

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Consolidated Financial Statements
July 31, 2008 and 2007

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF SOLOMON RESOURCES LIMITED

We have audited the consolidated balance sheets of Solomon Resources Limited as at July 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, changes to 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, 2008 and 2007 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
October 31, 2008

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

	2008	2007
Assets		
Current		
Cash and cash equivalents	\$ 286,151	\$ 2,434,080
Accounts receivable	73,344	48,202
Prepaid expenses (note 10)	27,228	90,206
Short-term investment (note 4)	283,298	-
Investments (note 6)	1,310,697	875,035
Assets held for sale (note 7(b))	-	908,000
	1,980,718	4,355,523
Equipment (note 5)	44,190	2,553
Tenement Bond (notes 4 and 7)	-	265,136
Mineral Property Interests (note 7)	3,196,039	1,499,350
	\$ 5,220,947	\$ 6,122,562
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	\$ 317,565	\$ 129,623
Provision for Rehabilitation of Tenements (note 7)	-	410,416
	317,565	540,039
Shareholders' Equity		
Capital Stock (note 8)	25,494,867	26,162,381
Contributed Surplus	733,038	710,238
Accumulated Other Comprehensive Income	127,244	-
Deficit Accumulated in the Exploration Stage	(21,451,767)	(21,290,096)
	4,903,382	5,582,523
	\$ 5,220,947	\$ 6,122,562

COMMITMENT (note 11)
SUBSEQUENT EVENTS (note 12)

Approved on behalf of the Board:

"Lawrence J. Nagy" (signed)

..... Director

Lawrence J. Nagy

"Ronald K. Netolitzky" (signed)

..... Director

Ronald K. Netolitzky

See notes to consolidated financial statements.

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

	2008	2007
Revenues		
Oil and gas, net	\$ 20,473	\$ 20,434
Expenses		
Professional fees	229,436	403,227
Management fees	222,773	159,986
Travel, promotion and shareholders' information	150,375	109,016
Office and miscellaneous	96,466	117,914
Rent and administrative services	43,292	32,000
Stock exchange fees	17,331	13,006
Transfer agent fees	3,308	9,156
Amortization	5,547	-
	768,528	844,305
Loss from Operations	(748,055)	(823,871)
Other Items		
Interest, net	11,162	51,976
Gain on sale of investments, net	1,232,722	459,765
Gain on sale of asset held for sale	411,736	-
Foreign exchange gain (loss)	(84,314)	45,473
Write-off of mineral property interests	(2,120,785)	(1,933,522)
Write-down of mineral property interests	-	(898,254)
Recovery of exploration expenditures	486,000	114,000
	(63,479)	(2,160,562)
Loss before Income Taxes	(811,534)	(2,984,433)
Future Income Tax Recovery (note 9)	649,863	-
Net Loss for Year	(161,671)	(2,984,433)
Unrealized foreign exchange gain	71,669	-
Reclassification on realization of gain on sale of investment	(282,188)	-
Unrealized loss on financial assets	(108,425)	-
Comprehensive Loss for the Year	\$ (480,615)	\$ (2,984,433)
Loss Per Share	\$ (0.00)	\$ (0.06)
Weighted Average Number of Common Shares Outstanding	54,260,398	48,509,895

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

	Capital Stock		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, July 31, 2006	44,160,836	\$ 23,043,332	\$ (18,305,663)	\$ 530,650	\$ -	\$ 5,268,319
Net loss for year	-	-	(2,984,433)	-	-	(2,984,433)
Shares issued for cash, private placement	9,899,562	3,330,329	-	-	-	3,330,329
Share issue costs	-	(247,280)	-	-	-	(247,280)
Property acquisition exercised	200,000	36,000	-	-	-	36,000
Stock-based compensation	-	-	-	179,588	-	179,588
Balance, July 31, 2007	54,260,398	26,162,381	(21,290,096)	710,238	-	5,582,523
Opening adjustment on – change of accounting policy (note 3)	-	-	-	-	446,188	446,188
	54,260,398	26,162,381	(21,290,096)	710,238	446,188	<u>6,028,711</u>
Comprehensive loss						
Net loss for year	-	-	(161,671)	-	-	(161,671)
Other comprehensive income (loss)						
Unrealized foreign exchange gain	-	-	-	-	71,669	71,669
Reclassification of net gain on realization of financial assets	-	-	-	-	(282,188)	(282,188)
Unrealized loss on financial assets	-	-	-	-	(108,425)	<u>(108,425)</u>
Comprehensive loss						<u>(480,615)</u>
Share issuance cost of flow-through share renunciations	-	(667,514)	-	-	-	(667,514)
Stock-based compensation	-	-	-	22,800	-	<u>22,800</u>
						<u>(644,714)</u>
Balance, July 31, 2008	54,260,398	\$ 25,494,867	\$ (21,451,767)	\$ 733,038	\$ 127,244	\$ 4,903,382

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

	2008	2007
Operating Activities		
Net loss for the year	\$ (161,671)	\$ (2,984,433)
Items not involving cash		
Amortization	5,547	-
Write-off of mineral property interests	2,120,785	1,933,522
Future income tax recovery	(649,863)	-
Write-down of mineral property interests		898,254
Gain on sale of investments	(1,232,722)	(459,765)
Gain on asset held for sale	(411,736)	-
Unrealized foreign exchange gain	849	-
Foreign exchange loss	84,314	
Stock-based compensation	22,800	179,588
Recovery of exploration expenditures	(486,000)	(114,000)
	(707,697)	(546,834)
Changes in non-cash working capital items		
Accounts receivable	(25,142)	(16,554)
Prepaid expenses	62,978	(72,418)
Accounts payable and accrued liabilities	150,669	38,744
	188,505	(50,228)
Cash Used in Operating Activities	(519,192)	(597,062)
Financing Activity		
Shares issued, net	-	3,083,049
Investing Activities		
Proceeds on sale of investments, net	2,266,118	792,425
Purchase of equipment	(47,184)	-
Expenditures on mineral property interests, net	(3,828,660)	(1,312,563)
Short-term investment	(18,162)	165,374
Cash Used in Investing Activities	(1,627,888)	(354,764)
Inflow (Outflow) of Cash	(2,147,080)	2,131,223
Effect of Foreign Exchange on Cash	(849)	-
Cash and Cash Equivalents, Beginning of Year	2,434,080	302,857
Cash and Cash Equivalents, End of Year	\$ 286,151	\$ 2,434,080
Cash and Cash Equivalents consists of:		
Cash on hand	\$ 203,151	\$ 2,434,080
Term deposits	83,000	-
	\$ 286,151	\$ 2,434,080
Supplemental Cash Flow Information		
Income tax paid	\$ -	\$ -
Interest paid	\$ -	\$ -
Investments received on option or sale of mineral property interest	\$ 486,000	\$ 338,000
Units issued for finders' fee	\$ -	\$ 56,306
Shares issued for mineral property interest	\$ -	\$ 36,000
Mineral property interest expenditures included in accounts payable	\$ 95,848	\$ 58,575
Shares received for assets held for sale	\$ 945,134	\$ -

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Solomon Resources Limited (the "Company") was incorporated under the laws of British Columbia. Its principal business activity is the exploration for and development of natural resource properties either directly or indirectly through its investments.

The Company's consolidated financial statements have been presented on the basis that it will continue as a going-concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company reported net losses of \$161,671 and \$2,984,433 for the years ended July 31, 2008 and 2007, respectively, has an accumulated deficit in the exploration stage of \$21,451,767 as at July 31, 2008 (2007 - \$21,290,096) and accumulated other comprehensive income of \$127,244 (2007 - \$0). These recurring losses and the need for continued funding raise substantial doubt about the Company's ability to continue as a going-concern. The Company's ability to continue as a going-concern is dependent upon additional financings being obtained in order to complete the exploration and development of the Company's mineral property interest, and realize its assets and discharge its liabilities in the normal course of business. These financial statements do not reflect adjustments that would be necessary if the going-concern assumptions were not appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Valhalla Minerals U.S. Incorporated (a Delaware corporation), Thor Gold Alaska Inc. (an Alaskan corporation), Solomon (Australia) Pty. Ltd. ("Australia Pty") (an Australian corporation) and SRM XXK (a Mongolian corporation). All significant intercompany balances and transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and deposits held with banks readily convertible into known amounts of cash and purchased with original maturities of one year or less.

(c) Investments

Investments other than derivatives are classified as available-for-sale, and are carried at quoted market value, where applicable, or at an estimate of fair value. Resulting unrealized gains or losses, net of applicable income taxes, are reflected in other comprehensive income while realized gains or losses are included in operations.

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Mineral property interests

The Company is in the exploration stage with respect to its investment in mineral property interests and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral property interests, net of all incidental revenues received, option payments received and expenditures renounced. At such time as production commences, these costs will be charged to operations on a unit-of-production method based on estimated recoverable reserves. When there is little prospect of further work on a property being carried out by the Company the costs of that property are charged to operations.

All capitalized expenditures are reviewed at least annually, on a property-by property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, or the Company's assessment of its inability to sell the property for an amount exceeding the capitalized costs, provision is made for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. The amount shown for acquisition costs and capitalized exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(e) 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.

(f) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Foreign currency balances, including those of foreign subsidiaries, are expressed in Canadian dollars on the following bases:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the average rate of exchange by quarter.

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

(h) Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. As the Company incurred net losses in fiscal 2008 and 2007, the share purchase warrants and options as disclosed in note 8 were not included in the computation of loss per share as their inclusion would be anti-dilutive.

(i) Flow-through common shares

Flow-through shares entitle a company that incurs certain mineral property interest expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefits of the exploration expenditures incurred under these agreements are renounced to the purchaser of the shares. The tax impact to the Company of the renunciation is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in capital stock and the recognition of a future tax liability.

When flow-through expenditures were renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of future income taxes in the consolidated statements of operations and comprehensive income (loss).

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options are measured at the date of grant. For non-employees, the fair value of the options are 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 is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(k) Asset retirement obligations

An asset retirement obligation (provision for rehabilitation of tenements) is a legal obligation associated with the retirement of tangible long-lived assets the Company is required to settle. This would include obligations related to future removal of equipment and property site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived assets is increased by the same amount as the liability.

(l) Environmental protection and reclamation costs

The operations of the Company have been, and may be in the future, affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company may vary from region to region and are not predictable.

(m) Revenue recognition

Revenues are recognized on the following bases:

- (i) Interest income is recorded on an accrual basis at the stated 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 collectibility is reasonably assured.

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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 receivables, accounts payable and accrued liabilities, the carrying value of mineral property interests, asset retirement obligations and reclamation and closure costs, the assumptions used in the calculation of the fair value of stock-based compensation expense, and the determination of the valuation allowance for future 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.

(o) 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.

(p) Accounting changes

(i) Financial Instruments

Effective August 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities.

All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity assets and liabilities, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Accounting changes (Continued)

(ii) Comprehensive Income

Effective August 1, 2007, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income (loss) has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. Currently the Company's accumulated other comprehensive income/loss is comprised of changes in the fair value of the Company's available-for-sale investment and unrealized foreign exchange gain/loss.

(q) Future accounting changes

(i) Financial Instruments

Effective August 1, 2008, the Company will adopt CICA Handbook Sections 3862 and 3863, which describe the required disclosure and presentation related to the significance of financial instruments on the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(ii) Capital Disclosure

Effective August 1, 2008, the Company will adopt CICA Handbook Section 1535, which establishes standards for disclosing information about a company's capital and how it is managed to enable users of financial statements to evaluate the company's objectives, policies and procedures for managing capital. The adoption of this standard will not impact the consolidated financial statements of the Company.

(iii) Going-concern

Effective August 1, 2008, the Company will adopt CICA Handbook Section 1400, which requires management to make an assessment of a company's ability to continue as a going concern. When the consolidated financial statements are not prepared on a going concern basis, the fact shall be disclosed together with the basis on which the consolidated financial statements are prepared and the reason why the company is not considered a going concern.

SOLOMON RESOURCES LIMITED
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Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Future accounting changes (Continued)

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. FINANCIAL INSTRUMENTS

The Company has designated its cash and cash equivalents and short-term investment as held-for-trading; accounts receivable as loans and receivable; investments as available-for-sale; and accounts payable and accrued liabilities as other liabilities. Accordingly, opening other comprehensive income was adjusted by \$446,188 to recognize the increase in fair value of investment over cost (note 6) at August 1, 2007.

Cash and cash equivalents include two cashable GICs with an interest rate at Bank of Montreal prime minus 2.65% due May 21, 2009 and an interest rate at Bank of Montreal prime minus 2.50% due August 5, 2008.

(a) Fair value

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The fair value of investments is based on quoted market prices and the fair value of the tenement bond approximates its carrying amount.

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

SOLOMON RESOURCES LIMITED
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Notes to Consolidated Financial Statements
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3. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. This risk, from deposit-granting institutions, is mitigated by risk management policies, which requires deposits or short-term investments be invested with Canadian chartered banks rated BBB or better, or commercial paper issues rated R1/A2/P2 or higher. All investments must be less than one year in duration. The Company has no asset backed commercial paper. The Company is also exposed to credit risk with respect to its accounts receivable. This risk is mitigated to the extent that accounts receivable are due from joint interest partners.

(d) Currency risk

The Company is exposed to 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, Australian dollars and Mongolian funds). The Company does not manage currency risks through hedging or other currency management tools.

4. SHORT-TERM INVESTMENT

At July 31, 2007 the Company held a tenement bond \$265,136 (Au \$292,000) to ensure the Company had adequate financial resources to finance future rehabilitation costs. A provision had been made to reflect estimated costs for rehabilitation of claims (note 7). This provision was assumed by Integra Mining Ltd. ("Integra") during the year ended July 31, 2008 when Integra purchased the tenements to which the provision related. Upon assumption of the provision by Integra, the Company reclassified the amounts previously held as a tenement bond to a short-term investment. At July 31, 2008, the short-term investment is valued at \$283,298 (Au \$292,000), bears an interest rate of 7.2% and matures on December 31, 2099. Subsequent to July 31, 2008, a portion of the bond has been repatriated from Australia to Canada for working capital purposes.

5. EQUIPMENT

	2008		
	Cost	Accumulated amortization	Net Book Value
Equipment	\$ 49,737	\$ 5,547	\$ 44,190
	2007		
	Cost	Accumulated amortization	Net Book Value
Equipment	\$ 2,553	\$ -	\$ 2,553

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Years Ended July 31, 2008 and 2007
(Expressed in Canadian Dollars)

6. INVESTMENTS

	2008		
	Number of Shares	Market Value	Cost
Integra Mining Ltd.	1,806,745	\$ 420,697	\$ 558,773
Brett Resources Inc.	1,000,000	890,000	714,000
		\$ 1,310,697	\$ 1,272,773

	2007		
	Number of Shares	Market Value	Cost
Integra Mining Ltd.	5,047,485	\$ 916,623	\$ 641,635
Brett Resources Inc.	400,000	392,000	228,000
Prospector Cons. Resources Ltd.	90,000	12,600	5,400
		\$ 1,321,223	\$ 875,035

Subsequent to July 31, 2008, the Company sold 328,000 shares of Brett Resources Inc. ("Brett") (note 10(e)) for net proceeds of \$248,959.

As at October 31, 2008 (date of the Auditors' Report), the Company held 672,000 shares of Brett with a market value of \$389,760, and 1,806,745 shares of Integra with a market value of \$180,675.

SOLOMON RESOURCES LIMITED
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
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(Expressed in Canadian Dollars)

7. MINERAL PROPERTY INTERESTS

	Burkino Faso	Kalgoorlie Southeast Project	Annie	Metla (note 7(d))	Mongolia Gallant	Mongolia SRM	Sleitat	Bowron Basin Coal	Taiwan	EYAP	COL	Nook / Rook	Total
	(note 7(a))	(notes 7 (b))	(note 7(c))	(note 7(d))	(note 7(e))	(note 7(f))	(note 7(g))	(note 7(h))	(note 7(i))	(note 7(j))	(note 7(k))	(note 7(l))	
Balance, July 31, 2006	\$1	\$1,619,075	\$1	\$1	\$2,089,178	\$263,742	\$1	\$33,859	\$52,682	\$-	\$-	\$-	\$4,058,540
Expenditures During Year													
Field costs and personnel	-	187,179	9,997	-	22,925	364,411	-	45,439	-	53,969	454,304	13,386	1,151,610
Property acquisitions	-	-	-	-	34,468	107,358	-	30,341	32,271	81,286	50,000	1,252	336,976
Options payments received	-	-	-	-	(308,000)	-	(114,000)	-	-	-	-	-	(422,000)
Write-down of Expenditures	-	(898,254)	-	-	-	-	-	-	-	-	-	-	(898,254)
Write-off of Expenditures	-	-	(9,998)	-	(1,838,571)	-	-	-	(84,953)	-	-	-	(1,933,522)
Recovery of Expenditures	-	-	-	-	-	-	114,000	-	-	-	-	-	114,000
Reclassification of Assets Held for Sale	-	(908,000)	-	-	-	-	-	-	-	-	-	-	(908,000)
Balance, July 31, 2007	\$1	\$0	\$0	\$1	\$0	\$735,511	\$1	\$109,639	\$0	\$135,255	\$504,304	\$14,638	\$1,499,350
Expenditures During Year													
Drilling	-	-	-	-	-	1,607,240	-	-	-	8,112	541,757	-	2,157,109
Personnel	-	-	-	-	-	139,869	-	-	-	-	321,935	-	461,804
Camp costs and Assays	-	-	-	-	-	613,657	-	-	801	-	419,020	2,919	1,036,397
Options payments received / land renewal payments	-	-	-	-	-	58,740	(486,000)	28,424	-	-	75,000	-	(323,836)
Write-off of Expenditures	-	-	-	-	-	(97,045)	-	-	(801)	(143,367)	(1,862,015)	(17,557)	(2,120,785)
Recovery of Expenditures	-	-	-	-	-	-	486,000	-	-	-	-	-	486,000
Balance, July 31, 2008	\$1	\$0	\$0	\$1	\$0	\$3,057,972	\$1	\$138,063	\$0	\$0	\$1	\$0	3,196,039

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7. MINERAL PROPERTY INTERESTS (Continued)

(a) Burkina Faso - West Africa

In January 2007, Orezone Resources Inc. ("Orezone") notified the Company and partner Channel Resources Limited ("Channel") that it had earned its 50% interest, reducing the Company's interest from 45% to 22.5%. Orezone met the requirements on its option agreement, having spent US \$1,700,000 before January 17, 2007. Orezone can increase its interest to 70% by completing a bankable feasibility study. The remaining 30% interest, which will then be owned 16.5% by Channel and 13.5% by the Company, may then be purchased by Orezone for US \$1,000,000, subject to a 1% NSR.

- During the year ended July 31, 2002, the Company and Channel granted Orezone an exclusive 60-day option to acquire an interest in the Bombore Permit in Burkina Faso and to acquire Channel Mining (Barbados) Company Ltd. ("Channel Barbados").
- During the year ended July 31, 2003, Orezone exercised this option and delivered a Heads of Agreement ("HOA") to Channel and the Company.
- During 2005, the Company entered into an Amending Agreement with Orezone and Channel for the Bombore Permit.
- The original Bombore Permit expired January 18, 2004 and, prior to that date, Orezone applied for a new permit in the name of its British Virgin Islands subsidiary, Orezone Inc. A new permit, reduced to 250 square kilometres was granted on February 17, 2004 ("Bombore 1 Permit").
- The Amending Agreement provides that Orezone holds the newly issued Bombore 1 Permit for the benefit of Channel (55%) and the Company (45%). Orezone was eligible to earn an undivided beneficial interest of 50% in the Bombore 1 Permit by expending:
 - A minimum of US \$300,000 on an exploration program on the Bombore 1 Permit within one year of the original HOA (done); and
 - An additional US \$1,700,000 on exploration programs within the newly issued Bombore 1 Permit by no later than January 17, 2007 (done).

On August 7, 2008 the Company reached an agreement with Channel and Orezone whereby the Company and Channel sold their remaining interests in the Bombore Gold Project to Orezone. The agreement terminated all previous agreements.

Consideration for the remaining interests in Bombore, including the 1% NSR, was 1,000,000 fully paid and non-assessable common shares in Orezone, shared by Channel (550,000 shares) and the Company (450,000 shares, market value \$454,500, received subsequent to July 31, 2008), which are subject to a four month restricted resale period.

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7. MINERAL PROPERTY INTERESTS (Continued)

(b) Australian Tenements

(i) Kalgoorlie Southeast Project (formerly the "Mount Monger Gold Project"), Australia

During the year ended July 31, 2001, the Company, through Australia Pty, entered into an agreement with General Gold Resources, N.L. ("General Gold"), an Australian listed company, whereby the Company earned a 100% interest in the Kalgoorlie Southeast Project.

During 2006, the Company's wholly-owned subsidiary, Australia Pty, had executed the Final Agreement for the sale of Randall's Gold Project in Western Australia to Integra. The Randalls Gold Project was part of the Company's Kalgoorlie Southeast Project.

(ii) Newcrest Kalgoorlie Southeast Project Joint Venture, Australia

During the year ended July 31, 2003, the Company entered into an agreement with Newcrest Mining Limited ("Newcrest") of Australia to continue the exploration of a large property portfolio in the Kalgoorlie area of Western Australia. The project, referred to as the Newcrest Kalgoorlie Southeast Project Joint Venture ("Newcrest KSP JV"), consists of 90 tenements totalling 265 square kilometres. The joint venture agreement calls for Newcrest to fund Au \$2 million to earn a 75% working interest in the project over four years. After Newcrest has earned its 75% interest, the Company can elect to either maintain its 25% working interest or be diluted to a 10% carried interest. Upon a positive decision to commence mining, the Company has the additional option to revert to a 2% NSR.

As part of its responsibilities Newcrest must incur expenditures of not less than Au \$600,000 (done) within the first 12 months and incur sufficient annual expenditures thereafter to maintain the tenements in good standing. As part of its first year expenditures, Newcrest will reimburse the Company up to Au \$30,000 for expenses incurred by the Company prior to the commencement date (done).

Under the original Newcrest KSP JV agreement, Newcrest was granted a first right of refusal on an additional 25 tenements totaling 220 square kilometres that at the time of signing were part of the Newcrest KSP JV. Newcrest elected to option eight of these tenements. None of the tenements that incorporate the Mount Monger and Randalls mine centres are included in the Newcrest Joint Venture arrangement.

On December 16, 2005, Newcrest notified the Company that it had met the requirements to vest its 75% interest in the project. The Company elected not to participate in the 2006 work commitment, diluting its interest to 20%.

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7. MINERAL PROPERTY INTERESTS (Continued)

(b) Australian Tenements (Continued)

(iii) Glandore Joint Venture, Western Australia

During the year ended July 31, 2004, the Company entered into a joint venture agreement with Harmony Gold Pty. Ltd. ("Harmony") of Australia for the Company's Glandore area tenements in the Kalgoorlie area of Western Australia. The Glandore property comprises two granted tenements and three tenement applications totaling approximately 1,600 hectares at the northwest extreme of the Company's Kalgoorlie southeast Project properties.

The terms of the agreement provide Harmony with a three-year farm-in period whereby it may earn a 51% interest in the property by spending Au \$60,000 (done) in year one and earn an 80% interest by spending an additional Au \$100,000 by the end of the third year, at which time a joint venture is formed giving the Company a 20% participating interest. Harmony may withdraw with no equity at any time after expending an initial Au \$60,000. The Company can elect not to contribute to work programs and be diluted down to a minimum participating interest of 5% after the joint venture is formed. The Company may withdraw from the project without further cost after being diluted to a 5% interest.

On March 23, 2005, Harmony formally notified the Company that it had completed the requirements of its earn-in. The Company elected to maintain its 20% interest by funding its portion of the 2006 work budget.

Sale of Australian tenements

The Kalgoorlie Southeast Project (note 7(b)(i)), Newcrest Kalgoorlie Southeast Project (note 7(b)(ii)) and Glandore Joint Venture (note 7(b)(iii)) were written-down in 2007 by \$894,254 to their estimated net realizable value of \$908,000 (Au \$1,000,000) and reclassified to assets held for sale.

During the year ended July 31, 2008 the Company executed the final agreement for sale of the tenants to Integra. The tenement's were sold to Integra for Integra shares valued at Au\$ 1,000,000 (note 6) and the replacement of the Company's environmental bonds at a value of Au\$ 292,000. Accordingly, the previous tenement bonds have been reclassified as short-term investment (note 4). The Company does not hold any other exploration tenements in Australia.

(c) Santa Candelaria II 1/5 (Annie Property), Chile

During the year ended July 31, 2003, the Company purchased 100% of the 50-hectare Santa Candelaria II 1/5 claim through its 100% subsidiary Solomon (Chile) SCM for cash payment of US \$2,000 and issuance of 38,250 common shares. During the year ended July 31, 2005, the Company wrote-off \$362,909 of its expenditures on the property. During the year ended July 31, 2007, the Company allowed the Santa Candelaria claim to lapse and revert to the government. All environmental requirements have been met. Since July 31, 2007, the Company has no further mineral property interests in Chile.

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7. MINERAL PROPERTY INTERESTS (Continued)

(d) Metla Project, British Columbia

During the year ended July 31, 2004, the Company acquired the Metla Project (also known as the Tatsa property comprised of 11 claims totaling 5,200 hectares) in the Atlin Mining District of British Columbia. The Tatsa property was staked by and is owned 100% by the Company. The claims remain valid to October 1, 2008.

During the year ended July 31, 2005, the Company wrote-down its interest in the Tatsa property by \$300,973 to a nominal value.

(e) Gallant Option, Mongolia

In March 2005, the Company signed a Memorandum of Agreement with Gallant Minerals Ltd. ("Gallant") to acquire up to an 80% interest in 20 gold and base metal projects in Mongolia.

The Company paid US \$50,000 on signing the agreement and a further US \$25,000 in April 2005. On closing, the Company paid an additional US \$110,000, issued Gallant 1,000,000 shares of the Company and paid a finder's fee of 200,000 shares of the Company.

To earn its initial 60% interest in the projects, the Company must:

- (i) on or before the first anniversary of the Closing Date, complete US \$1,000,000 of work expenditures on the properties or pay any remaining balance to Gallant, deliver to Gallant, common shares of the Company worth the Canadian dollar equivalent of US \$200,000 (done) legended as to any hold period required by securities regulatory authorities, and pay Gallant US \$200,000 (done);
- (ii) on or before the second anniversary of the Closing Date, expend an aggregate of US \$3,000,000 of work expenditures (including expenditures spent during the first year after the Closing Date) on the properties or pay any remaining balance to Gallant, and deliver to Gallant common shares of the Company worth the Canadian dollar equivalent of US \$450,000 legended as to the applicable hold period required by securities regulatory authorities, and pay Gallant US \$300,000.
- (iii) on or before the third anniversary of the Closing Date, expend an aggregate of US \$6,000,000 of work expenditures (including expenditures spent during the first and second years after the Closing Date) on the properties or pay any remaining balance to Gallant, and pay Gallant US \$400,000.

During the year ended July 31, 2006, the Company signed an earn-in agreement with Asia Gold Corp. ("Asia Gold", now: South Gobi Energy Resources Ltd. "South Gobi") on four of the 20 projects. The Company is no longer a party to the earn-in agreement with Asia Gold. Prior to the Company terminating the agreement with Gallant, Asia Gold paid the Company US \$50,000 cash and 100,000 Asia Gold common shares upon closing. Asia Gold has also met its second anniversary commitments, paying the Company US \$75,000 and issuing 95,821 Asia Gold shares to the Company during 2007.

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7. MINERAL PROPERTY INTERESTS (Continued)

(e) Gallant Option, Mongolia (Continued)

In March 2007, the Company gave formal notice to Gallant terminating its participation under the terms of the agreement with Gallant and subsequently all residual interest in properties subject to the sub-agreement with Asia Gold. In consideration of legislative changes in Mongolia, the Company considered the terms of the agreement as untenable and terminated the agreement prior to making the second anniversary payment.

During the year ended July 31, 2007, the Company wrote-off its net costs in the project of \$1,838,571.

(f) 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.

The Company was granted five mineral licenses in 2006 including:

- Airag 1: Dornogovi Province, 1,444 hectares uranium prospect;
- Airag 2: Dornogovi Province, 6,433 hectares uranium prospect;
- Airag 3: Dornogovi Province, 1,764 hectares uranium prospect;
- Matad 1: Dornod Province, 1,722 hectares uranium and coal prospect; and
- Matad 2: Dornod Province, 11,355 hectares uranium prospect.

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 39,165-hectare Zamtiin Gol property is located in Arhangai Province in west central Mongolia.

The Company can earn a 100% interest in the Zamtiin Gol property by paying Erdenyn Erel a total of US \$50,000 (\$10,000 on signing the LOI (done), and \$15,000 and \$25,000 on the first and second anniversaries, respectively). Erdenyn Erel will retain a 0.5% NSR royalty, which the Company may purchase for \$250,000 within 12 months of the commencement of commercial production.

The Company was granted three additional licences in July 2007, including:

- Dornogobi 1: Dornogobi Province, Mongolia, 17,992 hectares uranium prospect;
 - Dornogobi 2: Dornogobi Province, Mongolia, 39,793 hectares uranium prospect;
- and
- Uvurkhangai: Uvurkhangai Province, Mongolia, 62,705 hectares uranium prospect.

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7. MINERAL PROPERTY INTERESTS (Continued)

(f) SRM XXK, Mongolia (Continued)

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

- Dornogobi 3: Dornogobi Province, Mongolia, 17,992 hectares uranium prospect; and
- Dornogobi 4: Dornogobi Province, Mongolia, 39,793 hectares uranium prospect.

Since July 31, 2008 the Company has relinquished the following licences and has written off deferred exploration expenditures of \$97,045 with respect to these licences:

- Airag 1: Dornogovi Province, 1,444 hectares uranium prospect;
- Airag 3: Dornogovi Province, 1,764 hectares uranium prospect;
- Matad 1: Dornod Province, 1,722 hectares uranium and coal prospect; and
- Matad 2: Dornod Province, 11,355 hectares uranium prospect.

(g) Sleitat Mountain, Alaska

The Company acquired by staking a 100% interest in the Sleitat Mountain deposit near Dillingham, southwest Alaska. In July 2005, the Company granted Brett, a related party with two common directors, an option to acquire an 80% interest in the Sleitat Mountain property by issuing 1,000,000 common shares of Brett to the Company over a four-year period. Brett must initially issue 200,000 shares to the Company upon receipt of all necessary approvals (done). Subsequently, Brett must issue an additional 200,000 shares on each anniversary date as long as Brett has not terminated its interest in the project (first and second anniversary payments done). Upon Brett vesting at 80% in the project, further exploration or development expenditures would be shared 80/20. Should a given party be diluted to less than a 10% participating interest, the party would retain only a 1% NSR on subsequent production of any metals from the property.

During July 2008 the Company received the final payment of 400,000 shares of Brett pursuant to the Option Agreement. Brett has now earned an 80% interest in the property by issuing a total of 1,000,000 Brett shares to the Company, and the Company retains a 20% participating interest in the property (note 10(e)).

(h) Bowron Basin Coal Project, British Columbia

On June 28, 2006, the Company was granted four coal licenses by the province of British Columbia for the Bowron Basin Coal Project located approximately 50 kilometres east of Prince George in the Cariboo Mining Division. The four licenses total 4,056 hectares and rents totaling \$28,492 are due annually.

The Company holds three mineral claims totaling 1,374 hectares in the Cariboo Mining Division. The claims were located over the central portion of the above coal licenses in March 2007.

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7. MINERAL PROPERTY INTERESTS (Continued)

(i) Taiwan

The Company is a 50% partner in a joint venture to acquire exploration ground in Taiwan. Cumulative expenditures totaling \$85,754 were written off since no land has been acquired to date.

(j) Eyapamikama Lake Project ("EYAP"), northwestern Ontario

On August 23, 2006, the Company negotiated a Letter of Intent to acquire up to a 60% interest in the Eyapamikama Lake polymetallic volcanic massive sulphide (VMS) project from Energold Minerals Inc. ("Energold"), a private company based in Toronto, Ontario, and Northern Dynasty Minerals Ltd. ("NDM") based in Vancouver, British Columbia. The 32-claim Eyapamikama Lake property (formerly the "Arseno Lake Property") is located in the Patricia Mining Division of northwestern Ontario.

The Company, as the operator, agreed to fund an initial exploration program of at least \$25,600 by October 12, 2006 in exchange for an exclusive option to elect to earn a minimum 50% interest in the property (done).

To earn a 50% interest the Company must:

- On or before January 31, 2007, issue to Energold and NDM a total of 100,000 shares and pay them a total of \$35,000 or, at their option, 200,000 shares and no cash (done; 200,000 shares issued);
- On or before January 31, 2008, complete cumulative exploration expenditures of \$1,000,000 and issue to Energold and NDM a total of 200,000 shares and pay them a total of \$35,000 or, at their option, 400,000 shares and no cash; and
- On or before January 31, 2009, complete cumulative exploration expenditures of \$2,000,000.

At the Company's option if exercised before January 31, 2009, it can earn an additional 10% interest in the property, for a total 60%, by:

- On or before January 31, 2009, issue to Energold and NDM a total of 300,000 shares and pay them a total of \$100,000; and
- On or before February 28, 2010, incur further exploration expenditures totaling \$1,000,000.

The EYAP is subject to an underlying bonus payment scheme payable to Dunlop Explorations ("Dunlop"). Dunlop has accepted an agreement in principle whereby Dunlop will receive retention bonus payments of 1% of the annual project field costs, to a cumulative maximum total of \$30,000. The Company will assume all responsibility for payment of the Dunlop bonus payments. Dunlop also holds a 2.5% net profits interest in the EYAP.

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7. MINERAL PROPERTY INTERESTS (Continued)

(j) Eyapamikama Lake Project (“EYAP”), northwestern Ontario (Continued)

The Company failed to reach an agreement with the North Caribou Lake First Nations regarding a work program planned for winter 2007/08. The Company therefore terminated its agreement with Energold and NDM during the year ended July 31, 2008 and wrote off its investment of \$135,255.

(k) COL Copper-Gold Property, British Columbia

In December 2006, the Company acquired an option to earn a 100% interest from Indata Resources Ltd. (“Indata”) and Nation River Resources Ltd. (“Nation River”), of Courtenay, British Columbia, in the COL copper-gold-molybdenum prospect located in the Omineca Mining District in north central British Columbia. The COL Property is comprised of 16 mineral claims totaling 6,195 hectares.

The Company has signed an agreement whereby Indata and Nation River have granted to the Company an option to acquire a 100% undivided interest in and to certain mineral claims in the Omineca Mining Division, British Columbia, known as the “COL Property”.

To exercise the option, the Company must;

- (i) Make cash payments to Indata and Nation River totalling \$1,775,000; and
- (ii) Carry out exploration expenditures on the Property totalling \$2,200,000 over five years as follows:

Anniversary of Option Agreement	Cash Payment	Exploration Commitment
On Signing	\$ 50,000 (Done)	\$ 0
Year 1	75,000	100,000
Year 2	150,000	150,000
Year 3	300,000	150,000
Year 4	600,000	600,000
Year 5	600,000	1,200,000
Totals	\$1,775,000	\$2,200,000

On exercise of the option, the Company shall grant Indata and Nation River a 2% NSR royalty of which one-half may be re-purchased on or before December 31, 2011 for \$2,000,000. Beyond the fifth anniversary and before commencement of commercial production, the Company must pay Indata and Nation River an advance royalty of \$600,000 per year, which shall be adjusted annually for inflation and credited against the 2% NSR royalty. The advance royalty payments will be reduced to \$300,000 if the Company purchases one-half of the NSR royalty or if the Company determines that the property is not economic within an additional 36-month period.

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.

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7. MINERAL PROPERTY INTERESTS (Continued)

(k) COL Copper-Gold Property, British Columbia (Continued)

Subsequent to July 31, 2008 the Company has determined that it is not in the best interests of the Company to continue exploration on the Property. No further Option payments are planned and expenditures of \$1,780,678 have been written down to reduce the investment to a nominal value.

(l) Nook and Rook Property, British Columbia

In April 2007, the Company acquired by staking the four Nook and three Rook mineral claims totaling 3,130 hectares in the Cariboo Mining Division. The Nook and Rook property is approximately 50 kilometres east of Prince George, British Columbia. No further work is planned and the claims have been dropped, resulting in a write off during the year of \$17,557.

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

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

8. CAPITAL STOCK

(a) Authorized
Unlimited common shares without par value

(b) Issued

During the year ended July 31, 2007, the Company completed three private placements, issuing a total of 9,899,562 shares for gross proceeds of \$3,330,329. Share issuance costs incurred in connection with the private placements totaling \$247,280 have been deducted from the proceeds.

(i) In December 2006, the Company issued 4,203,212 flow-through units consisting of 3,310,640 "super" flow-through units at \$0.35 per unit and 892,572 regular flow-through units at \$0.33 per unit for gross proceeds of \$1,453,273. Each unit consisted of one flow-through common share and one-half of one non-flow-through, transferable common share purchase warrant. Each full warrant is exercisable at \$0.50 to December 29, 2008.

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8. CAPITAL STOCK (Continued)

(b) Issued (Continued)

(i) (Continued)

The warrants are subject to an accelerated expiry provision, whereby the exercise period of the warrants may be reduced, upon notice to the holders and at the election of the Company, if the closing price of the shares is equal to or greater than \$0.75 per share for ten consecutive trading days. If this condition is met and the Company so elects, the exercise period will be reduced to 25 business days from the date notice is provided by the Company to the warrant holders.

- (ii) In February 2007, the Company issued 2,333,333 flow-through units for gross proceeds of \$700,000. Each unit consisted of one flow-through common share and one-half of one non-flow-through transferable warrant. Each full warrant is exercisable at \$0.55 to February 28, 2008 or \$0.75 to February 28, 2009.

The warrants are subject to the same accelerated expiry provision as the December 2006 issue.

- (iii) In July 2007, the Company issued 3,202,142 units for gross proceeds of \$1,120,750. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.50 to July 5, 2009. The warrants are subject to the same accelerated expiry provision as the December 2006 placement, except that the trading period is extended from 10 days to 20 days. As part of the issue costs finder's fees of 160,875 units totaling \$56,306 were issued.

(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. 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.

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8. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

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

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Outstanding, July 31, 2006	2,140,000	\$0.25 to \$0.395	\$0.36
Granted	760,000	\$0.36	\$0.36
Forfeited	(200,000)	(\$0.30)	(\$0.30)
Outstanding, July 31, 2007	2,700,000	\$0.25 to \$0.395	\$0.36
Granted	200,000	\$0.36	\$0.36
Forfeited	(510,000)	(\$0.25 to \$0.36)	\$0.35
Outstanding and exercisable, July 31, 2008	2,390,000	\$0.25 to \$0.395	\$0.36

The weighted average life of outstanding stock options at July 31, 2008 is 2.93 years (2007 – 3.8years).

As at July 31 the following options were outstanding:

Expiry Date	Exercise Price	Number of Shares	
		2008	2007
March 3, 2010	\$0.36	100,000	100,000
June 5, 2010	\$0.395	50,000	50,000
June 27, 2010	\$0.35	250,000	250,000
November 3, 2010	\$0.25	0	20,000
November 18, 2010	\$0.31	50,000	150,000
January 13, 2011	\$0.36	800,000	1,020,000
April 20, 2011	\$0.36	300,000	350,000
April 5, 2012 to April 10, 2012	\$0.36	640,000	760,000
January 9, 2013	\$0.36	200,000	0
Outstanding and exercisable		2,390,000	2,700,000

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8. CAPITAL STOCK (Continued)

(d) Stock-based compensation

The fair value of each option granted was calculated using the following weighted average assumptions:

	2008	2007
Expected life (years)	3 - 5	5
Interest rate	3.63%	4.05%
Volatility	77.50%	87.40%
Dividend yield	0.00%	0.00%

The fair value of options vesting during the year ended July 31, 2008, charged to management fees, was \$22,800 (2007 - \$51,986), and charged to professional fees, was \$0 (2007 - \$127,602)..

(e) Share purchase warrants

As at July 31 the following warrants were outstanding. Under certain conditions the exercise price may change.

Expiry Date	Exercise Price	Number of Warrants	
		2008	2007
September 22, 2007	\$0.50	-	963,000
December 29, 2008	\$0.50	2,101,606	2,101,606
February 28, 2009 / 2008	\$0.75 / \$0.50	1,166,666	1,166,666
July 5, 2009	\$0.50	3,363,016	3,363,016
		6,631,288	7,594,288
Weighted average exercise price		\$0.54	\$0.54

As described in note 8(b) certain of the outstanding warrants have accelerated expiry provisions. The weighted average life of outstanding warrants at July 31, 2008 is 0.7 years (2007 – 1.7 years).

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9. INCOME TAXES

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

	2008	2007
Income tax benefit computed at Canadian statutory rates	\$ (226,362)	\$ (1,018,289)
Permanent differences	75,180	(90,965)
Write-down / write-off of properties	632,229	966,202
Other	(27,403)	(32,054)
Reduction in future income taxes resulting from statutory rate reduction	510,840	0
Unrecognized tax losses	(964,484)	175,106
Future income taxes on flow-through share renouncement	667,514	0
Future income taxes on unrealized loss on financial assets	(17,651)	0
	\$ 649,863	\$ 0

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

	2008	2007
Future income tax assets at approximate tax rates		
Canadian non-capital losses	\$ 645,381	\$ 647,533
Other	(9,065)	(871)
Share issuance costs	41,543	67,498
United States losses	1,252,207	1,291,640
Australian losses	884,235	1,322,623
Canadian resource pool deductions	1,942,870	2,378,610
	4,757,171	5,707,033
Valuation allowance	(4,757,171)	(5,707,033)
	\$ 0	\$ 0

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuance that have not been spent and are held by the Company for such expenditures. As at July 31, 2008, the amount of flow-through proceeds remaining to be expended

The Company's losses for Canadian tax purposes are \$2,305,000 (2007 - \$1,898,000), which may be carried forward to apply against future income for Canadian tax purposes. Expiry begins in 2008.

The Company's losses for US tax purposes are US\$3,577,000 (2007 - US \$3,462,000), which may be carried forward to apply against future income for US tax purposes, expiring between 2007 and 2016.

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9. INCOME TAXES (Continued)

The Company's losses for Australian tax purposes are Au\$2,947,450 (2007 - Au \$3,927,000), which may be carried forward to apply against future income for Australian tax purposes.

The Company also has resource tax pool deductions of \$10,135,000 (2007 - \$8,050,000), which may be carried forward indefinitely 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 these losses will, more likely than not, not be realized.

10. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company:

- (a) paid office rent and administrative fees of \$18,000 (2007 - \$32,000) to a company with a common officer;
- (b) paid \$310,004 (2007 - \$143,506) to officers and directors, which is included in management fees and travel, promotion and shareholders' information;
- (c) included in prepaid expenses \$11,000 (2007 - \$0) in advances to officers;
- (d) included in accounts payable and accrued liabilities \$38,000 (2007 - \$5,691) payable to officers and directors; and
- (e) Included in investments \$486,000 (2007 - \$228,000) for 600,000 (2007 - 400,000) shares of Brett, a company with two common directors, received by the Company on recovery of mineral property expenditures. (notes 6 and 7(i))

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.

11. COMMITMENT

Office lease commitment is as follows:

2009	\$	\$17,268
2010	\$	\$17,268
2011	\$	\$10,073

The Company has a lease for office premises at a rate of \$1,439 per month. The remaining lease term is 31 months.

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12. SUBSEQUENT EVENTS

- a) On October 2, 2008, the Company granted 1,020,000 stock options to directors, officers and employees of the Company that are exercisable on or before October 2, 2013 at a price of \$0.25 per share.

- b) On September 22, 2008, the Company signed a LOI with Mengold Resources Inc. ("Mengold") whereby the Company has the right to earn up to 50% interest in the Goldcreek Archean Lode Gold / Volcanogenic Massive Sulphide Project ("the Project"). The Project is located in northwestern Ontario and is subject to a 3% NSR in favour of third parties. The Company may choose to earn less than a 50% interest whereby Mengold will have a 120 day option to repurchase the interest earned. The Company will be the Operator of the Project for the three years and Mengold will act as Project Manager. The Company is able to earn up to a 50% interest in the Property by: (i) conducting an exploration program over three years totaling \$5,400,000 and include 24,000 metres of drilling; (ii) making a \$100,000 cash payment to Mengold; and (iii) issuing common shares of the Company to Mengold worth \$375,000 over three years with the initial \$50,000 tranche satisfied by the issuance of 385,000 shares at a deemed value of \$0.13 per share (issued October 17, 2008).