the renunciation is filed with taxation authorities, through a decrease in share capital and the recognition of a future tax liability. Where available, 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.

(m) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the instrument.

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 held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost. Available-for-sale financial instruments 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.

Transaction costs that are directly attributable to the acquisition or issuance 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 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(o) Future accounting change

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on August 1, 2011. The first unaudited interim financial statements under IFRS will be for the quarter ending October 31, 2011, with comparative financial information for the quarter ending October 31, 2010. The first audited annual financial statements will be for the year ending July 31, 2012, with comparative financial information for the year ended July 31, 2011.

4. FINANCIAL INSTRUMENTS

Financial instruments are classified as follows:

Cash – as held-for-trading
Tenement bond and Reclamation deposit – held-to-maturity
Receivables (excluding Harmonized Sales Tax/Goods and Services Tax due from the Government of Canada) – as loans and receivables
Accounts payable– as other financial liabilities.

4. FINANCIAL INSTRUMENTS (Continued)

The fair values of the Company's cash, tenement bond, receivables and accounts payable approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of reclamation deposit (long-term) approximates its carrying value as the amount has been deposited with local government authorities and will be held until the exploration work is completed on a mineral property interest and there is no environmental disturbance to the property.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk and market risk, which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided below.

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to financial assets including cash, receivables, a reclamation deposit and a tenement bond. The Company's total exposure to credit risk is $277,585 (2010 - $617,513). The Company limits exposure to credit risk on cash through maintaining it with high-credit quality Canadian and Australian financial institutions. Receivables are primarily made up of funds to be received from investment in joint ventures in oil and gas. Reclamation deposit consists of cash deposited with a local government agency in Canada. Tenement bond is deposited with a local government agency in Australia.

The Company's concentration of credit risk and maximum exposure thereto are as follows:

	2011	2010
Bank accounts – Canada	$ 261,160	$ 570,747
Bank accounts – Australia	2,019	2,606
Reclamation deposit	10,000	28,000
Tenement bond	2,101	11,164
Receivables	2,305	4,996
	$ 277,585	$ 617,513

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by forecasting the Company's cash flows required by operations and anticipated investing and financing activities. The Company has cash at July 31, 2011 in the amount of $263,179 (2010 - $573,353) in order to meet short-term business requirements. At July 31, 2011, the Company has current liabilities of $181,615 (2010 - $190,484), and are made up of accounts payable and accrued liabilities which are due within 30 days of the year-end. The Company does not have any derivative financial liabilities.

4. FINANCIAL INSTRUMENTS (Continued)

(c) 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. The significant market risk exposures to which the Company is exposed are:

(i) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily Australian dollars (AU)). The Company has net liabilities of $7,041 (2010 – net assets of $5,065) denominated in AU. For the year ended July 31, 2011, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AU by 11% (2010 – 14%) will not have a material effect on the Company's business, financial condition and results of operations. The Company does not manage currency risk through hedging or other currency management tools.

(ii) Interest rate risk

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company is not exposed to significant interest rate 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 or foreign currency risk. The Company has no exposure to other price risk at July 31, 2011 and 2010.

5. ACQUISITION OF AVASCA INC. ("AVASCA")

In the year ended July 31, 2010, the Company acquired all of the issued and outstanding common shares of Avasca, a private British Columbia corporation.

The acquisition of Avasca was accounted for using the acquisition method whereby all of the net assets assumed are recorded at fair value. The only asset acquired was mineral property interests with a fair value of $154,000 for consideration of $154,000, paid by issuing 616,000 common shares valued at $154,000. The mineral property interest of Avasca was written off in the year ended July 31, 2011 (note 9(b)).

6. TENEMENT BOND

The Company has a tenement bond in respect of previously disposed mineral property interests in Australia in the amount of $2,101 (AU $2,000) (2010 - $11,164 (AU $12,000)). The Company has requested a full refund of the tenement bond.

7. EQUIPMENT

		2011	
	Cost	Accumulated Amortization	Net
Equipment	$ 165,808	$ 83,348	$ 82,460

		2010	
	Cost	Accumulated Amortization	Net
Equipment	$ 69,476	$ 46,252	$ 23,224

8. RECLAMATION DEPOSIT

The Company pledged an $18,000 site reclamation deposit to the Province of British Columbia for exploration permits on the COL-Magnet Property (note 9(f)(ii)), which has now been released. The deposit was secured by a guaranteed investment certificate with an effective interest rate of prime minus 1.85%, which was redeemed on May 19, 2011.

The Company pledged a $10,000 (2010 - $10,000) site reclamation deposit to the Province of British Columbia for exploration permits on the Cry Lake Property (note 9(b)). The site has been dismantled and it is the opinion of management that any environmental disturbance has been mitigated.

9. MINERAL PROPERTY INTERESTS

	Mongolia SRM	Cry Lake	Ten Mile Creek	Bonanza	South West Yukon	Other Properties	Total
	(note 9(a))	(note 9(b))	(note 9(c))	(note 9(d))	(note 9(e))	(note 9(f))	
Balance, July 31, 2009	$ 1,624,738	$ 13,714	$ 0	$ 201,988	$ 0	$ 2	$ 1,840,442
Expenditures during the year							
Drilling	0	70,437	0	0	0	0	70,437
Personnel	89,629	106,604	150,633	19,060	5,001	0	370,927
Camp costs, travel and helicopter costs	0	178,219	160,624	2,656	0	0	341,499
Mapping	0	1,710	510	965	0	0	3,185
Sampling	0	11,276	25,649	7,822	0	0	44,747
Options payments/land renewal payments	34,395	204,644	246,520	0	0	0	485,559
Write-down of expenditures	(1,775,281)	0	0	(232,491)	0	0	(2,007,772)
Reclassification	27,519	0	0	0	0	0	27,519
Balance, July 31, 2010	1,000	586,604	583,936	0	5,001	2	1,176,543
Expenditures during the year							
Drilling	0	0	152,637	0	0	0	152,637
Personnel	0	2,872	313,613	0	74,174	0	390,659
Camp costs, travel and helicopter costs	0	0	265,160	0	63,249	0	328,409
Mapping	0	0	5,541	0	2,147	0	7,688
Sampling	0	0	77,213	0	14,027	0	91,240
Options payments/land renewal payments	0	0	172,500	0	0	0	172,500
Staking costs	0	0	0	0	147,760	0	147,760
Write-down of expenditures	0	(589,476)	0	0	(2,462)	0	(591,938)
Balance, July 31, 2011	$ 1,000	$ 0	$ 1,570,600	$ 0	$ 303,896	$ 2	$ 1,875,498

(a) Mongolia

The Company had acquired various licenses (some of which had been previously relinquished) to explore for minerals in Mongolia.

During the year ended July 31, 2010, the Company relinquished further exploration licenses and wrote-off deferred exploration expenditures of $1,775,281.

The Company does not plan any further investment in Mongolia and title to any remaining exploration licenses that were held by the Company at the time operations were suspended in the country has been clouded by the de facto expropriation of the remaining Solomon tenures by the Government of Mongolia. Despite obtaining a Supreme Court decision that the subject properties were improperly expropriated there remains no prospect of any of the Mongolian tenures being returned to the Company and the investment has therefore been written down to $1,000.

9. MINERAL PROPERTY INTERESTS (Continued)

(b) Cry Lake Property, British Columbia

In June 2009, the Company entered into an agreement to acquire an option for a 51% interest in the Cry Lake (formerly Nizi Creek) Property in the Liard Mining Division, British Columbia, from Kaminak Gold Corporation ("Kaminak"). The Cry Lake Property is located 80 kilometres northeast of Dease Lake, British Columbia. As part of the agreement with Kaminak, the Company issued 100,000 units valued at $30,000 (note (10(b)(xiii).

Results of the exploration program were insufficient to warrant continuing the option for a further year and the property was returned to Kaminak. Accordingly, the investment of $589,476 was written off in the current year.

(c) Ten Mile Creek, Yukon Territory

In September 2009, the Company entered into an agreement with Radius Gold Inc. ("Radius") of Vancouver, British Columbia, to acquire a 51% interest in the Ten Mile Creek property in the Dawson Mining District, Yukon Territory. Radius holds its interest in the property by way of an option to obtain a 100% interest from the owner of the claims.

To earn its interest in the property, the Company must:

(i) Issue 1,000,000 shares as follows:

- 500,000 shares on signing (issued);
- 100,000 shares on or before May 21, 2010 (issued);
- 150,000 shares on or before May 21, 2011 (issued); and
- 250,000 shares on or before May 21, 2012.

(ii) Make cash payments of $500,000 as follows:

- $100,000 on or before May 21, 2010 (paid);
- $150,000 on or before May 21, 2011 (paid); and
- $250,000 on or before May 21, 2012.

(iii) Incur cumulative work expenditures of $2,500,000 as follows:

- $350,000 by December 31, 2010 (incurred);
- $1,000,000 by December 31, 2011; and
- $2,500,000 by December 31, 2012.

The Company acquired a further 43 mineral claims adjacent to the property from Radius in October 2010, which have been incorporated into the existing option agreement between Solomon and Radius.

9. MINERAL PROPERTY INTERESTS (Continued)

(d) Bonanza, British Columbia

In March 2009, the Company entered into an option agreement with Cazador Resources Ltd. ("Cazador"), to acquire a 60%, or if it so elected a 100%, interest in the Bonanza-Sitka Property located 40 kilometres northeast of Port Hardy, British Columbia. Pursuant to the agreement, 50,000 shares of the Company with a fair value of $25,000 were issued to Cazador in May 2009.

During the year ended July 31, 2010, the Company spent a further $30,503 before determining that the property offered limited potential for a significant discovery. Accordingly, the Company has written off its investment of $232,491 in the property.

(e) South West Yukon

In the current year, the Company began actively acquiring exploration targets in the relatively under-explored Kluane Front Ranges and Ruby Range of southwest Yukon. As of July 31, 2011, the Company has acquired by staking 100% ownership of mineral claims in southwest Yukon.

(i) The Pacer Claim Group comprises 228 mineral claims (note 17) located approximately five kilometres west of Haines Junction in the Front Ranges of the Kluane Mountains.

(ii) The Outpost Claim Group comprises 71 mineral claims located approximately fifty kilometres west of Haines Junction.

(iii) The Rosie Claim Group comprises 217 mineral claims located approximately 58 kilometres north of Destruction Bay and 107 kilometres northwest of Haines Junction.

(iv) The Jenn Claim Group comprises 64 mineral claims located approximately 60 kilometres northwest of Haines Junction and 35 kilometres north of Silver City.

(v) The Seamus Claim Group comprises 110 mineral claims located approximately 50 kilometres northwest of Haines Junction and 35 kilometres north of Silver City.

(vi) The Tyke Claim Group comprises 96 mineral claims located approximately 75 kilometres north of Haines Junction and 45 kilometres north of Silver City.

(vii) The Nis Claim Group comprises 66 mineral claims located 115 kilometres north of Haines Junction and approximately 30 kilometres west and northwest of the Aishihik Road.

(viii) The Sek Claim Group comprises 84 mineral claims located 100 kilometres north of Haines Junction and approximately 10 kilometres of Aishihik Road in the headland formed by the junction of Aishihik Lake and Sekulman Lake.

9. MINERAL PROPERTY INTERESTS (Continued)

(f) Other Properties

(i) Sleitat Mountain, Alaska

The Company owns a 20% interest in the Sleitat Mountain tin-tungsten-silver deposit near Dillingham, southwest Alaska. An 80% interest in the property is held by Osisko Mining Corp. The Company is responsible for 20% of any exploration or development expenditures incurred. Should the Company not participate in the expenditures, its interest in the property will be diluted in accordance with industry practice. If the Company's interest is diluted to less than a 10% participating interest, it will retain only a 1% net smelter return royalty on subsequent production of any metals from the property.

(ii) COL-Magnet Copper-Gold Property, British Columbia

Between December 2006 and May 2007, the Company acquired by online staking the 32 magnet mineral claims in the Omineca Mining Division in north-central British Columbia.

No exploration work is planned for the immediate future and these properties have been written down to a nominal value.

Environmental

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. As at July 31, 2011, the Company has no material AROs.

Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

9. MINERAL PROPERTY INTERESTS (Continued)

Title to mineral property interests

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

10. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued

During the year ended July 31, 2011, the following private placements occurred:

(i) In September 2010, the Company issued 5,565,490 units for gross proceeds of $1,224,408. Each unit consisted of one common share and one share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Company on or before July 23, 2012 at an exercise price of $0.30. The Company paid a finder's fee of $113,542 in cash and issued 395,167 agent options exercisable at $0.22 per unit on or before September 15, 2011 or at $0.30 per unit on or before July 23, 2012. Each agent option comprises one common share and one warrant to acquire one further common share at $0.30 on or before July 23, 2012. The fair value of these agent options was $109,335.

(ii) In June 2011, the Company issued 1,666,667 units for gross proceeds of $250,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Company on or before June 23, 2013 at an exercise price of $0.30. The Company paid a finder's fee of $23,589 in cash and issued 85,400 finder's warrants exercisable at $0.30 per until June 23, 2013. The fair value of these warrants was $4,414.

During the year ended July 31, 2010, the following private placements occurred:

(iii) In August 2009, the Company issued 100,000 units for gross proceeds of $25,000, which was received in the previous financial year and recorded as subscription receivable. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.50 on or before August 17, 2010.

(iv) In September 2009, the Company issued 320,000 units for gross proceeds of $80,000. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.50 on or before September 4, 2010. The Company paid a finder's fee of $5,600 in cash.

10. SHARE CAPITAL (Continued)

(b) Issued (Continued)

(v) In September 2009, the Company issued 1,547,617 units for gross proceeds of $325,000. Each unit consisted of one flow-through common share and one share purchase warrant exercisable at $0.30 on or before September 23, 2010 and at $0.40 on or before September 23, 2011. The Company paid a finder's fee of $24,781 in cash and issued 154,762 agent options consisting of one common share and one warrant to purchase one common share exercisable at $0.21 until September 23, 2011; upon exercise of each agent option, an additional warrant will be issued to purchase one common share at $0.30 until September 23, 2010 and at $0.40 until September 23, 2011. The fair value of these agent options was $26,754.

(vi) In October 2009, the Company issued 888,096 units for gross proceeds of $186,500. Each unit consisted of one flow-through common share and one share purchase warrant exercisable at $0.30 on or before October 30, 2010 and at $0.40 on or before October 30, 2011. The Company paid a finder's fee of $8,537 in cash.

(vii) In April 2010, the Company issued 479,000 units for gross proceeds of $119,750. Each unit consisted of one common share and one share purchase warrant exercisable at $0.40 on or before April 14, 2012. The exercise price of these warrants was reduced to $0.30 in July 2010 (note 10(g)). The Company issued 17,200 agent options consisting of one common share and a warrant to purchase one common share exercisable at $0.25 before April 14, 2012 and $0.30 before April 14, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.40 until April 14, 2012. The fair value of these agent options was $3,003.

(viii) In April 2010, the Company issued 2,135,711 units for gross proceeds of $598,000. Each unit consisted of one flow-through common share and one share purchase warrant exercisable at $0.40 on or before April 14, 2012. The exercise price of these warrants was reduced to $0.30 per unit in July 2010 (note 10(g)). The Company paid $63,015 in cash and issued 170,857 agent options consisting of one common share and one warrant to purchase one common share exercisable at $0.28 before April 23, 2011 and $0.30 before April 23, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.40 until April 23, 2012. The fair value of these agent options was $29,840.

(ix) In July 2010, the Company issued 1,880,000 units for gross proceeds of $282,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 on or before July 23, 2012.

(x) In July 2010, the Company issued 1,375,111 for gross proceeds of $247,520. Each unit consisted of one flow-through common share and one share purchase warrant exercisable at $0.30 on or before July 23, 2012. The Company paid $72,444 in cash and issued 199,964 agent options consisting of one common share and one warrant to purchase one common share exercisable at $0.15 until July 23, 2011 and $0.30 until July 23, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.40 until April 23, 2012. The fair value of the agent options was $16,988.

10. SHARE CAPITAL (Continued)

(b) Issued (Continued)

During the year ended July 31, 2011, the following property payments occurred:

(xi) In May 2011, the Company issued 150,000 common shares valued at the date of issuance at $22,500 to Radius Gold Inc. in respect of the Ten Mile Creek property agreement (note 9(c)).

During the year ended July 31, 2010, the following property payments occurred:

(xii) In August 2009, the Company issued 616,000 units valued at $154,000 to acquire all the shares of Avasca, a private British Columbia corporation (note 9(b)). Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.50 on or before August 17, 2010.

(xiii) In August 2009, 100,000 units valued at $30,000 were issued to Kaminak in respect of the Cry Lake property agreement (note 9(b)). Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 on or before August 17, 2010. The fair value of the warrants issued for the Cry Lake mineral property was $18,144.

(xiv) In October 2009, the Company issued 500,000 common shares valued at $120,000 to Radius in respect of the Ten Mile Creek property agreement (note 9(c)).

(xv) In May 2010, the Company issued a further 100,000 common shares valued at $24,000 to Radius in respect of the Ten Mile Creek property agreement (note 9(c)).

(c) Stock options

The Company has an incentive stock option plan (the “Plan”) that allows it to grant options to its employees, directors, consultants and management company employees. Under the terms of the Plan, the exercise price of each option will not be lower than the lowest exercise price permitted by the TSX-V. The Plan allows for a maximum of 10% of outstanding shares to be issued.

Options have a maximum term of five years and terminate up to 90 days following the date on which an optionee ceases to be an employee, director, consultant or management company employee, and up to 30 days following the date on which an optionee who is engaged to provide investor relations activities ceases to be engaged to provide such services. In the case of death, the option terminates at the earlier of 12 months after the date of death and the expiration of the option period.

Vesting of options is determined by the Board of Directors at the time the options are granted. Options issued to consultants providing investor relations activities must vest in stages over twelve months with no more than one-quarter of the options vesting in any three-month period.

10. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

Stock option activity for the years ended July 31 is as follows:

	Number of Options Outstanding	Exercise Price	Weighted Average Exercise Price
Balance, July 31, 2009	279,000	\$ 2.50 to \$ 3.95	\$ 3.23
Granted	770,000	\$ 0.265 to \$ 0.50	\$ 0.31
Expired	(30,000)	\$ 3.50 to \$ 3.95	\$ 3.58
Cancelled	(40,000)	\$ 2.50 to \$ 3.60	\$ 3.33
Balance, July 31, 2010	979,000	\$ 0.265 to \$ 3.60	\$ 0.92
Granted	1,010,000	\$ 0.165 to \$ 0.17	\$ 0.17
Expired	(65,000)	\$ 3.60 to \$ 4.00	\$ 3.56
Balance, July 31, 2011	1,924,000	\$ 0.165 to \$ 3.60	\$ 0.43

The weighted average life of outstanding stock options at July 31, 2011 is 3.83 (2010 - 3.87) years. The weighted average grant date fair value of the options granted in the year ended July 31, 2011 was \$0.13 (2010 - \$0.18).

As at July 31, 2011, the following options were outstanding:

		2011		**2010**	
Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Number of Options Outstanding	Number of Options Exercisable
November 18, 2010	\$ 3.10	0	0	5,000	5,000
January 13, 2011	\$ 3.60	0	0	55,000	55,000
April 20, 2011	\$ 3.60	0	0	5,000	5,000
April 5, 2012	\$ 3.60	42,000	42,000	42,000	42,000
January 9, 2013	\$ 3.60	20,000	20,000	20,000	20,000
October 1, 2013	\$ 2.50	82,000	82,000	82,000	82,000
December 1, 2014	\$ 0.265	570,000	570,000	570,000	570,000
February 3, 2015	\$ 0.35	100,000	100,000	100,000	25,000
February 3, 2015	\$ 0.50	100,000	100,000	100,000	25,000
December 17, 2015	\$ 0.165	810,000	810,000	0	0
July 1, 2016	\$ 0.17	200,000	200,000	0	0
		1,924,000	1,924,000	979,000	829,000

10. SHARE CAPITAL (Continued)

(d) Stock-based compensation

The fair value of each option granted is estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2011	2010
Expected life (years)	5	5
Interest rate	2.38%	2.40%
Volatility	114.69%	113.22%
Dividend yield	0.00%	0.00%

The fair value of options granted and vested during the year ended July 31, 2011 was $145,088 (2010 - 140,999), $34,814 (2010 - $Nil) of which related to mineral property expenditure and was therefore capitalized as mineral property interests. On July 31, 2011, there is $Nil (2010 - $13,497) in stock-based compensation, which will be recognized over the next year as the options vest.

Stock-based compensation is related to expenses as follows:

	2011	2010
Management fees	$ 96,777	$ 121,139
Investor relations	13,497	19,860
	$ 110,274	$ 140,999

(e) Share purchase warrants

Share purchase warrants activity for the years ended July 31 is as follows:

	Number of Warrants Outstanding	Exercise Price	Weighted Average Exercise Price
Balance, July 31, 2009	555,625	$ 1.00	$ 1.00
Issued	9,466,318	$ 0.15 to $ 0.50	$ 0.30
Cancelled	(555,625)	$ 1.00	$ 1.00
Balance, July 31, 2010	9,466,318	$ 0.15 to $ 0.50	$ 0.30
Issued	6,484,224	$ 0.22 to $ 0.40	$ 0.30
Issued – agent options exercised	208,262	$ 0.30	$ 0.30
Exercised	(767,858)	$ 0.15 to $ 0.30	$ 0.32
Expired	(618,000)	$ 0.30 to $ 0.50	$ 0.47
Balance, July 31, 2011	14,772,946	$ 0.15 to $ 0.40	$ 0.29

10. SHARE CAPITAL (Continued)

(e) Share purchase warrants (Continued)

As at July 31, the following warrants were outstanding:

		Number of Warrants	
Expiry Date	Exercise Price	**2011**	**2010**
August 17, 2010	$ 0.30	0	100,000
August 17, 2010	$ 0.50	0	358,000
September 4, 2010	$ 0.50	0	160,000
September 23, 2011	$ 0.21	0	154,762
September 23, 2011 **	$ 0.30 to $ 0.40	1,547,617	1,547,617
October 30, 2011 **	$ 0.30	275,000	888,096
April 14, 2012	$ 0.25 to $ 0.30	496,200	496,200
April 23, 2012	$ 0.25 to $ 0.30	2,306,568	2,306,568
July 23, 2012	$ 0.15 to $ 0.30	9,020,565	3,455,075
June 23, 2013	$ 0.30	1,126,996	0
		14,772,946	9,466,318

** Expired unexercised subsequent to the year-end.

The fair value of the finder's warrants included in share issue costs was $113,749 (2010 - $76,585) and for warrants issued for mineral properties was $Nil (2010 - $18,144) and was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	**2010**
Expected life (years)	1.88	1.84
Interest rate	1.51%	1.58%
Volatility	133%	148%
Dividend yield	0.00%	0.00%

During the year ended July 31, 2011, 208,262 (2010 - Nil) finder's warrants were exercised resulting in $32,197 (2010 - $Nil) being reclassified from contributed surplus to share capital. There are 729,688 (2010 - 542,783) warrants contingently issuable in relation to agent options to acquire units (note 10(f)).

10. SHARE CAPITAL (Continued)

(f) Agent options

Agent options are the right to purchase units, with each unit being comprised of one share and one share purchase warrant.

As at July 30, 2011 and 2010, the following agent options were outstanding:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	542,783	$ 0.27	-	-
Issued	395,167	$ 0.30	542,783	$ 0.27
Exercised	(208,262)	$ 0.30	-	-
Balance, end of year	729,688	$ 0.28	542,783	$ 0.27

Agent options outstanding and exercisable are as follows:

		Number of Options	
Expiry Date	Exercise Price	**2011**	**2010**
September 23, 2011	$ 0.21	-	154,762
April 14, 2012	$ 0.25 - $ 0.30	17,200	17,200
April 23, 2012	$ 0.28 - $ 0.30	160,857	170,857
July 23, 2012	$ 0.15 - $ 0.30	156,464	199,964
July 23, 2012	$ 0.22 - $ 0.30	395,167	-
		729,688	542,783

(g) Warrant revaluation

During the year ended July 31, 2010, the Company amended the exercise price of 2,614,711 share purchase warrants from $0.40 to $0.30 (note 10(b)(vii)). Of these warrants, 479,000 were granted on April 14, 2010 expiring on April 14, 2012, and 2,135,711 were granted on April 23, 2010 expiring on April 23, 2012.

The Company recorded a warrant revaluation of $21,769 as a charge to deficit, for the incremental value of the modified warrants with a corresponding credit to contributed surplus. The incremental value of the modified warrants was measured by the difference between the fair value of the modified warrants and the fair value of the remaining term of the old warrants.

10. SHARE CAPITAL (Continued)

(g) Warrant revaluation (Continued)

The fair value of the amended warrants is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	**2010**
Expected life (years)	N/A	1.73
Interest rate	N/A	1.60%
Volatility	N/A	141.69%
Dividend yield	N/A	0.00%

11. INCOME TAXES

The Company has available losses that may be carried forward to apply against future years' income for income tax purposes. The approximate losses expire as follows:

Available to	Amount
2015	$ 293,000
2026	4,137,000
2027	378,000
2028	5,000
2029	835,000
2030	492,000
2031	641,000
Indefinitely	640,000
	$ 7,421,000

The tax losses above include approximately $3,576,000 that may be applied against future taxable income in the US expiring in 2026.

Tax losses of $640,000 consist of capital losses of $483,000, which may be applied against future taxable capital gains, and non-capital losses of $157,000 may be carried forward indefinitely to apply against future income for Australian tax purposes.

The Company's carry-forward losses for Canadian tax purposes are $3,205,000, which may be carried forward to apply against future income for Canadian tax purposes.

The future benefit of these loss carry-forwards and the resource deductions have not been recorded in these consolidated financial statements as the Company estimates that the benefit of these losses will, more likely than not, not be realized.

11. INCOME TAXES (Continued)

A reconciliation of income taxes at Canadian statutory rates of 27.33% (2010 - 29.13%) with the reported taxes is as follows for the year ended July 31:

		2011		2010
Income tax benefit computed at Canadian statutory rates	$	(373,301)	$	(760,597)
Recovery of resource expenditures		0		(1,116)
Write-down of mineral property interests		161,796		584,764
Other differences		(164,387)		(447,446)
Changes in future income taxes resulting from enacted tax rate reduction		14,953		68,866
Change in valuation allowance		150,093		427,654
Income tax recovery	$	(210,846)	$	(127,875)

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

		2011		2010
Tax value over book value of mineral properties	$	237,148	$	291,302
Tax value over book value of share issue costs		54,233		48,215
Other		189,573		159,580
Non-capital losses carried forward		1,384,579		1,213,528
Capital losses carried forward		72,459		75,274
		1,937,992		1,787,899
Valuation allowance		(1,937,992)		(1,787,899)
Net future income tax assets	$	0	$	0

In December 2010, the Company renounced $843,384 (2010 - $511,500) of exploration expenditures under its flow-through share program, resulting in a future income tax liability of $210,846 (2010 - $127,875), which was reduced by the recognition of previously unrecognized future income tax assets resulting in a $210,846 (2010 - $127,875) future income tax recovery. There are no amounts of flow-through proceeds that remain to be expended as at July 31, 2011.

12. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company:

(a) Paid $291,808 (2010 - $209,145) to directors and a relative of a director, which is included in management fees, and $131,297 (2010 - $80,914) in fees capitalized to mineral properties;

(b) Included in prepaid expenses $5,000 (2010 - $5,000) in advances to a director; and

(c) Included in accounts payable and accrued liabilities $102,102 (2010 - $11,655) payable to directors and a relative of a director.

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. There are no terms of repayment or interest for amounts payable to an officer, a director and a relative of a director.

13. COMMITMENT

The Company is committed to monthly lease payments of $3,000 for its premises. The rental payments schedule is as follows:

2012	$	36,000
2013		36,000
2014		36,000
2015		36,000
2016		21,000
	$	165,000

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

		2011		2010
Income tax paid	$	0	$	0
Interest paid	$	0	$	1,547
Shares issued for mineral property interest	$	22,500	$	174,000
Warrants issued for mineral property interest	$	0	$	18,144
Shares issued to acquire Avasca	$	0	$	154,000
Fair value of options attributable to mineral property interests	$	34,814	$	0
Amortization of equipment included in mineral property interests	$	12,317	$	0
Mineral property interest expenditures included in accounts payable	$	138,323	$	71,035
Write-down of expenditures on mineral property interests for amounts reclassified from accounts receivable in prior year	$	0	$	27,519

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, it does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of equity units. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company considers its capital under management to be all components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, there can be no assurance that it will be successful in the future.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

15. CAPITAL MANAGEMENT (Continued)

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. There have been no changes to the Company's approach to capital management during the year.

16. SEGMENT DISCLOSURE

The Company's one reportable operating segment is the exploration of mineral properties. Geographical information at July 31 is as follows:

	2011	2010
Assets		
Canada	$ 2,325,291	$ 1,912,760
Australia	4,120	14,210
Mongolia	1,000	1,000
	$ 2,330,411	$ 1,927,970

17. SUBSEQUENT EVENT

Subsequent to July 31, 2011, the Company acquired by staking, an additional eight claims at the Pacer property (note 9(e)(i)). These claims are 100% owned by the Company.