

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Financial Statements**  
**July 31, 2012 and 2011**

<u>Index</u>	<u>Page</u>
<b>Independent Auditors' Report to the Shareholders</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	2
Consolidated Statements of Comprehensive Loss	3
Consolidated Statements of Changes in Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 35

**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, which comprise the consolidated statements of financial position as at July 31, 2012, July 31, 2011 and August 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011, 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 International Financial Reporting Standards 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, 2012, July 31, 2011 and August 1, 2010, and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties 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 23, 2012

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Financial Position**  
**Expressed in Canadian Dollars**

As at	July 31, 2012	July 31, 2011 (note 18)	August 1, 2010 (note 18)
<b>Assets</b>			
<b>Current</b>			
Cash	\$ 281,261	\$ 263,179	\$ 573,353
Receivables	18,966	47,658	37,326
Prepaid expenses (note 13)	30,737	21,925	39,411
Reclamation deposits (note 9)	10,000	0	18,000
Tenement bond (note 7)	0	2,101	11,164
	340,964	334,863	679,254
<b>Reclamation Deposits</b> (note 9)	0	10,000	10,000
<b>Deposits</b>	47,980	27,590	38,949
<b>Equipment</b> (note 8)	5,771	82,460	23,224
<b>Mineral Property Interests</b> (note 10)	30,374	1,875,498	1,176,543
	\$ 425,089	\$ 2,330,411	\$ 1,927,970
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 68,702	\$ 79,513	\$ 178,829
Due to related parties (note 13)	306,129	102,102	11,655
Flow-through share premium	0	0	83,968
	374,831	181,615	274,452
<b>Shareholders' Equity</b>			
Share capital (note 11)	29,472,747	29,348,425	27,798,018
Subscriptions received	300,000	0	0
Reserves	1,284,284	1,237,575	1,010,935
Deficit	(31,006,773)	(28,437,204)	(27,155,435)
	50,258	2,148,796	1,653,518
	\$ 425,089	\$ 2,330,411	\$ 1,927,970

Approved on behalf of the Board:

*"Randall S. Rogers" (signed)*

..... Director  
 Randall S. Rogers

*"W. Steve Vaughn" (signed)*

..... Director  
 W. Steve Vaughn

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Comprehensive Loss**  
**Expressed in Canadian Dollars**

Years ended July 31	2012	2011
		(note 18)
<b>Expenses</b>		
Management fees (note 13)	\$ 165,073	\$ 241,511
Professional fees	53,079	89,019
Share-based payments (note 11)	45,543	110,274
Travel, promotion and shareholder costs	44,276	105,332
Office and miscellaneous	44,144	65,358
Rent	36,447	27,054
Mineral property investigation	27,486	81,960
Mineral property maintenance	21,254	20,286
Stock exchange fees	10,856	10,681
Transfer agent fees	9,505	11,199
Write-down of equipment (note 8)	8,468	0
Flow-through share financing costs	102	211
Impairment mineral property interests (note 10)	2,127,111	591,938
Loss on sale of equipment (note 8)	10,641	0
Oil and gas revenue	(11,701)	(13,865)
Recovery of mineral property interests	(57,868)	0
Amortization	43,153	24,779
<b>Loss Before Income Tax</b>	(2,577,569)	(1,365,737)
<b>Deferred Income Tax Recovery</b> (note 12)	8,000	83,968
<b>Net Loss and Comprehensive Loss for the Year</b>	\$ (2,569,569)	\$ (1,281,769)
<b>Loss Per Share – Basic and Diluted</b>	\$ (0.10)	\$ (0.06)
<b>Weighted Average Number of Common Shares Outstanding</b>	25,990,737	22,297,893

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Changes in Equity**  
**Years Ended July 31**  
**Expressed in Canadian Dollars**

	Share Capital		Reserves	Subscriptions Received	Deficit	Total Shareholders' Equity
	Shares	Amount				
<b>Balance, August 1, 2010</b>	16,311,695	\$ 27,798,018	\$ 1,010,935	\$ 0	\$ (27,155,435)	\$ 1,653,518
Net loss for the year	0	0	0	0	(1,281,769)	(1,281,769)
Share issuances						
Private placement	7,232,157	1,474,408	0	0	0	1,474,408
Share issue costs	0	(250,880)	113,749	0	0	(137,131)
Warrants exercised	767,858	230,357	0	0	0	230,357
Agent options exercised	208,262	74,022	(32,197)			41,825
Shares issued for mineral property interests	150,000	22,500	0	0	0	22,500
Share-based payments	0	0	110,274	0	0	110,274
Share-based payments attributed to mineral property interests	0	0	34,814	0	0	34,814
<b>Balance, July 31, 2011</b>	24,669,972	29,348,425	1,237,575	0	(28,437,204)	2,148,796
Net loss for the year	0	0	0	0	(2,569,569)	(2,569,569)
Share issuances						
Private placement	2,000,000	155,000	0	0	0	155,000
Allocation to flow-through share liability (note 11(b)(ii))	0	(8,000)	0	0	0	(8,000)
Share issue costs	0	(22,678)	1,166	0	0	(21,512)
Share subscriptions received	0	0	0	300,000	0	300,000
Share-based payments	0	0	45,543	0	0	45,543
<b>Balance, July 31, 2012</b>	26,669,972	\$ 29,472,747	\$ 1,284,284	\$ 300,000	\$ (31,006,773)	\$ 50,258

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**Years Ended July 31**  
**Expressed in Canadian Dollars**

	<b>2012</b>	<b>2011</b>
		(note 18)
<b>Operating Activities</b>		
Net loss for the year	\$ (2,569,569)	\$ (1,281,769)
Items not involving cash		
Share-based payments	45,543	110,274
Deferred income tax recovery	(8,000)	(83,968)
Impairment of mineral property interests	2,127,111	591,938
Loss on sale of equipment	10,641	0
Write-down of equipment	8,468	0
Amortization	43,153	24,779
	<b>(342,653)</b>	<b>(638,746)</b>
Changes in non-cash working capital items		
Receivables	28,692	(10,332)
Prepaid expenses	(8,812)	17,486
Accounts payable and accrued liabilities	45,280	(108,955)
Due to related parties	261,676	32,798
	<b>326,836</b>	<b>(69,003)</b>
<b>Cash Used in Operating Activities</b>	<b>(15,817)</b>	<b>(707,749)</b>
<b>Financing Activities</b>		
Proceeds on issue of shares, net	133,488	1,609,459
Share subscriptions received	300,000	0
<b>Cash Provided by Financing Activities</b>	<b>433,488</b>	<b>1,609,459</b>
<b>Investing Activities</b>		
Cash expenditures on mineral property interests	(390,464)	(1,153,974)
Deposits	(20,390)	11,359
Purchase of equipment	(3,836)	(96,332)
Reclamation deposit	0	18,000
Proceeds on sale of equipment	13,000	0
Tenement bond	2,101	9,063
<b>Cash Used in Investing Activities</b>	<b>(399,589)</b>	<b>(1,211,884)</b>
<b>Inflow (Outflow) of Cash</b>	<b>18,082</b>	<b>(310,174)</b>
<b>Cash, Beginning of Year</b>	<b>263,179</b>	<b>573,353</b>
<b>Cash, End of Year</b>	<b>\$ 281,261</b>	<b>\$ 263,179</b>

Supplemental disclosure with respect to cash flows (note 15)

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**1. NATURE OF OPERATIONS**

Solomon Resources Limited (the “Company” or “Solomon”) was incorporated 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 these properties contain economically recoverable reserves of ore. The Company has not earned any revenues from its mineral property interests and is considered to be in the exploration stage.

The Company maintains its head office and registered office at 2701B Highway 6, Box 938, Vernon, British Columbia, Canada, V1T 5G6.

**2. GOING CONCERN**

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.

Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past two fiscal years (2012 - \$2,569,569; 2011 - \$1,281,769), has a deficit of \$31,006,773 (July 31, 2011 - \$28,437,204; August 1, 2010 - \$27,155,435), has limited resources, no sources of operating cash flows and no assurances that sufficient funding will be available to continue operations for an extended period of time.

The application of the going concern concept is dependent upon the Company’s ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is 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 consolidated financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

**3. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale (“AFS”) and fair value through profit or loss (“FVTPL”). These consolidated financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**3. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)**

(a) Statement of compliance (Continued)

These consolidated financial statements are the Company’s first IFRS annual financial statements. Previously, the Company prepared its consolidated financial statements in accordance with pre-changeover Canadian generally accepted accounting principles (“previous GAAP”). The impact of the transition from previous GAAP to IFRS is explained in note 18. IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The significant accounting policies set out in note 4 have been applied consistently to all periods presented and in the preparation of the opening statement of financial position at August 1, 2010 (note 18) for purposes of transition to IFRS. The Company’s functional and reporting currency is the Canadian dollar.

(b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended July 31, 2012 were approved and authorized for issue by the Board of Directors on November 23, 2012.

(c) New accounting pronouncements

All of the new and revised standards described below may be early-adopted.

*IFRS 9 Financial Instruments (2009)*

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.

The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before August 1, 2015. For annual periods beginning on or after August 1, 2015, the Company must adopt IFRS 9 (2010).



**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**3. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)**

(c) New accounting pronouncements (Continued)

*IFRS 9 Financial Instruments (2010)*

This is a revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income (loss) rather than within profit or loss.

This standard applies to annual periods beginning on or after August 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before August 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

*IFRS 13 Fair Value Measurement*

This IFRS standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

This standard applies to annual reporting periods beginning on or after August 1, 2013.

*Amendments to IFRS 12 Income Taxes*

*Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12) amends to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**3. BASIS OF PREPARATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)**

(c) New accounting pronouncements (Continued)

As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

Applicable to annual periods beginning on or after August 1, 2012.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

*Disclosures — Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) amends the disclosure requirements to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*.

The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

Applicable to annual periods beginning on or after August 1, 2013 and interim periods within those periods.

Amendments to IAS 32 *Financial Instruments: Presentation*

*Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) amends to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of “currently has a legally enforceable right of set-off”
- The application of simultaneous realization and settlement
- The offsetting of collateral amounts
- The unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after August 1, 2014.

**4. SIGNIFICANT ACCOUNTING POLICIES**

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the Company’s wholly-owned subsidiaries, Avasca Inc. (a British Columbia corporation), Valhalla Minerals US Incorporated (a Delaware corporation), Thor Gold Alaska Inc. (an Alaskan corporation) and Solomon (Australia) Pty. Ltd. (an Australian corporation), are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Principles of consolidation (Continued)

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions and any unrealized revenue and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Mineral property interests

(i) Exploration and evaluation expenditures

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date, including acquisition costs and exploration expenditures, net of any recoveries. These amounts represent costs incurred to date and do not necessarily reflect present or future values.

The 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. The costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs, such as land taxes, of maintaining its mineral properties in good standing.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of the option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded when paid or received.

(ii) Impairment

Exploration and evaluation assets are assessed for impairment by management when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount.

The recoverability of the carrying amount of mineral properties is dependent on successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Mineral property interests (Continued)

(iii) Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. To date the Company does not have any decommissioning liabilities.

(c) Use of estimates and judgments

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the 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 estimates and assumptions relate to the review of carrying values and determination of impairment of non-current assets, determination of provision for environmental and decommissioning obligations, valuation of share-based payments, agent options and finder's warrants, and recoverability of deferred tax assets. Actual results could differ from those estimates. Key judgments and estimates made by management with respect to those areas noted previously have been disclosed in the notes to the consolidated financial statements as appropriate.

(d) Petroleum and natural gas properties

Substantially all petroleum and natural 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.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) 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.

When equipment is retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated amortization are removed from the accounts and any gain or loss is included in operations. The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

(f) 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.

(g) Foreign currency translation

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 statement of financial position 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.

(h) Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the statements of comprehensive income (loss). Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Income taxes (Continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(i) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase 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.

(j) Share-based payment transactions

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as mineral property interests with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in option reserves is transferred to share capital.

(k) Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A liability is recognized for the premium on the flow-through shares and is subsequently reversed as the Company incurs qualifying Canadian exploration expenses.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Flow-through shares (Continued)

In circumstances where the Company has issued flow-through shares by way of a unit offering, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is recognized as a liability for the premium on the flow-through share.

(l) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in share capital and the related residual value is transferred to share capital.

(m) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: FVTPL, held-to-maturity investments, loans and receivables, and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at recognition. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial instrument.

*Financial assets at fair value through profit or loss*

Financial assets are classified as FVTPL when the financial asset is held-for-trading or is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future, it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in this category of financial assets.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Financial instruments (Continued)

(i) Financial assets (Continued)

*Held-to maturity investments*

Held-to-maturity financial assets are non-derivative financial assets measured at amortized cost that management has the intention and ability to hold to maturity.

*Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method. The Company has classified accounts receivable (excluding HST) as loans and receivables.

*Available-for-sale financial assets*

AFS financial assets are non-derivative financial assets that are either designated as AFS or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income (loss) and classified as a component of equity. The Company has not classified any financial assets as AFS.

*Effective interest method*

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period-end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.



**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Financial instruments (Continued)

(i) Financial assets (Continued)

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following categories: as FVTPL or other financial liabilities.

*Fair value through profit or loss*

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

*Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Financial instruments (Continued)

(ii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for assets or liabilities that are not based on observable market data.

**5. FINANCIAL INSTRUMENTS**

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as FVTPL, receivables (excluding HST) are classified as loans and receivables, reclamation deposit and tenement bonds are classified as held-to-maturity, accounts payable and accrued liabilities are classified as other financial liabilities. The carrying value of these instruments approximates their fair values due to their short term to maturity.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is held in Canadian and Australian financial institutions with strong credit ratings. The Company does not have any asset-backed commercial paper. The Company has minimal credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual maturities of financial liabilities of the Company as of July 31, 2012 equal \$374,831 (July 31, 2011 - \$181,615; August 1, 2010 - \$274,452). Accounts payable have maturities of 30 days or less. Amounts due to related parties have no specified terms of repayment.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**5. FINANCIAL INSTRUMENTS (Continued)**

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

(i) 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 does not manage currency risk through hedging or other currency management tools. As at July 31, 2012 the Company has net assets of \$4,009 (July 31, 2011 - net liabilities of \$7,041; August 1, 2010 - net assets of \$5,065) denominated in AU\$. For the year ended July 31, 2012, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AU\$ by 7% (2011 - 11%) 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. The Company's cash balances are held in banks in the following countries:

	July 31, 2012	July 31, 2011	August 1, 2010
Canada	\$ 277,252	\$ 261,160	\$ 570,747
Australia	4,009	2,019	2,606
	<b>\$ 281,261</b>	<b>\$ 263,179</b>	<b>\$ 573,353</b>

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates and, therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

**6. CAPITAL MANAGEMENT**

The Company considers its capital to be comprised 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, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**6. CAPITAL MANAGEMENT (Continued)**

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. Management reviews the capital structure on a regular basis to ensure that the above objectives are met. The Company's capital is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the year.

**7. TENEMENT BOND**

The Company had a tenement bond in respect of previously disposed mineral property interests in Australia in the amount of \$nil (AU \$nil) (July 31, 2011 - \$2,101 (AU \$2,000); August 1, 2010 - \$11,164 (AU \$12,000)). The Company received a full refund of the tenement bond during the year ended July 31, 2012.

**8. EQUIPMENT**

	Office Equipment	Exploration Equipment	Vehicles	Total
<b>Cost</b>				
Balance, August 1, 2010	\$ 45,376	\$ 8,585	\$ 15,514	\$ 69,475
Additions	42,672	53,661	0	96,333
Balance, July 31, 2011	88,048	62,246	15,514	165,808
Additions	2,916	920	0	3,836
Disposals	0	(35,459)	(15,514)	(50,973)
Write-down	0	(27,707)	0	(27,707)
Balance, July 31, 2012	\$ 90,964	\$ 0	\$ 0	\$ 90,964
<b>Accumulated Amortization</b>				
Balance, August 1, 2010	\$ 30,096	\$ 5,437	\$ 10,718	\$ 46,251
Amortization	24,779	7,522	4,796	37,097
Balance, July 31, 2011	54,875	12,959	15,514	83,348
Amortization	30,318	18,098	0	48,416
Disposals	0	(11,818)	(15,514)	(27,332)
Write-down	0	(19,239)	0	(19,239)
Balance, July 31, 2012	\$ 85,193	\$ 0	\$ 0	\$ 85,193
<b>Carrying Value</b>				
August 1, 2010	\$ 15,280	\$ 3,148	\$ 4,796	\$ 23,224
July 31, 2011	\$ 33,173	\$ 49,287	\$ 0	\$ 82,460
July 31, 2012	\$ 5,771	\$ 0	\$ 0	\$ 5,771

During the year ended July 31, 2012, the Company capitalized \$5,263 (2011 - \$12,317) of the amortization of exploration equipment to mineral property interests. During the year ended July 31, 2012, the Company sold exploration equipment and vehicles for gross proceeds of \$13,000 (July 31, 2011 - \$nil; August 1, 2010 - \$nil) and recorded a loss on sale of equipment of \$10,641 (2011 - \$nil). Based on the Company's future usage plans for the remaining exploration equipment, the Company recorded a write-down of \$8,468 (2011 - \$nil).

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**9. RECLAMATION DEPOSITS**

The Company placed a \$10,000 (July 31, 2011 - \$10,000; August 1, 2010 - \$10,000) site reclamation deposit with the Province of British Columbia for exploration permits on the Cry Lake Property (note 10(b)). The site has been dismantled and the deposit was returned to the Company by the Province of British Columbia on September 24, 2012.

The Company pledged an \$18,000 site reclamation deposit to the Province of British Columbia for exploration permits on the COL-Magnet Property (note 10(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.

**10. MINERAL PROPERTY INTERESTS**

	Mongolia SRM	Cry Lake	Ten Mile Creek	Rurembo (Rwanda)	Southwest Yukon	Other Properties	Total
	(note 10(a))	(note 10(b))	(note 10(c))	(note 10(d))	(note 10(e))	(note 10(f))	
<b>Balance, July 31, 2010</b>	\$ 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
Impairment	0	(589,476)	0	0	(2,462)	0	(591,938)
<b>Balance, July 31, 2011</b>	1,000	0	1,570,600	0	303,896	2	1,875,498
Expenditures during the year							
Personnel	0	0	53,244	3,139	44,911	0	101,294
Camp costs, travel and helicopter costs	0	0	66,892	18,849	24,803	0	110,544
Proceeds received from rental of camp	0	0	(18,000)	0	0	0	(18,000)
Mapping	0	0	27,218	0	6,413	0	33,631
Sampling	0	0	42,532	0	10,502	0	53,034
Options payments/land renewal payments	0	0	419	0	1,065	0	1,484
Impairment	(1,000)	0	(1,734,524)	0	(391,587)	0	(2,127,111)
<b>Balance, July 31, 2012</b>	\$ 0	\$ 0	\$ 8,381	\$ 21,988	\$ 3	\$ 2	\$ 30,374

(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, 2012, the Company thus sold its subsidiary in Mongolia for a nominal amount and recognized an impairment of \$1,000.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**10. 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.

Results of the exploration program were insufficient to warrant continuing the option, and the Company recognized an impairment of \$589,476.

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

During the year ended July 31, 2012, the Company spent a further \$163,324 (2011 - \$986,664) on the property. The Company allowed the option to expire without making the required cash and share payments due on May 21, 2012. Accordingly, the Company recorded an impairment of \$1,734,524 (2011 - \$nil) on the property.

The Company incurred \$26,381 (2011 - \$nil) in camp costs to upgrade the campsite for rental to another party working in the same vicinity. During the year ended July 31, 2012, the Company received \$18,000 (2011 - \$nil) in rental payments, which have been applied against the capitalized costs.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**10. MINERAL PROPERTY INTERESTS (Continued)**

(d) Rurembo, Republic of Rwanda

In July 2012, the Company signed a letter of intent ("LOI") with a group of private Canadian investors to acquire a 100% interest in the Rurembo Prospecting License in the Republic of Rwanda. An agreement was signed in October 2012 that confirmed and formalized the LOI, the details of which are outlined in note 17(b).

During the year ended July 31, 2012, the Company capitalized \$21,988 in personnel and camp costs on the property. Included in deposits is \$43,650 (2011 - \$nil) in prepaid advances that are to be applied to future exploration on this property.

(e) Southwest Yukon

During the year ended July 31, 2011, the Company began actively acquiring exploration targets in the Kluane Front Ranges and Ruby Range of southwest Yukon. By July 31, 2011, the Company had acquired by staking 100% ownership of mineral claims in southwest Yukon.

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

(ii) The Outpost Claim Group comprises mineral claims located approximately 50 kilometres west of Haines Junction.

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

(iv) The Jenn Claim Group comprises mineral claims located approximately 60 kilometres northwest of Haines Junction and 35 kilometres north of Silver City. All of these claims expired during the year ended July 31, 2012.

(v) The Seamus Claim Group comprises mineral claims located approximately 50 kilometres northwest of Haines Junction and 35 kilometres north of Silver City. All of these claims expired during the year ended July 31, 2012.

(vi) The Tyke Claim Group comprises mineral claims located approximately 75 kilometres north of Haines Junction and 45 kilometres north of Silver City. All of these claims expired during the year ended July 31, 2012.

(vii) The Nis Claim Group comprises mineral claims located 115 kilometres north of Haines Junction and approximately 30 kilometres west and northwest of the Aishihik Road. All of these claims expired during the year ended July 31, 2012.

(viii) The Sek Claim Group comprises mineral claims located 100 kilometres north of Haines Junction and approximately 10 kilometres north of Aishihik Road in the headland formed by the junction of Aishihik Lake and Sekulman Lake. All of these claims expired during the year ended July 31, 2012.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**10. MINERAL PROPERTY INTERESTS (Continued)**

(e) Southwest Yukon (Continued)

(viii) (Continued)

During the year ended July 31, 2012 the Company spent \$87,694 (2011 - \$301,357) on the properties, in personnel and field exploration costs. At July 31, 2012, the Company abandoned future exploration on these properties and recorded an impairment of \$391,587 (2011 - \$nil). The carrying value of \$3 at July 31, 2012 on these properties represents the nominal value of these claims that are currently held in good standing.

(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. At July 31, 2012 12 of these mineral claims are still valid.

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, 2012, the Company has no material decommissioning obligations.



**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**10. MINERAL PROPERTY INTERESTS (Continued)**

*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.

*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.

**11. SHARE CAPITAL**

(a) Authorized

Unlimited common shares without par value

(b) Issued

During the year ended July 31, 2012, the following private placements occurred:

- (i) In November 2011, the Company issued 1,800,000 units for gross proceeds of \$135,000. 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 November 30, 2013 at an exercise price of \$0.10. The Company issued 44,000 finder's warrants exercisable at \$0.10 per unit until November 30, 2013. The fair value of these warrants was \$1,008.
- (ii) In December 2011, the Company issued 200,000 flow-through units for gross proceeds of \$20,000. Each unit consisted of one flow-through 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 December 21, 2012 at an exercise price of \$0.15. The Company issued 16,000 finder's warrants exercisable at \$0.10 per unit until December 21, 2012. The fair value of these warrants was \$158. For this private placement, the Company allocated \$12,000 to share capital and \$8,000 to the flow-through premium liability (note 12).

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

---

**11. SHARE CAPITAL (Continued)**

(b) Issued (Continued)

In conjunction with the above private placements, the Company incurred \$21,512 in finders' fees, legal expenses and filing expenses.

During the year ended July 31, 2012, the Company received \$300,000 in subscriptions for a private placement that closed subsequent to year-end (note 17(a)).

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, 2011, the following property payments occurred:

- (iii) In May 2011, the Company issued 150,000 common shares valued at the date of issuance at \$22,500 to Radius in respect of the Ten Mile Creek property agreement (note 10(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 Venture Exchange ("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 twelve months after the date of death and the expiration of the option period.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**11. SHARE CAPITAL (Continued)**

(c) Stock options (Continued)

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.

Stock option activity is as follows:

	Number of Options Outstanding	Exercise Price	Weighted Average Exercise Price
<b>Balance, August 1, 2010</b>	979,000	\$ 0.265 to \$ 3.60	\$ 0.92
Granted	1,010,000	\$ 0.165	\$ 0.17
Expired	(65,000)	\$ 3.60 to \$ 4.00	\$ 3.56
<b>Balance, July 31, 2011</b>	1,924,000	\$ 0.165 to \$ 3.60	\$ 0.43
Granted	705,000	\$ 0.10	\$ 0.10
Cancelled	(337,000)	\$ 0.165 to \$ 3.60	\$ 0.62
Expired	(32,000)	\$ 3.60	\$ 3.60
<b>Balance, July 31, 2012</b>	2,260,000	\$ 0.10 to \$ 3.60	\$ 0.25

The weighted average life of outstanding stock options at July 31, 2012 is 3.42 (2011 - 3.83) years. The weighted average grant date fair value of the options granted in the year ended July 31, 2012 was \$0.065 (2011 - \$0.130).

As at July 31, 2012, the following options were outstanding:

Expiry Date	Exercise Price	2012		2011	
		Number of Options Outstanding	Number of Options Exercisable	Number of Options Outstanding	Number of Options Exercisable
April 5, 2012	\$ 3.60	0	0	42,000	42,000
January 9, 2013	\$ 3.60	20,000	20,000	20,000	20,000
October 1, 2013	\$ 2.50	55,000	55,000	82,000	82,000
December 1, 2014	\$ 0.265	520,000	520,000	570,000	570,000
February 3, 2015	\$ 0.35	0	0	100,000	100,000
February 3, 2015	\$ 0.50	0	0	100,000	100,000
December 17, 2015	\$ 0.165	760,000	760,000	810,000	810,000
July 1, 2016	\$ 0.165	200,000	200,000	200,000	200,000
December 16, 2016	\$ 0.10	705,000	705,000	0	0
		2,260,000	2,260,000	1,924,000	1,924,000

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**11. SHARE CAPITAL (Continued)**

(d) Share-based payments

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

	<b>2012</b>	<b>2011</b>
Expected life (years)	5	5
Interest rate	1.25%	2.38%
Volatility	164.00%	114.69%
Dividend yield	0.00%	0.00%

The fair value of options granted and vested during the year ended July 31, 2012 was \$45,543 (2011 - \$145,088), \$nil (2011 - \$34,814) of which related to mineral property expenditure and was, therefore, capitalized as mineral property interests. The expected volatility is based on the historical stock price of the Company for the period leading up to the grant date.

Share-based payments are related to expenses as follows:

	<b>2012</b>	<b>2011</b>
Management fees	\$ 41,021	\$ 96,777
Property investigation	4,522	0
Investor relations	0	13,497
	<b>\$ 45,543</b>	<b>\$ 110,274</b>

(e) Share purchase warrants

Share purchase warrants activity is as follows:

	Number of Warrants Outstanding	Exercise Price	Weighted Average Exercise Price
<b>Balance, August 1, 2010</b>	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
<b>Balance, July 31, 2011</b>	14,772,946	\$ 0.15 to \$ 0.40	\$ 0.29
Issued	2,060,000	\$ 0.10 to \$ 0.15	\$ 0.10
Expired	(13,854,212)	\$ 0.15 to \$ 0.40	\$ 0.31
<b>Balance, July 31, 2012</b>	2,978,734	\$ 0.10 to \$ 0.30	\$ 0.17

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**11. SHARE CAPITAL (Continued)**

(e) Share purchase warrants (Continued)

As at July 31, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants	
		2012	2011
September 23, 2011	\$ 0.30 to \$ 0.40	0	1,547,617
October 30, 2011	\$ 0.30	0	275,000
April 14, 2012	\$ 0.25 to \$ 0.30	0	496,200
April 23, 2012	\$ 0.25 to \$ 0.30	0	2,306,568
July 23, 2012	\$ 0.15 to \$ 0.30	0	9,228,827
December 21, 2012	\$ 0.10 to \$ 0.15	216,000	0
June 23, 2013	\$ 0.30	918,734	918,734
November 30, 2013	\$ 0.10	1,844,000	0
		2,978,734	14,772,946

The fair value of the finder's warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Expected life (years)	1.74	1.88
Interest rate	0.99%	1.51%
Volatility	86%	133%
Dividend yield	0.00%	0.00%

During the year ended July 31, 2012, nil (2011 - 208,262) finder's warrants were exercised resulting in \$nil (2011 - \$32,197) being reclassified from reserves to share capital. There are nil (2011 - 729,688) warrants contingently issuable in relation to agent options to acquire units (note 11(f)).

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**11. 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, 2012 and 2011, the following agent options were outstanding:

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	729,688	\$ 0.28	542,783	\$ 0.27
Expired	(729,688)	\$ 0.28	0	\$ 0.00
Issued	0	\$ 0.00	395,167	\$ 0.30
Exercised	0	\$ 0.00	(208,262)	\$ 0.30
Balance, end of year	0	\$ 0.00	729,688	\$ 0.28

Agent options outstanding and exercisable are as follows:

Expiry Date	Exercise Price	Number of Options	
		2012	2011
April 14, 2012	\$ 0.25 to \$ 0.30	0	17,200
April 23, 2012	\$ 0.28 to \$ 0.30	0	160,857
July 23, 2012	\$ 0.15 to \$ 0.30	0	156,464
July 23, 2012	\$ 0.22 to \$ 0.30	0	395,167
		0	729,688

**12. INCOME TAXES**

As at June 30, 2012, the Company has accumulated non-capital losses in Canada for tax purposes of approximately \$3,685,000 that may be carried forward to apply against future years' income for income tax purposes. The losses expire as follows:

2015	\$ 293,000
2026	559,000
2027	380,000
2028	5,000
2029	832,000
2030	492,000
2031	641,000
2032	483,000
	<b>\$ 3,685,000</b>

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**12. INCOME TAXES (Continued)**

In addition to the above losses, the Company has approximately \$3,631,000 in non-capital losses in the United States expiring in 2015, and \$175,000 in non-capital losses and \$273,000 in capital losses in Australia, which can be carried forward indefinitely. The Company de-registered its Australian subsidiary subsequent to year-end.

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of July 31 are as follows:

	<b>2012</b>	<b>2011</b>
Non-capital losses carried forward		
Canada	\$ 3,683,951	\$ 3,193,056
United States	3,630,867	3,308,601
Australia	175,225	174,743
Excess of tax value of mineral properties over carrying value	2,941,468	959,852
Excess of undepreciated capital cost over carrying value of equipment	150,875	83,348
Investment tax credits	657,582	559,040
Net capital losses carried forward		
Australia	272,609	272,038
Share issue costs and other	291,048	332,836
<b>Unrecognized deductible temporary differences</b>	<b>\$ 11,803,625</b>	<b>\$ 8,883,514</b>

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.63% (2011 - 27.33%) to income before income taxes.

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	<b>2012</b>	<b>2011</b>
Loss before income tax	\$ (2,577,569)	\$ (1,365,737)
Statutory income tax rate	25.63%	27.33%
Income tax recovery computed at statutory tax rate	(660,632)	(373,256)
Items not deductible for income tax purposes	11,740	30,757
Change in timing differences	(19,531)	93,485
Effect of change in tax rate	3,017	14,953
Impact of foreign exchange on tax assets	(51,961)	25,633
Unrecognized benefit of deferred income tax assets	709,367	124,460
<b>Deferred income recovery</b>	<b>\$ (8,000)</b>	<b>\$ (83,968)</b>

During the year ended July 31, 2012, the Company renounced \$20,000 (2011 - \$843,384) in expenditures for the flow-through units issued. The Company recorded an \$8,000 (2011 - \$83,968) deferred income tax recovery to recognize the premium received on the issue of flow-through shares.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**13. RELATED PARTY TRANSACTIONS AND BALANCES**

During the year ended July 31, 2012, the Company:

- (a) Paid \$32,670 (2011 - \$32,895) to a relative of a director, which is included in management fees;
- (b) Included in prepaid expenses \$5,000 (July 31, 2011 - \$5,000; August 1, 2010 - \$5,000) in advances to a director; and
- (c) Included in accounts payable and accrued liabilities \$306,129 (July 31, 2011 - \$102,102; August 1, 2010 - \$11,655) payable to directors and a relative of a director.

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

Key management and personnel compensation is as follows:

	<b>2012</b>	<b>2011</b>
Management fees	\$ 177,433	\$ 258,913
Share-based payments	38,760	53,600
<b>Total key management personnel compensation</b>	<b>\$ 216,193</b>	<b>\$ 258,913</b>

In 2012, \$45,030 (2011 - \$131,297) of management fees have been capitalized to mineral property interests. There were no post-employment benefits, termination benefits or other long-term benefits paid to key management personnel for the years ended July 31, 2012 and 2011.

**14. COMMITMENT**

The Company is committed to monthly lease payments of \$3,000 for its premises. The minimum annual payments are as follows:

2013	\$	36,000
2014		36,000
2015		36,000
2016		21,000
	<b>\$</b>	<b>129,000</b>



**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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

	2012	2011
Shares issued for mineral property interest	\$ 0	\$ 22,500
Fair value of options attributable to mineral property interests	\$ 0	\$ 34,814
Amortization of equipment included in mineral property interests	\$ 5,263	\$ 12,317
Mineral property interest expenditures included in accounts payable	\$ 24,583	\$ 80,674
Mineral property interest expenditures included in due to related parties	\$ -	\$ 57,649

**16. SEGMENT DISCLOSURE**

The Company's one reportable operating segment is the exploration of mineral properties.

**17. SUBSEQUENT EVENTS**

Subsequent to July 31, 2012, the following events occurred:

- (a) On October 31, 2012, the Company closed a private placement, issuing 14,644,000 units at a price of \$0.05 per unit for gross proceeds of \$732,200. Each unit consists of one common share and one common share purchase warrant to purchase one common share of the Company at a price of \$0.10 for a period of two years. The closing of the private placement is subject to TSX-V approval.
- (b) In October 2012, the Company signed an agreement that confirmed and formalized a LOI signed in July 2012 with a group of Canadian investors to acquire a 100% interest in the Rurembo Prospecting License in the Republic of Rwanda. Pursuant to the agreement, 6,000,000 shares of the Company will be issued to the optionors within ten business days after the agreement has been approved by the TSX-V. A further 6,000,000 shares of the Company will be issued to the optionors within ten business days after the prospecting license is upgraded to an exploration permit prior to the expiration of the prospecting license on February 22, 2014.

Additionally, the agreement requires that the Company pay the optionors \$100,443 within ten business days of approval of the agreement by the TSX-V, and a further \$100,443 if the prospecting license is upgraded to an exploration permit prior to the expiration of the prospecting license on February 22, 2014. The debt can be settled in full, at the discretion of the optionors, by issuing the optionors shares of the Company at an agreed value of \$0.05 per share.

The Company must also incur exploration expenditures of \$500,000 by February 28, 2013 and a further \$500,000 by February 21, 2014.

This agreement is still subject to TSX-V approval.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

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**18. TRANSITION TO IFRS**

The following summarizes the impact of the transition from previous GAAP to IFRS on the Company's financial position and comprehensive loss is set out in this note.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transition date, with all adjustments to assets and liabilities as stated under previous GAAP taken to deficit, with IFRS 1 providing for certain optional and mandatory exemptions to this principle.

(a) Impairment

Under IFRS, if indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value. Under previous GAAP, if indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. The Company completed an impairment review of its assets at August 1, 2010 and concluded that the assets were not impaired in accordance with IFRS.

Below are mandatory IFRS exemptions applied by the Company at the transition date.

(b) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of August 1, 2010 are consistent with its previous GAAP estimates for the same date.

Below are optional exemptions taken by the Company at the transition date.

(c) Business combinations

The Company elected not to apply IFRS 3 *Business Combinations* to business combinations that occurred prior to transition to IFRS on August 1, 2010.

(d) Share-based payments

The Company has elected to not apply IFRS 2 *Share-based Payment* to options that vested prior to the transition date of August 1, 2010.

Below are adjustments required by the Company in accordance with IFRS:

(e) Flow-through shares and units

Under previous GAAP, the accounting treatment of flow-through shares was addressed by EIC 146 *Flow-through Shares*, which required the proceeds received for the flow-through shares to be credited to shareholders' capital and the deferred tax liability recognized when the Company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**18. TRANSITION TO IFRS (Continued)**

(e) Flow-through shares and units (Continued)

Under IFRS, the Company sets up a liability for the difference between the proceeds received and the market price of the shares on the date of the transaction (the "premium"). As the expenditures are made, the Company will record the related tax liability associated with the renouncement of the tax benefits and remove the liability originally set up. The difference between the tax liability and the original liability set up will go through net income (loss). This has resulted in an increase in share capital of \$254,753 as at July 31, 2011 (August 1, 2010 - \$43,907), and an increase in deficit of \$254,753 (August 1, 2010 - \$127,875).

(f) Statement of cash flows

No material changes to cash flows resulted from the transition to IFRS.

The previous GAAP statement of comprehensive loss for the year ended July 31, 2011 has been reconciled to IFRS as follows:

	GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>			
Management fees	\$ 241,511	\$ 0	\$ 241,511
Share-based payments	110,274	0	110,274
Travel, promotion and shareholder costs	105,332	0	105,332
Professional fees	89,019	0	89,019
Property investigation	81,960	0	81,960
Office and miscellaneous	65,358	0	65,358
Rent	27,054	0	27,054
Property maintenance	20,286	0	20,286
Transfer agent fees	11,199	0	11,199
Stock exchange fees	10,681	0	10,681
Flow-through share financing costs	211	0	211
Write-down of expenditures on mineral property interests	591,938	0	591,938
Oil and gas revenue	(13,865)	0	(13,865)
Amortization	24,779	0	24,779
<b>Loss Before Deferred Income Tax Recovery</b>	(1,365,737)	0	(1,365,737)
<b>Deferred Income Tax Recovery</b> (note 18(e))	210,846	(126,878)	83,968
<b>Net and Comprehensive Loss for the Year</b>	\$ (1,154,891)	\$ (126,878)	\$ (1,281,769)

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2012 and 2011**  
**Expressed in Canadian Dollars**

**18. TRANSITION TO IFRS (Continued)**

The previous GAAP statements of financial position as at August 1, 2010 and July 31, 2011 have been reconciled to IFRS as follows:

	As at July 31, 2011			As at August 1, 2010		
	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>						
<b>Current assets</b>						
Cash	\$ 263,179	\$ 0	\$ 263,179	\$ 573,353	\$ 0	\$ 573,353
Reclamation deposit	0	0	-	18,000	0	18,000
Tenement bond	2,101	0	2,101	11,164	0	11,164
Receivables	47,658	0	47,658	37,326	0	37,326
Prepaid expenses	49,515	0	49,515	78,360	0	78,360
	362,453	0	362,453	718,203	0	718,203
<b>Reclamation Deposit</b>	10,000	0	10,000	10,000	0	10,000
<b>Equipment</b>	82,460	0	82,460	23,224	0	23,224
<b>Mineral Property Interests</b>	1,875,498	0	1,875,498	1,176,543	0	1,176,543
	\$ 2,330,411	\$ 0	\$ 2,330,411	\$ 1,927,970	\$ 0	\$ 1,927,970
<b>LIABILITIES</b>						
<b>Current</b>						
Accounts payable and accrued liabilities	\$ 79,513	\$ 0	\$ 79,513	\$ 178,829	\$ 0	\$ 178,829
Due to related parties	102,102	0	102,102	11,655	0	11,655
Flow-through share premium (note 18(e))	0	0	0	0	83,968	83,968
	181,615	0	181,615	190,484	83,968	274,452
<b>SHAREHOLDERS' EQUITY</b>						
Share capital (note 18(e))	29,093,672	254,753	29,348,425	27,754,111	43,907	27,798,018
Reserves	1,237,575	0	1,237,575	1,010,935	0	1,010,935
Deficit (note 18(e))	(28,182,451)	(254,753)	(28,437,204)	(27,027,560)	(127,875)	(27,155,435)
	2,148,796	0	2,148,796	1,737,486	(83,968)	1,653,518
	\$ 2,330,411	\$ 0	\$ 2,330,411	\$ 1,927,970	\$ 0	\$ 1,927,970