SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Financial Statements
July 31, 2010 and 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SOLOMON RESOURCES LIMITED

We have audited the consolidated balance sheets of Solomon Resources Limited as at July 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
November 15, 2010

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SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Balance Sheets (note 1)
July 31

		2010		2009
Assets				
Current				
Cash	$	573,353	$	102,078
Marketable securities (note 8)		0		156,953
Reclamation deposit (note 9)		18,000		18,000
Tenement bond (note 6)		11,164		10,720
Receivables		37,326		188,328
Prepaid expenses (note 13)		78,360		22,480
		718,203		498,559
Reclamation Deposit (note 9)		10,000		0
Equipment (note 7)		23,224		45,300
Mineral Property Interests (note 10)		1,176,543		1,840,442
	$	1,927,970	$	2,384,301
Liabilities				
Current				
Accounts payable and accrued liabilities (note 13)	$	190,484	$	134,537
Directors' loans (note 13)		0		100,000
		190,484		234,537
Shareholders' Equity				
Share capital (note 11)		27,754,111		25,941,179
Subscriptions received		0		25,000
Contributed surplus		1,010,935		753,438
Accumulated other comprehensive loss		0		(47,678)
Deficit (note 11(f))		(27,027,560)		(24,522,175)
		1,737,486		2,149,764
	$	1,927,970	$	2,384,301

Commitment (note 14)
Subsequent Events (note 15)

Approved on behalf of the Board:

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

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

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

	2010	2009
General and Administrative Expenses		
Management fees (note 13)	$ 200,951	$ 321,358
Stock-based compensation (note 11(d))	140,999	20,400
Travel, promotion and shareholder costs	72,777	56,376
Professional fees	64,293	187,133
Office and miscellaneous	61,888	77,200
Stock exchange fees	18,623	22,892
Rent and administrative services	18,372	22,610
Transfer agent fees	14,528	19,997
Flow-through share financing costs	803	28,676
Amortization	23,156	19,957
Loss Before Other Items and Income Taxes	(616,390)	(776,599)
Other Items		
Residual oil and gas income	20,252	11,623
Interest income	808	5,901
Loss on sale of marketable securities, net	(12,222)	(139,854)
Write-down of expenditures on mineral property interests (note 10)	(2,007,772)	(2,598,162)
Recovery of expenditures on mineral property interests	3,833	550,378
Interest expense	0	(100,000)
	(1,995,101)	(2,270,114)
Loss Before Income Taxes	(2,611,491)	(3,046,713)
Income Taxes Recovery (Expense)		
Current	0	(23,695)
Future (note 12)	127,875	0
Net Loss for the Year	$ (2,483,616)	$ (3,070,408)
Loss Per Share – Basic and Diluted	$ (0.24)	$ (0.52)
Weighted Average Number of Common Shares Outstanding	10,539,320	5,880,004
Other Comprehensive loss		
Net loss	$ (2,483,616)	$ (3,070,408)
Transfer to income on sale of marketable securities	47,678	(102,025)
Unrealized foreign exchange loss on translation of self-sustaining entity	0	(72,541)
Unrealized loss on available-for-sale marketable securities	0	(356)
Comprehensive loss for the Year	$ (2,435,938)	$ (3,245,330)

See notes to consolidated financial statements.

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

	Capital Stock				Accumulated Other		
	Shares	Amount	Contributed Surplus	Subscriptions Received	Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, July 31, 2008	5,426,040	$ 25,494,867	$ 733,038	$ 0	$ 127,244	$ (21,451,767)	$ 4,903,382
Comprehensive loss for year	0	0	0	0	(174,922)	(3,070,408)	(3,245,330)
Shares issued for cash							
Private placement	555,625	277,812	0	0	0	0	277,812
Share issue costs	0	(6,500)	0	0	0	0	(6,500)
Shares issued for non-cash							
Issue of shares for interest in resource property	88,500	75,000	0	0	0	0	75,000
Interest expense on directors' loans	200,000	100,000	0	0	0	0	100,000
Stock-based compensation	0	0	20,400	0	0	0	20,400
Subscriptions received	0	0	0	25,000	0	0	25,000
Rounding adjustment on consolidation	(5)	0	0	0	0	0	0
Balance, July 31, 2009	6,270,160	25,941,179	753,438	25,000	(47,678)	(24,522,175)	2,149,764
Comprehensive gain (loss) for year	0	0	0	0	47,678	(2,483,616)	(2,435,938)
Shares issued for cash							
Private placement	8,625,535	1,838,769	0	0	0	0	1,838,769
Share issue costs	0	(250,962)	0	0	0	0	(250,962)
Shares issued for non-cash					0	0	
Issue of shares for interest in resource property	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
Warrants issued as finder's fees	0	0	76,585	0	0	0	76,585
Subscriptions closed	100,000	25,000	0	(25,000)	0	0	0
Income tax effect on flow-through shares renouncement	0	(127,875)	0	0	0	0	(127,875)
Warrants revaluation	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

See notes to consolidated financial statements.

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

	2010	2009
Operating Activities		
Net loss for the year	$ (2,483,616)	$ (3,070,408)
Items not involving cash		
Stock-based compensation	140,999	20,400
Interest expense	0	100,000
Future income tax recovery	(127,875)	
Write-down of expenditures on mineral property interests	2,007,772	2,598,162
Loss on sale of marketable securities	12,222	139,854
Unrealized foreign exchange gain	(444)	(826)
Amortization	23,156	19,957
	(427,786)	(192,861)
Changes in non-cash working capital items		
Receivables	123,483	(113,315)
Prepaid expenses	(55,880)	4,685
Accounts payable and accrued liabilities	(624)	(182,252)
	66,979	(290,882)
Cash Used in Operating Activities	(360,807)	(483,743)
Financing Activities		
Proceeds on issue of shares, net	1,664,392	271,312
Subscriptions received	0	25,000
Proceeds on receipt of loans from directors	0	500,000
Repayment of loans from directors	(100,000)	(400,000)
Cash Provided by Financing Activities	1,564,392	396,312
Investing Activities		
Proceeds on sale of marketable securities, net	192,409	869,945
Reclamation deposit	(10,000)	240,044
Purchase of equipment	(1,080)	(21,067)
Cash expenditures on mineral property interests	(913,639)	(1,167,564)
Cash Used in Investing Activities	(732,310)	(78,642)
Inflow (Outflow) of Cash	471,275	(166,073)
Cash, Beginning of Year	102,078	268,151
Cash, End of Year	$ 573,353	$ 102,078

Supplemental disclosure with respect to cash flows (note 16)

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 resource property interests and has not determined whether the properties contain economically recoverable reserves of ore. The Company has not earned significant revenues from its resource 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 $2,483,616 and $3,070,408 for the years ended July 31, 2010 and 2009, respectively, has an accumulated deficit in the exploration stage of $27,027,560 as at July 31, 2010 (2009 - $24,522,175) and accumulated other comprehensive loss of $nil (2009 - $47,678). 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 2009 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) and 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 have been reclassified from self-sustaining to integrated and the translation method has been 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.

The amounts shown for mineral property interests do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

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 to shareholders, consisting of common shares and warrants, are allocated entirely to common shares and no value is allocated to warrants.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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. The Company assessed its mineral properties and, based upon such assessments, there were no known material AROs as at July 31, 2010 or 2009.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign currency translation

Foreign currency balances, including those of foreign subsidiaries, are expressed in Canadian dollars on the following bases for the Company's integrated subsidiaries:

- Monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the exchange rates in effect at the date of the transaction, except for amortization, which is translated at the historical rate. Exchange gains and losses arising on translation are included in the statements of operations.

Foreign currency balances, including those of foreign subsidiaries, are expressed in Canadian dollars on the following bases for the Company's self-sustaining subsidiary:

- Assets and liabilities that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates in effect at the date of the transaction. Exchange gains and losses arising on translation are included in other comprehensive income.

(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 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 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 period. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Flow-through shares

The Company may from time to time issue flow-through common shares to finance its mineral exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholder the income tax attributes of qualifying mineral exploration costs financed by such shares. 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 income tax liability. Where available, the Company offsets future income tax liabilities with future income tax assets, resulting in recognition of a future income tax recovery for previously unrecognized future income tax assets.

(m) Future 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.

(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.

(o) Change in accounting policy

Business Combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Change in accounting policy (Continued)

Business Combinations (Continued)

The Company has early adopted CICA Handbook Section 1582, which replaces the previous business combinations standard. The new standard requires that all of the assets acquired and the liabilities assumed in a business combination be recorded at fair value, which was not the case under the previous standard. The new standard also requires that previously held ownership interests be re-measured to the acquisition date fair value, rather than being restated to cost. In addition, the new standard requires that all acquisition costs associated with the acquisition are expensed, rather than being capitalized as part of the acquisition, that contingent liabilities are recognized at fair value at the acquisition date and subsequently re-measured to fair value with changes recognized in earnings, and that a bargain purchase is recognized in earnings rather than being allocated to non-monetary assets.

The Company also early adopted CICA Handbook Sections 1601 and 1602, which together replaced Section 1600. Section 1602 requires non-controlling interests to be presented within equity.

The adoption of the new sections has been completed on a prospective basis and has no impact on the Company's consolidated financial statements.

(p) Future accounting change

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian generally accepted accounting principles will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements commencing with its October 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended July 31, 2011. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

4. FINANCIAL INSTRUMENTS

Financial instruments are designated as follows:

Cash – as held-for-trading
Tenement bond and Reclamation deposit – held-to-maturity
Receivables – as loans and receivables
Marketable securities – as available-for-sale
Accounts payable and accrued liabilities – as other financial liabilities
Directors' loans – as other financial liabilities.

The fair values of the Company's cash, reclamation deposit (current), tenement bond, receivables, accounts payable and accrued liabilities, and directors' loans 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 the local government authorities and will be held until the exploration work is completed on certain properties and there is no environmental disturbance to the property.

4. FINANCIAL INSTRUMENTS (Continued)

The carrying value of financial assets by category at July 31, 2010 is as follows:

Financial Assets	Held-for-trading	Available-for-sale	Held-to-maturity	Loan and receivables
Cash	$ 573,353	$ 0	$ 0	$ 0
Marketable securities	0	0	0	0
Tenement bond	0	0	11,164	0
Reclamation deposit	0	0	28,000	0
Receivables	0	0	0	4,996
	$ 573,353	$ 0	$ 39,164	$ 4,996

The carrying value of financial assets by category at July 31, 2009 is as follows:

Financial Assets	Held-for-trading	Available-for-sale	Held-to-maturity	Loan and receivables
Cash	$ 102,078	$ 0	$ 0	$ 0
Marketable securities	0	156,953	0	0
Tenement bond	0	0	10,720	0
Reclamation deposit	0	0	18,000	0
Receivables	0	0	0	176,814
	$ 102,078	$ 156,953	$ 28,720	$ 176,814

The carrying value of financial liabilities at July 31, 2010 is $190,484 (2009 - $234,537).

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 counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to financial assets including cash, receivables, reclamation deposit and tenement bond. The Company's total exposure to credit risk is $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 is made up of a guaranteed investment certificate ("GIC") held at a high-credit quality Canadian financial institution and cash deposited with local government agency in Canada. Tenement bond is deposited with local government agency in Australia.

4. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

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

	2010	2009
Bank accounts – Canada	$ 570,747	$ 98,805
Bank accounts – Australia	2,606	3,273
Receivables	4,996	176,814
Reclamation deposit	28,000	18,000
Tenement bond	11,164	10,720
	$ 617,513	$ 307,612

(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, 2010 in the amount of $573,353 (2009 - $102,078) in order to meet short-term business requirements. At July 31, 2010, the Company has current liabilities of $190,484 (2009 - $234,537). All its non-derivative financial liabilities, made up of accounts payable and accrued liabilities, are due within 30 days of the year-end. The Company does not have any derivative financial liabilities.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. 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 US dollars, and Australian dollars (AU)). The Company has net assets of $5,065 (2009 - $186,045) denominated in AU. For the year ended July 31, 2010, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AU by 14% will not have a material effect on the Company's business, financial condition and results of operations. For the year ended July 31, 2009, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in AU by 25% will increase or decrease foreign exchange expense by $46,000 in these financial statements. The Company does not manage currency risk through hedging or other currency management tools.

4. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

The Company is exposed to interest rate price risk on its GIC with fixed interest rate as the prevailing interest rate can differ from the interest rate of the GIC. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of July 31, 2010.

Due to fixed interest rates on its GIC, the Company is not exposed to interest rate cash flow risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company has no exposure to other price risk at July 31, 2010 and 2009.

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

In June 2009, the Company entered into an agreement to acquire all of the issued and outstanding common shares of Avasca, a private British Columbia corporation.

The acquisition of Avasca has been accounted for using the acquisition method whereby all of the net assets assumed are recorded at fair value. The only net 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 (note 10(h)).

6. TENEMENT BOND

The Company has a tenement bond in respect of previously disposed mineral property interests in Australia in the amount of $11,164 (AU $12,000) (2009 - $10,720 (AU $12,000)). The Company has requested a refund of the tenement bond.

7. EQUIPMENT

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

	2009		
	Cost	Accumulated Amortization	Net
Equipment	$ 70,804	$ 25,504	$ 45,300

8. MARKETABLE SECURITIES

	2010				
	Number of Shares		Market Value		Cost
Integra Mining Ltd. (ASX:IGR)	0	$	0	$	0
Orezone Gold Corporation (TSX:ORE)	0		0		0
		$	0	$	0

	2009				
	Number of Shares		Market Value		Cost
Integra Mining Ltd. (ASX:IGR)	706,745	$	151,520	$	205,531
Orezone Gold Corporation (TSX-V:ORG)	10,250		5,433		5,789
		$	156,953	$	211,320

The carrying value of marketable securities is equal to market value determined by the quoted closing market price on the respective exchanges.

9. RECLAMATION DEPOSIT

The Company has pledged an $18,000 (2009 - $18,000) GIC and $10,000 cash deposit as a site reclamation deposit pursuant to a condition of receiving consent from a government agency to explore its mineral property interest. The Company has finished exploration work on the property for which it has pledged a GIC in 2009 and requested a refund. The GIC has an effective interest rate of prime minus 1.85% and was due on May 19, 2010, which was rolled over to May 19, 2011 in the current year.

The deposit is refundable if there is no environmental disturbance to the property. It is management's opinion that there has been minimal disturbance to the property to date. The carrying value approximates the fair value of the GIC.

10. MINERAL PROPERTY INTERESTS

	Burkino Faso (note 10(a))	Metla	Mongolia SRM (note 10(b))	Sleitat (note 10(c))	Bowron Basin Coal (note 10(d))	COL (note 10(e))	Goldcreek (note 10(f))	Bonanza (note 10(g))	Cry Lake (note 10(h))	Ten Mile Creek (note 10(i))	Kluane claims (note 10(j))	Total
Balance, July 31, 2008	$ 1	$ 1	$3,057,972	$ 1	$ 138,063	$ 1	$ 0	$ 0	$ 0	$ 0	$ 0	$3,196,039
Expenditures during year												
Drilling	0	0	0	0	0	0	351,322	0	0	0	0	351,322
Personnel	0	0	435,066	0	0	11,412	135,674	150,378	15,238	0	0	747,768
Camp costs, travel and assays	0	0	0	0	0	5,983	179,252	43,037	1,650	0	0	229,922
Mapping	0	0	0	2,550	0	2,345	1,029	9,070	255	0	0	15,249
Options payments / land renewal payments	0	0	0	4,952	0	0	150,000	40,000	0	0	0	194,952
Write-off of expenditures	0	(1)	(1,621,500)	(7,502)	(138,063)	(13,819)	(817,277)	0	0	0	0	(2,598,162)
Recovery of expenditures	(387,000)	0	(246,800)	0	0	(163,379)	0	0	0	0	0	(797,179)
Current year BC METC credit	0	0	0	0	0	(5,921)	0	(40,497)	(3,429)	0	0	(49,847)
Property exchanged for investment	386,999	0	0	0	0	0	0	0	0	0	0	386,999
Recognition of recovery	0	0	0	0	0	163,379	0	0	0	0	0	163,379
Balance, July 31, 2009	0	0	1,624,738	1	0	1	0	201,988	13,714	0	0	1,840,442
Expenditures during year												
Drilling	0	0	0	0	0	0	0	0	70,437	0	0	70,437
Personnel	0	0	89,629	0	0	0	0	19,060	106,604	150,633	5,001	370,927
Camp costs, travel and helicopter costs	0	0	0	0	0	0	0	2,656	178,219	160,624	0	341,499
Mapping	0	0	0	0	0	0	0	965	1,710	510	0	3,185
Sampling	0	0	0	0	0	0	0	7,822	11,276	25,649	0	44,747
Options payments / land renewal payments	0	0	34,395	0	0	0	0	0	204,644	246,520	0	485,559
Write-down of expenditures	0	0	(1,775,281)	0	0	0	0	(232,491)	0	0	0	(2,007,772)
Reclassification	0	0	27,519	0	0	0	0	0	0	0	0	27,519
Balance, July 31, 2010	$ 0	$ 0	$ 1,000	$ 1	$ 0	$ 1	$ 0	$ 0	$ 586,604	$ 583,936	$ 5,001	$1,176,543

10. MINERAL PROPERTY INTERESTS (Continued)

(a) Burkina Faso - West Africa

On August 7, 2008, the Company reached an agreement with Channel Resources Limited ("Channel") and Orezone Resources Inc. ("Orezone Resources") whereby the Company and Channel sold their remaining interests in the Bombore Gold Project to Orezone Resources. Consideration for the remaining interests in Bombore, including the 1% net smelter return royalty ("NSR"), was 450,000 common shares in Orezone Resources, issued in September 2008 and valued at $387,000. The Company had previously written the carrying value of their interests down to a nominal value and accordingly recognized a recovery of $386,999.

In February 2009, the Company exchanged its 450,000 shares in Orezone Resources for 36,000 shares in IAMGOLD Corporation and 56,250 shares in Orezone Gold Corporation (a new corporation) pursuant to a plan of arrangement under the *Canada Business Corporations Act*. All of the Company's shares in IAMGOLD and 46,000 of its shares in Orezone Gold Corporation were sold prior to July 31, 2009 and the balance was sold in the year ended July 31, 2010 (see note 8).

(b) SRM XXK, Mongolia

In January 2006, the Company formed its 100%-owned Mongolian subsidiary SRM XXK - Solomon Resources Mongolia, enabling it to acquire and develop projects in Mongolia exclusive of the Gallant agreement, which had governed the Company's previous marketable securities in Mongolia.

The Company was granted five mineral licenses in 2006 including:

- Airag 1: Dornogobi Province;
- Airag 2: Dornogobi Province;
- Airag 3: Dornogobi Province;
- Matad 1: Dornod Province; and
- Matad 2: Dornod Province.

On November 8, 2006, the Company negotiated a letter of intent ("LOI") to acquire a 100% interest in the Zamtiin Gol uranium property from Erdenyn Erel LLC ("Erdenyn Erel"), a private Mongolian company. The Zamtiin Gol property was located in Arkhangai Province in west-central Mongolia.

The Company was granted three additional licenses in July 2007, being:

- Dornogobi 1: Dornogobi Province, Mongolia;
- Dornogobi 2: Dornogobi Province, Mongolia; and
- Uvurkhangai: Uvurkhangai Province, Mongolia.

During the year ended July 31, 2008, the Company was granted two additional licenses, being:

- Dornogobi 3: Dornogobi Province, Mongolia; and
- Dornogobi 4: Dornogobi Province, Mongolia.

10. MINERAL PROPERTY INTERESTS (Continued)

(b) SRM XXK, Mongolia (Continued)

During the year ended July 31, 2008, the Company relinquished the following licenses and wrote-off related deferred exploration expenditures of $97,045:

- Airag 1: Dornogobi Province;
- Airag 3: Dornogobi Province;
- Matad 1: Dornod Province; and
- Matad 2: Dornod Province.

During the year ended July 31, 2009, the Company recovered an amount of $137,225 by way of a refund of Value Added Tax paid in Mongolia over a number of years.

During the year ended July 31, 2009, the Company relinquished the following licenses:

- Airag 2: Dornogobi Province;
- Uvurkhangai: Uvurkhangai Province;
- Zamtiin Gol: Arkhangai Province;

and sold Dornogobi 4: Dornogobi Province for proceeds of $109,575 of which $55,250 was received prior to July 31, 2009 and $21,355 was received in August 2009. The balance of $32,970 is contracted to be received after the transfer of licenses has been effected by the relevant authorities in Mongolia.

The two amounts shown above, a total of $246,800, were accounted for as a recovery of expenditures in the year ended July 31, 2009. During the year ended July 31, 2010, the Company was unable to transfer the licenses to the buyer as a result of a lack of final approval from the Government of Mongolia. The Company has therefore written back the recovery of $109,575 and included it in the amount of expenditures written off (see below). Included in the write-offs of expenditures of resource properties is $27,519 that relates to amounts recorded in accounts receivable in the year ended July 31, 2009.

During the year ended July 31, 2010, the Company relinquished the following licenses and wrote-off deferred exploration expenditures of $1,775,281 with respect to the licenses relinquished:

- Dornogobi 1: Dornogobi Province; and
- Dornogobi 2: Dornogobi Province.

The Company has re-registered its license to the property known as Dornogobi 3: Dornogobi Province, as required by the Nuclear Energy Law introduced in July 2009. Subsequent to the year-end, Dornogobi 3 license was also relinquished (note 15(f)).

The Company does not plan any further investment in Mongolia and is actively seeking joint venture partners for its remaining interest therein. Considerable uncertainty exists with respect to the Company’s ability to realize any value for the project and the investment has therefore been written down to $1,000.

10. MINERAL PROPERTY INTERESTS (Continued)

(c) Sleitat Mountain, Alaska

The Company owns a 20% interest in the Sleitat Mountain deposit near Dillingham, southwest Alaska. 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% NSR on subsequent production of any metals from the property.

In the year ended July 31, 2009, the carrying value was written down to a nominal amount.

(d) Bowron Basin Coal Project, British Columbia

The mineral claims and the Bowron Basin coal licenses were abandoned or relinguished during the year ended July 31, 2009 and deferred costs of $138,063 were written off.

(e) COL Copper-Gold Property, British Columbia

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

During the year ended July 31, 2009, the Company received mineral exploration tax credits of $163,379 related to prior year expenditures.

The Company determined that it would not continue exploration on the Property and expenditures of $1,862,015 and $13,819 were written off in the years ended July 31, 2008 and 2009, respectively.

The Company retains the 32 claims acquired in 2006/2007 outside of the option tenures but has no plans to conduct exploration on this tenure. The claims are protected by the work previously done on the tenures.

(f) Goldcreek Property, Ontario

In September 2008, the Company signed a Letter of Intent with Mengold Resources Inc. ("Mengold") to earn up to a 50% interest in the Goldcreek Archean Property located approximately 70 kilometres west of Thunder Bay, in the Shebandowan area of northwestern Ontario. The 90 contiguous claims are located in Conacher, Duckworth, Horne, Laurie and Sackville townships.

The Company could earn up to a 50% interest in the Property by conducting an exploration program over three years totaling $5,400,000, making a $100,000 cash payment to Mengold and issuing common shares of the Company to Mengold with a fair value of $375,000 over three years (the initial $50,000 tranche was satisfied by the issuance of 38,500 shares at a fair value of $1.30 per share).

The Company was unable to satisfactorily finalize arrangements with Mengold and therefore terminated its involvement in the Project on September 22, 2009 and wrote-off the expenditure thereon ($817,277) during the year ended July 31, 2009.

10. MINERAL PROPERTY INTERESTS (Continued)

(g) Bonanza Property, 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.

To acquire a 60% interest in the property, the Company would be required to pay $160,000 and issue 350,000 shares to Cazador over three years; 50,000 shares with a fair value of $25,000 were issued to Cazador in May 2009. The Company could acquire the remaining 40% interest by paying $100,000 and issuing 150,000 shares to Cazador by the end of the fourth year. Should the Company fully exercise the option, Cazador would be granted a 2.5% NSR on the property. Should the property be placed into commercial production, the Company could purchase the royalty from Cazador until the fifth anniversary of the commencement of commercial production for $1,500,000. Should the Company acquire a 60% interest in the property, it would form a joint venture with Cazador for the further exploration of the property. The Company would be the operator of the joint venture.

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. The Company therefore abandoned the option and wrote-off its investment of $232,491 in the property.

(h) Cry Lake Property, British Columbia

In June 2009, the Company entered into an agreement to acquire all the shares of Avasca by issuing 616,000 common shares valued at $154,000 (notes 5 and 11(b)). The agreement closed subsequent to July 31, 2009. Avasca’s sole asset is an option to acquire 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. The property is subject to a 2% underlying NSR in favour of a third party.

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

(i) Issue 400,000 units consisting of common shares and warrants from its capital stock to Kaminak as follows:

- 100,000 units within 15 days following the completion of the TSX-V approval (the “Approved Transaction”) (issued (note 11(b));
- 100,000 units no later than the first anniversary date of the Approved Transaction;
- 100,000 units no later than the second anniversary date of the Approved Transaction; and
- 100,000 units no later than the third anniversary date of the Approved Transaction.

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

- $300,000 by December 31, 2009;
- $800,000 by December 31, 2010; and
- $2,000,000 by December 31, 2011.

10. MINERAL PROPERTY INTERESTS (Continued)

(h) Cry Lake Property, British Columbia (Continued)

Each unit consists of one common share of the Company and one share purchase warrant to purchase a further common share for one year at the market price of the Company's shares at the time of the TSX-V approval or, for the second, third and fourth tranches, at the market price of the time of issuance if that price is higher than the market price at the time of TSX-V approval. Upon completion of the terms of the option, the Company and Kaminak will form a joint venture with the Company as operator. If Kaminak's interest is reduced to 5%, such interest will be converted to a 1% NSR and, if the Company's interest is reduced to 5%, such interest will be converted to a 2% NSR.

Subsequent to the Company's purchase of Avasca, Avasca transferred the option agreement to the Company in return for a commitment by the Company to spend at least $300,000 on the property within one year. Prior spending on the property by the previous owners in the amount of $138,778 has been recorded as mineral property interests.

Subsequent to the year-end, the Company did not meet its commitment to issue 100,000 units on the first anniversary date of the Approved Transaction. The Company is currently in negotiations with Kaminak to amend the current agreement and the outcome of those negotiations is not known at the time of these financial statements.

(i) 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 (note 15(c)). 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; and
- 250,000 shares on or before May 21, 2012.

(ii) Pay $500,000 as follows:
- $100,000 on or before May 21, 2010 (paid);
- $150,000 on or before May 21, 2011; 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
- $1,000,000 by December 31, 2011; and
- $2,500,000 by December 31, 2012.

10. MINERAL PROPERTY INTERESTS (Continued)

(j) Kluane, Yukon Territory

In June 2010, the Company commenced work that culminated, subsequent to the year-end, in the staking of the Pacer and Rosie claims (note 15(e)).

The Pacer 1 – 56 Claims (Grant Number YD90841-YD90896) are located in the Whitehorse Mining District of the Yukon Territory approximately five kilometres west of the town of Haines Junction in the Front Ranges of the Kluane Mountains. The Pacer Claims are 100% owned by the Company.

The Rosie 1 – 32 Claims (Grant Number YD90897-YD90928) are located in the Whitehorse Mining District of the Yukon Territory approximately 55 kilometres northeast of the town of Destruction Bay. The Rosie Claims are 100% owned by the Company.

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.

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, 2009, the Company consolidated its share capital on a 10:1 basis. All share numbers in these notes and financial statements are post-consolidation numbers.

(i) In October 2008, the Company issued 38,500 common shares with a fair value of $1.30 per share to Mengold with respect to the Goldcreek property in northwestern Ontario.

(ii) In May 2009, the Company issued 50,000 common shares with a fair value of $0.50 per share to Cazador with respect to the Bonanza property.

(iii) In January 2009, the Company issued 555,625 units for gross proceeds of $277,812. Each unit consisted of one common share and one share purchase warrant exercisable at $1.00 to January 8, 2010.

(iv) In January 2009, as approved by the TSX-V, the Company issued 100,000 common shares to each of two directors as interest on short-term loans aggregating $500,000 provided by the directors to the Company.

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

(v) 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.

(vi) 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.

(vii) 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 $24,781 in cash and issued 154,762 finder's units 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 such warrant, 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 warrants was $26,754.

(viii) 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 per common share on or before October 30, 2010 and at $0.40 per common share on or before October 30, 2011. The Company paid a finder's fee of $8,537 in cash.

11. SHARE CAPITAL (Continued)

(b) Issued (Continued)

(ix) 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 per unit on or before April 14, 2012. The exercise price of these warrants was reduced to $0.30 per unit in July 2010 (note 11(f)). The Company issued 17,200 finder's units consisting of one common share and a warrant to purchase one common share exercisable at $0.25 per share before April 14, 2012 and $0.30 per share before April 14, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.40 per share until April 14, 2012. The fair value of the finder's warrants was $3,003.

(x) 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 per unit on or before April 14, 2012. The exercise price of these warrants was reduced to $0.30 per unit in July 2010 (note 11(f)). The Company paid $63,015 in cash and issued 170,857 finder's units consisting of one common share and a warrant to purchase one common share exercisable at $0.28 per share before April 23, 2011 and $0.30 per share before April 23, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.40 per share until April 23, 2012. The fair value of the finder's warrants was $29,840.

(xi) 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.

(xii) 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 finder's units consisting of one common share and a 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 finder's warrants was $16,988.

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

(xiii) 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 10(h)). 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.

(xiv) In August 2009, 100,000 units valued at $30,000 were issued to Kaminak in respect of the Cry Lake property agreement. 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 (note 10(h)).

(xv) 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 10(i)).

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(b) Issued (Continued)

(xvi) 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 10(i)).

(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 12 months with no more than one-quarter of the options vesting in any three-month period.

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

	Number of Options Outstanding	Exercise Price	Weighted Average Exercise Price
Outstanding, July 31, 2008	239,000	$ 2.50 to $3.95	$ 3.60
Granted	102,000	$ 2.50	$ 2.50
Cancelled	(62,000)	$ 2.50 to $3.60	$ 3.42
Outstanding, 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

The weighted average life of outstanding stock options at July 31, 2010 is 3.87 years (2009 – 2.67 years).

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

As at July 31, 2010, the following options were outstanding:

		2010		2009	
Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Number of Options Outstanding	Number of Options Exercisable
June 5, 2010	$ 3.950	0	0	5,000	5,000
June 27, 2010	$ 3.500	0	0	25,000	25,000
November 18, 2010*	$ 3.100	5,000	5,000	5,000	5,000
January 13, 2011	$ 3.600	55,000	55,000	55,000	55,000
April 20, 2011	$ 3.600	5,000	5,000	30,000	30,000
April 5, 2012	$ 3.600	42,000	42,000	47,000	47,000
January 9, 2013	$ 3.600	20,000	20,000	20,000	20,000
October 1, 2013	$ 2.500	82,000	82,000	92,000	92,000
December 1, 2014	$ 0.265	570,000	570,000	0	0
February 3, 2015	$ 0.350	100,000	25,000	0	0
February 3, 2015	$ 0.500	100,000	25,000	0	0
		979,000	829,000	279,000	279,000

* note 15(d)

(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:

	2010	2009
Expected life (years)	5	5
Interest rate	2.40%	3.55%
Volatility	113.22%	80.33%
Dividend yield	0.00%	0.00%

The fair value of options granted and vested during the year ended July 31, 2010 was $0.21 per option (2009 - $0.20 per option) issued for management fees and $0.10 per option (2009 - $nil per option) issued for investor relations. On July 31, 2010, there is $19,860 (2009 - $Nil) 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:

	2010	2009
Management fees	$ 121,139	$ 20,400
Investor relations	19,860	0
	$ 140,999	$ 20,400

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(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
Outstanding, July 31, 2008	663,130	$ 0.50 to $ 0.75	$ 0.54
Granted	555,625	$ 1.00	$ 1.00
Cancelled	(663,130)	$ 0.50 to $ 0.75	$ 0.54
Outstanding, July 31, 2009	555,625	$ 1.00	$ 1.00
Granted	9,466,318	$ 0.15 to $ 0.50	$ 0.30
Expired	(555,625)	$ 1.00	$ 1.00
Balance, July 31, 2010	9,466,318	$ 0.15 to $ 0.50	$ 0.30

As at July 31, the following warrants were outstanding:

		Number of Warrants	
Expiry Date	Exercise Price	**2010**	**2009**
January 8, 2010	$ 1.00	0	555,625
August 17, 2010 (note 15(d))	$ 0.30	100,000	0
August 17, 2010 (note 15(d))	$ 0.50	358,000	0
September 4, 2010 (note 15(d))	$ 0.50	160,000	0
September 23, 2011 (note 15(b))	$ 0.21 - $ 0.40	1,702,379	0
October 30, 2011 (note 15(b))	$ 0.30 - $ 0.40	888,096	0
April 14, 2012 (note 11(f))	$ 0.25 - $ 0.30	496,200	0
April 23, 2012 (notes 11(f) and 15(b))	$ 0.25 - $ 0.30	2,306,568	0
July 23, 2012	$ 0.15 - $ 0.30	3,455,075	0
		9,466,318	555,625

There are 542,783 warrants contingently issuable (note 11(b)).

The fair value of the finder's warrants included in share issue costs was $76,585 (2009 - $Nil) and for warrants issued for mineral properties was $18,144 (2009 - $Nil); and was calculated using the following weighted average assumptions:

	2010	**2009**
Expected life (years)	1.84	N/A
Interest rate	1.58%	N/A
Volatility	148.45%	N/A
Dividend yield	0.00%	N/A

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(f) Warrant revaluation

On July 23, 2010, the Company amended the exercise price of 2,614,711 share purchase warrants from $0.40 to $0.30 (note 11(e)). 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 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.

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

	2010	2009
Expected life (years)	1.73	N/A
Interest rate	1.60%	N/A
Volatility	141.69%	N/A
Dividend yield	0.00%	N/A

12. 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
2029	828,000
2030	492,000
Indefinitely	398,000
	$ 6,526,000

The tax losses above include approximately $3,576,000 that may be applied against future taxable income in the US over a 20-year period.

Tax losses of $398,000 consist of capital losses of $268,000, which may be applied against future taxable capital gains, and non-capital losses of $130,000 may be carried forward to apply against future income for Australian tax purposes indefinitely.

The Company's carry-forward losses for Canadian tax purposes are $2,552,000 (2009 - $2,166,000), 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.

(Expressed in Canadian Dollars)

12. INCOME TAXES (Continued)

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

	2010	2009
Income tax benefit computed at Canadian statutory rates	$ (760,597)	$ (951,787)
Recovery of resource expenditures	(1,116)	(178,873)
Other permanent differences	41,377	37,708
Write-down / write-off of mineral property interests	584,764	844,403
Other temporary differences	(20,981)	(31,783)
Changes in future income taxes resulting from enacted tax rate reduction	65,625	592,748
Changes resulting from timing differences		
Write-down of mineral property interests	(478,083)	(805,430)
Other timing differences	42,538	240,601
Change in valuation allowance	398,598	252,413
Income tax expense (recovery)	$ (127,875)	$ 0

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

	2010	2009
Future income tax assets		
Tax value over book value of mineral properties	$ 291,302	$ 0
Tax value over book value of share issue costs	48,215	29,555
Other	159,580	201,411
Non-capital losses carried forward	1,213,528	1,125,018
Capital losses carried forward	80,324	80,324
Valuation allowance	(1,792,949)	(1,394,351)
Net future income tax assets	0	41,957
Future income tax liabilities		
Book value over tax value of mineral property interests	0	(41,957)
	$ 0	$ 0

In December 2009, the Company renounced $511,500 (2009 - $Nil) of exploration expenditures under its flow-through share program, resulting in a future income tax liability of $127,875 (2009 - $Nil), which was reduced by the recognition of previously unrecognized future income tax assets resulting in a $127,875 future income tax recovery. As at July 31, 2010, the amount of flow-through proceeds to be expended by December 31, 2010 is $Nil and by December 31, 2011 is $845,520.

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company:

(a) Paid $209,145 (2009 - $347,965) to officers, directors and a relative of a director, which is included in management fees and fees capitalized (2010 - $80,914; 2009 - $39,094) to mineral properties;

(b) Included in prepaid expenses is $5,000 (2009 - $5,000) in advances to a director and officers;

(c) Included in accounts payable and accrued liabilities is $11,655 (2009 - $18,703) payable to an officer, a director and to a relative of a director; and

(d) In January 2009, the Company was advanced short-term loans aggregating $500,000 by two directors of the Company. The loans were non-interest-bearing. As approved by the TSX-V, the Company issued 100,000 common shares to each of the two directors as a bonus payment resulting in an effective interest rate of 40%, valued at $100,000 using the closing quoted market price on date of issuance. The loans were repayable within six months or such other time scale as may be negotiated by the directors and the Company, and are secured by a pledge of certain marketable securities held by the Company. By July 31, 2009, the Company had repaid $400,000 and the balance was repaid in the year ended July 31, 2010.

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.

14. COMMITMENT

Office lease commitment is as follows:

2011	$	10,073

The Company has a lease for office premises at a rate of $1,439 per month. The remaining lease term is seven months.

15. SUBSEQUENT EVENTS

Subsequent to July 31, 2010:

(a) 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 exercisable at $0.30 on or before July 23, 2012. The Company paid $86,937 in cash and issued 395,167 finder's units consisting of one common share and one warrant to purchase one common share exercisable at $0.22 per share until September 15, 2011 and $0.30 per share until July 23, 2012; upon exercise of each such warrant, an additional warrant will be issued to purchase one common share at $0.30 until July 23, 2012.

(Expressed in Canadian Dollars)

15. SUBSEQUENT EVENTS (Continued)

(b) The Company issued 932,620 common shares for gross proceeds of $265,657 as a result of exercise of the following warrants and finder's warrants:

Expiry Date	Exercise Price	Warrants Exercised
September 23, 2011 (note 11(e))	$ 0.21*	154,762*
September 23, 2011 (note 11(e))	$ 0.30	154,762
October 30, 2011 (note 11(e))	$ 0.30	613,096
April 23, 2012 (note 11(e))	$ 0.28*	10,000*
		932,620

* finder's warrants

(c) The Company acquired a 51% interest in mineral claims to the northwest and southeast of the Ten Mile Creek gold project in the Yukon Territory. These claims have been incorporated into the existing property agreement between the Company and Radius (note 10(i)).

(d) 618,000 warrants exercisable at $0.30 to $0.50 (note 11(e)) and 5,000 options exercisable at $3.10 (note 11(c)) expired unexercised.

(e) The Company acquired by staking, under the *Yukon Quartz Mining Act*, the Pacer 1 - 56 and Rosie 1 - 32 mineral claims in the Whitehorse Mining District of the Yukon Territory. These claims are 100% owned by the Company (note 10(j)).

(f) The Company relinquished the Dornogobi 3 Uranium Exploration License in Mongolia having not met the requirements of the *Nuclear Energy Act* to conduct requisite exploration work on the property in the license year. The Company has applied for certain additional exploration licenses in the Ooshiin Govi Basin of Mongolia and awaits resolution of a tenure dispute with the Mongolian Cadastral Office (note 10(b)).

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

		2010		**2009**
Income tax paid	$	0	$	23,695
Interest paid	$	1,547	$	0
Marketable securities received for property payments	$	0	$	387,000
Bonus shares issued on directors' loans	$	0	$	100,000
Shares issued for mineral property interests	$	174,000	$	75,000
Warrants issued for mineral property interests	$	18,444	$	0
Shares issued to acquire Avasca	$	154,000	$	0
BC METC on mineral property interests	$	0	$	49,847
Mineral property interest expenditures included in accounts payable	$	71,035	$	14,464
Unrealized foreign exchange gain on tenement bond	$	444	$	0
Write-down of expenditures on mineral property interests for amounts reclassified from accounts receivable in prior year	$	27,519	$	0

(Expressed in Canadian Dollars)

17. 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.

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.

18. SEGMENT DISCLOSURE

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

	2010	2009
Assets		
Canada	$ 1,912,760	$ 592,476
Australia	14,210	167,087
Mongolia	1,000	1,624,738
	$ 1,927,970	$ 2,384,301