

## **SOLOMON RESOURCES LIMITED**

**Consolidated Financial Statements**  
**July 31, 2006 and 2005**  
**(Expressed in Canadian Dollars)**

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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, 2006 and 2005 and the consolidated statements of operations and deficit 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, 2006 and 2005 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 3, 2006

**SOLOMON RESOURCES LIMITED**

Consolidated Balance Sheets (note 1)

July 31

(Expressed in Canadian Dollars)

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 302,857	\$ 341,700
Accounts receivable	31,648	37,854
Prepaid expenses	17,788	15,000
	352,293	394,554
<b>Property and Equipment</b>	1	1
<b>Investments</b> (note 5)	869,695	41,287
<b>Tenement Bond</b> (notes 4 and 6)	412,430	1,348,177
<b>Investment in and Expenditures on Resource Properties</b> (note 6)	4,058,540	4,095,722
	\$ 5,692,959	\$ 5,879,741
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 32,304	\$ 113,722
<b>Provision for Rehabilitation of Tenements</b> (notes 4 and 6)	392,336	1,342,700
	424,640	1,456,422
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 7(b))	23,043,332	21,787,040
<b>Contributed Surplus</b> (note 7(e))	530,650	215,750
<b>Deficit</b>	(18,305,663)	(17,579,471)
	5,268,319	4,423,319
	\$ 5,692,959	\$ 5,879,741

Subsequent event (note 10)

Approved on behalf of the Board:

*"Lawrence J. Nagy"*

..... Director

Lawrence J. Nagy

*"Ronald K. Netolitzky"*

..... Director

Ronald K. Netolitzky

**SOLOMON RESOURCES LIMITED**  
**Consolidated Statements of Operations and Deficit**  
**Years Ended July 31**  
**(Expressed in Canadian Dollars)**

	<b>2006</b>	<b>2005</b>
		(note 11)
<b>Revenues</b>		
Interest	\$ 55,568	\$ 77,356
Oil and gas, net	14,160	10,354
	<u>69,728</u>	<u>87,710</u>
<b>Expenses</b>		
Professional fees (note 9(b))	541,244	378,579
Management fees	164,500	114,000
Travel, promotion and shareholders' information	127,453	78,048
Office and miscellaneous	95,652	101,479
Rent and administrative services	32,685	31,247
Stock exchange fees	10,360	15,758
Transfer agent fees	8,622	9,226
	<u>980,516</u>	<u>728,337</u>
<b>Loss from Operations</b>	<u>(910,788)</u>	<u>(640,627)</u>
<b>Other Items</b>		
Gain on sale of investments	174,164	321,876
Foreign exchange loss	(36,638)	(30,676)
Write-off of investment in and expenditures on resource properties	(49,601)	(735,669)
Recovery of resource expenditures	96,671	5,400
	<u>184,596</u>	<u>(439,069)</u>
<b>Loss Before Future Income Tax Recovery</b>	<u>(726,192)</u>	<u>(1,079,696)</u>
<b>Future Income Tax Recovery</b>	<u>0</u>	<u>71,240</u>
<b>Net Loss for Year</b>	<u>(726,192)</u>	<u>(1,008,456)</u>
<b>Deficit, Beginning of Year</b>	<u>(17,579,471)</u>	<u>(16,571,015)</u>
<b>Deficit, End of Year</b>	<u>\$ (18,305,663)</u>	<u>\$ (17,579,471)</u>
<b>Loss Per Share</b>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
<b>Weighted Average Number of Common Shares Outstanding</b>	<u>42,381,524</u>	<u>34,472,942</u>

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

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Net loss	\$ (726,192)	\$ (1,008,456)
Items not involving cash		
Write-off of investment in and expenditures on resource properties	49,601	735,669
Gain on sale of investments	(174,164)	(321,876)
Stock-based compensation	338,900	215,750
Recovery of resource expenditures	(96,671)	(5,400)
Future income tax recovery	0	(71,240)
<b>Operating Cash Outflow</b>	<b>(608,526)</b>	<b>(455,553)</b>
<b>Changes in Non-Cash Working Capital</b>		
Accounts receivable	6,206	25,401
Prepaid expenses	(2,788)	(4,000)
Accounts payable and accrued liabilities	(81,417)	2,247
	(77,999)	23,648
<b>Cash Used in Operating Activities</b>	<b>(686,525)</b>	<b>(431,905)</b>
<b>Financing Activity</b>		
Proceeds from common shares issued, net	1,010,298	1,222,931
<b>Investing Activities</b>		
Proceeds on sale of investments	405,604	374,856
Expenditures on resource properties	(1,601,104)	(1,141,629)
Tenement bond	832,884	3,472
<b>Cash Used in Investing Activities</b>	<b>(362,616)</b>	<b>(763,301)</b>
<b>Inflow (Outflow) of Cash</b>	<b>(38,843)</b>	<b>27,725</b>
<b>Cash, Beginning of Year</b>	<b>341,700</b>	<b>313,975</b>
<b>Cash, End of Year</b>	<b>\$ 302,857</b>	<b>\$ 341,700</b>
<b>Supplemental Information</b>		
Income tax paid	\$ 0	\$ 0
Interest paid	\$ 0	\$ 0
Investments received on sale of properties	\$ 1,060,689	\$ 0
Shares issued for finders' fee	\$ 0	\$ 74,000
Shares issued for property	\$ 221,994	\$ 370,000

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
**Years Ended July 31, 2006 and 2005**  
**(Expressed in Canadian Dollars)**

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**1. NATURE OF OPERATIONS**

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 financial statements have been presented on the basis that it will continue as a going-concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company reported net losses of \$726,192 and \$1,008,456 for the years ended July 31, 2006 and 2005, respectively, and has an accumulated deficit of \$18,305,663 as at July 31, 2006 (2005 - \$17,579,471). These recurring losses and the need for continued funding, as discussed below, 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 properties, and realize on its assets and discharge its liabilities in the normal course of business.

**2. SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of consolidation

These consolidated financial statements include the accounts of Solomon Resources Limited 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), Solomon (Chile) SCM (a Chilean corporation) and SRM XXK (a Mongolian corporation). All significant intercompany balances and transactions have been eliminated.

(b) Investments

The Company's investments in securities with quoted market values are accounted for on the cost basis. When there is a permanent impairment in the value of these investments on an individual stock-by-stock basis, their carrying values are written-down to quoted market value.

(c) Deferred expenditures

The Company is in the exploration stage with respect to its investment in resource properties, and accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of resource properties, net of all incidental revenues received. 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.

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.

(d) 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.

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Income taxes

The Company uses the asset and liability method for 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.

(f) Foreign currency translation

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 for the year.

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

(g) 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 2006 and 2005, the share purchase warrants and options as disclosed in note 7 were not included in the computation of loss per share as their inclusion would be anti-dilutive.

(h) Flow-through common shares

The Company finances a portion of its acquisition, exploration and development costs by the issuance of flow-through common shares. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from flow-through share issuances are credited to capital stock. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability and a reduction to capital stock at the time of renunciation.

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(j) Reclamation and closure costs

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. The original undiscounted costs are based on engineering estimates using current cost and in accordance with statutory legislation and general industry practice.

(k) Revenue recognition

Revenues are recognized on the following bases:

(i) Interest income is recorded on an accrued 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.

(l) 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. Actual results could differ from those estimates and would impact future results of operations and cash flows.

**3. FINANCIAL INSTRUMENTS**

(a) Fair value

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of these financial instruments. The fair value of investments is based on quoted market values as disclosed in note 5. The fair value of the tenement bond approximates its carrying amount.

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

(b) Interest rate risk

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

(c) Credit risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with major financial institutions, accounts receivable being due from a joint venture partner and tenement bond being placed with the Department of Mines, in the State of Western Australia.

(d) Currency risk

The Company translates the results of foreign operations into Canadian currency using rates approximating the average exchange rate for the year. The exchange rate may vary from time to time. To minimize currency risk, the Company maintains certain US and Australian funds for required future expenditures, which at July 31, 2006 were US \$14,347 and Au (\$3,154). The Company does not use derivatives or similar instruments to manage currency risk.

**4. TENEMENT BOND**

The Company holds a tenement bond to ensure the Company has adequate resources to finance future rehabilitation costs. A provision has been made to reflect estimated costs for rehabilitation of claims. See note 6(c).

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
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**5. INVESTMENTS**

	<b>2006</b>		
	Number of Shares	Market Value	Cost
Integra Mining Ltd.	5,467,485	\$ 877,995	\$ 664,408
Brett Resources Inc.	200,000	150,000	114,000
Asia Gold Corp.	50,000	130,000	50,000
Skeena Resources Ltd.	512,667	148,673	35,887
Prospector Cons. Resources Ltd.	90,000	8,100	5,400
Maple Leaf Reforestation Ltd.	50,000	7,000	0
		\$ 1,321,768	\$ 869,695
	<b>2005</b>		
	Number of Shares	Market Value	Cost
Skeena Resources Ltd.	512,667	\$ 210,193	\$ 35,887
Prospector Cons. Resources Ltd.	90,000	5,400	5,400
Viceroy Exploration Ltd.	29,370	88,110	0
Maple Leaf Reforestation Ltd.	50,000	0	0
		\$ 303,703	\$ 41,287

Subsequent to July 31, 2006, the Company sold 402,000 shares of Skeena Resources Inc. for \$197,315 and 50,000 shares of Maple Leaf Reforestation Ltd. for \$6,377.

Subsequent to July 31, 2006, the Company acquired through property option agreements an additional 95,821 shares of Asia Gold Corp. and an additional 200,000 shares of Brett Resources Inc.

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES**

	Burkina Faso	Indep- endence	Kalgoorlie Southeast Project	Annie	Metla	Mongolia Gallant	Mongolia SRM	Sleitat	BC Coal	Other	Total
	(note 6(a))	(note 6(b))	(notes 6(c), (d) and (e))	(note 6(g))	(note 6(i))	(note 6(j))	(note 6(k))	(note 6(l))	(note 6(m))	(note 6(n))	
<b>Balance, July 31, 2004</b>	\$1	\$1	\$2,302,890	\$293,108	\$202,285	\$0	\$0	\$0	\$0	\$51,149	\$2,849,434
<b>Expenditures During Year</b>											
Field costs and personnel	0	0	871,847	49,634	85,186	198,655	0	0	0	13,806	1,219,128
Property acquisitions	6,831	0	0	20,168	13,503	675,494	0	17,675	0	29,158	762,829
<b>Write-off of Expenditures</b>	(6,831)	(1)	0	(362,909)	(300,973)	0	0	0	0	(64,955)	(735,669)
<b>Balance, July 31, 2005</b>	1	0	3,174,737	1	1	874,149	0	17,675	0	29,158	4,095,722
<b>Expenditures During Year</b>											
Field costs and personnel	0	0	149,397	19,748	0	929,226	113,742	0	0	29,853	1,241,966
Property acquisitions	0	0	0	0	0	445,803	150,000	0	33,859	23,524	653,186
Option payments received	0	0	(1,705,059)	0	0	(160,000)	0	(114,000)	0		(1,979,059)
<b>Write-off of Expenditures</b>	0	0	0	(19,748)	0	0	0	0	0	(29,853)	(49,601)
<b>Recovery of Expenditures</b>	0	0	0	0	0	0	0	96,326	0	0	96,326
<b>Balance, July 31, 2006</b>	\$1	\$0	\$1,619,075	\$1	\$1	\$2,089,178	\$263,742	\$1	\$33,859	\$52,682	\$4,058,540

**SOLOMON RESOURCES LIMITED**  
**Notes to Consolidated Financial Statements**  
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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(a) Burkina Faso - West Africa

The Company has a 45% interest in the Bombore Property in Burkina Faso.

During the year ended July 31, 2001, the Company decided not to participate in expenditures on this property further and accordingly wrote-down the property's carrying value to \$1.

During the year ended July 31, 2002, the Company and Channel Resources Limited ("Channel") granted Orezone Resources Inc. ("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 may earn an undivided beneficial interest of 50% in the Bombore 1 Permit by expending:

- (i) A minimum of \$300,000 on an exploration program on the Bombore 1 Permit within one year of the original HOA (done); and
- (ii) An additional \$1,700,000 on exploration programs within the newly issued Bombore 1 Permit by no later than January 17, 2007.

The remaining terms of the original HOA are unchanged. Channel and the Company continue to divide the payments and the royalty on a pro-rata basis.

(b) Independence Mine - Alaska

At July 31, 1997, the Company, through Thor Gold Alaska Inc., ceased all operations on this property and accordingly wrote-down the property's carrying value to \$1. Since 1997, the Company has been performing reclamation work on the property.

During the year ended July 31, 2003, the Enserch mill was sold to Almaden Minerals Ltd. ("Almaden"). As part of the transfer, the Company agreed to fund AHI a total of US \$25,000 to complete all reclamation work on the former site. Final notification of completion of this work is still pending from Alaskan authorities.

During the year ended July 31, 2005, this property was written off.

**SOLOMON RESOURCES LIMITED**  
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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

- (c) 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 was able to earn a 100% interest in the Kalgoorlie Southeast Project.

During 2006, the Company announced that its wholly-owned subsidiary, Australia Pty, had executed the Final Agreement for the sale of Randall's Gold Project in Western Australia to Integra Mining Ltd. ("Integra"). The Randalls Gold Project is part of the Company's Kalgoorlie Southeast Project.

The Company received 6,967,485 shares of Integra, of which 1,500,000 were sold during the year, and the replacement of its environmental bonds of Au \$998,000 in cash.

- (d) Newcrest Kalgoorlie Southeast Project Joint Venture, Australia

During the year ended July 31, 2003, the Company, through Australia Pty, 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 totaling 265 square kilometres returned to the Company by PDAP. The Joint Venture agreement calls for Newcrest to fund Au \$2,000,000 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 royalty of 2% of the net smelter return ("NSR").

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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(d) Newcrest Kalgoorlie Southeast Project Joint Venture, Australia (Continued)

As part of its responsibilities Newcrest must incur expenditures of not less than Au \$600,000 (done) within the first twelve 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 under Joint Venture agreement with PDAP as 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 to not participate in the 2006 work commitment, diluting its interest to 20%.

(e) 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, through Harmony's wholly-owned subsidiary, South Kal Mines Pty. Ltd., 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 roughly 1,600 hectares at the northwest extreme of the Company's KSP 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 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.

(f) San Ramon, Chile

During the year ended July 31, 2002, American Canyon Mining Chile Ltda. ("ACM"), a private Chilean corporation, granted the Company an option to acquire at least an undivided 75% interest and up to an undivided 80% interest in the San Ramon Mining Project, Chile.

**SOLOMON RESOURCES LIMITED**  
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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(f) San Ramon, Chile (Continued)

During the year ended July 31, 2003, the Company terminated its agreement with ACM to acquire an interest in the San Ramon Mining Project, Chile. The property was written-off during the 2003 fiscal year. The US \$100,000 debt, as part of the cost of the entire San Ramon exploration program, was written down to a nominal amount. However, negotiations to recover this debt are ongoing. The Company retains the right to acquire a 5% interest in all San Ramon properties held by ACM if the recovery of this debt fails.

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

During the year ended July 31, 2003, the Company acquired the Annie Property approximately 30 kilometres south of Copiapo in Region III of northern Chile. The Annie Property was comprised of 11 claims totaling 2,055 hectares that were acquired by staking through Solomon's 100% owned subsidiary Solomon (Chile) SCM. The Company also purchased 100% of the 50-hectare Santa Candelaria II 1/5 claim 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. The Company retains its 100% interest in the Santa Candelaria claims through Solomon (Chile) SCM.

(h) Beowawe Project, Nevada

The Company entered into a letter of intent on March 23, 2003, subject to regulatory approval, to acquire up to 100% of the Beowawe project in Nevada. On January 24, 2004, the Company elected not to purchase the property and no agreement was filed. This project was written off during the year ended July 31, 2004. Under the terms of the original letter of intent, the Company retains no interest in the property, but remains eligible to recover a maximum of three times its investment (\$375,000) out of 30% of any payments received by the vendor from a third party. As of July 31, 2006, the Company received 90,000 shares of Prospector Consolidated Resources Inc., with a deemed value of \$5,400, as part of this settlement.

(i) Metla Project, British Columbia

During the year ended July 31, 2004, the Company acquired five properties in the Atlin Mining District of British Columbia comprising what is generally referred to as the Metla Project. The properties included the following:

- Talsa Property (11 claims totaling 5,200 hectares)
- Metla Property (10 claims totaling 5,000 hectares)
- Checkmate Property (4 claims totaling 2,000 hectares)
- La Veta Property (2 claims totaling 900 hectares)
- BWM Property (1 claim totaling 400 hectares).

The Metla, Checkmate, La Veta and BWM properties were acquired under individual option agreements. These agreements were terminated by the Company in 2005 and returned to the respective vendors. The Company holds no retained interests in the Metla, Checkmate, La Veta and BWM properties.

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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(i) Metla Project, British Columbia (Continued)

The Tatsa property was staked by and is owned 100% by the Company. The claims remain valid up to October 1, 2008.

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

(j) 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 shares of the company that holds 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;

on or before the first anniversary of the Closing Date, deliver to Gallant;

- (a) common shares of the Company, calculated in value as worth the Canadian dollar equivalent of US \$200,000 (done) based on the nominal rate of exchange for US to Canadian dollars posted on the website of the Bank of Canada and the average closing price of the shares over the ten days of trading immediately preceding the fifth trading day prior to the anniversary date, listed for trading on the TSX Venture Exchange and legended as to any hold period required by securities regulatory authorities; and

- (b) 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;

on or before the second anniversary of the Closing Date, deliver to Gallant:

- (a) common shares of the Company calculated in value as worth the Canadian dollar equivalent of US \$450,000 based on the nominal rate of exchange for US to Canadian dollars posted on the website of the Bank of Canada and the average closing price of the shares over the ten days of trading immediately preceding the fifth day prior to the anniversary date, listed for trading on the TSX Venture Exchange and legended as to the applicable hold period required by securities regulatory authorities; and

- (b) US \$300,000;

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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(j) Gallant Option, Mongolia (Continued)

(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

on or before the third anniversary of the Closing Date, deliver to Gallant US \$400,000.

The Company has a second option, subject to making all payments and exercising its option to acquire 60% of the shares of the holding company, to acquire an additional 20% interest in any property on which the Company commits to spend, and then does spend, a further \$1,000,000 on work expenditures on or before the fourth anniversary of the Closing Date.

For any properties on which the Company has earned an additional 20% interest, taking its total direct and indirect interest in that property to 80%, Gallant may at its sole discretion then elect either to participate in all future expenditures on that property pro rata to its remaining 20% interest or accept dilution on industry standard terms (such that the property shall be valued at 125% of the Company's cash payments and share issuances to earn such 80% interest and each of the Company and Gallant shall be deemed to have, at any time, that percentage interest of them, and should a party's interest be reduced to 5% or less that party shall exchange such interest for an NSR royalty equal to 50% of the royalty described in the agreement) or convert its 20% interests to an NSR royalty.

During the year ended July 31, 2006, the Company signed an earn-in agreement with Asia Gold Corp. ("Asia Gold") on four of the twenty projects.

The earn-in agreement provides Asia Gold with the right to earn an 80% interest in the four projects in two stages. The exercise of the first earn-in right will earn Asia Gold a 55% interest in all of the projects. The second earn-in right, which is exercisable on a project-by-project basis, will earn Asia Gold a further 15% interest, for an aggregate 70% interest.

To exercise the first earn-in right, Asia Gold must pay the Company an aggregate of US \$325,000, issue to the Company common shares of Asia Gold valued at US \$600,000 and fund and carry out US \$1,800,000 of exploration within three years from the closing date of the definitive earn-in agreement. As part of the annual work commitment, Asia Gold is also responsible for the payment of all license fees.

To exercise the second earn-in right, Asia Gold must fund and carry out US \$2,500,000 of exploration on each of the projects in which it intends to retain within five years from the closing date of the definitive earn-in agreement. Asia Gold also has a first right to acquire an additional 10% interest, for an aggregate 80% interest, should Gallant convert its 20% interest in any project to a NSR royalty, pursuant to an underlying option agreement between the Company and 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 subsequent to July 31, 2006.

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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(j) Gallant Option, Mongolia (Continued)

Subsequent to July 31, 2006, the Company negotiated a number of key amendments to the umbrella agreement with Gallant, including the following:

- Extension of the period of the umbrella agreement from three years to four years;
- The Company is granted the right to farm-out properties that are subject to the agreement to qualified third party partners;
- All work completed on properties subject to sub-agreements will be credited to the Company's total annual work requirements as determined in the agreement;
- Sub-agreements (not including the Asia Gold sub-agreement) involving third parties shall survive independent of the status of the Gallant-Solomon agreement; and
- At such time the Company terminates its participation under the terms of the agreement with Gallant, the Company will retain no residual interest in properties that are subject to sub-agreements with third party companies.

(k) SRM XXK, Mongolia

In January 2006, the Company formed the 100% owned Mongolian subsidiary SRM XXK - Solomon Resources Mongolia, enabling it to acquire projects and develop 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, Eastern Mongolia, 1,722 hectares uranium and coal prospect; and
- Matad 2: Dornod Province, Eastern Mongolia, 11,355 hectares uranium prospect.

(l) Sleitat Mountain, Alaska

The Company acquired a 100% interest in the Sleitat Mountain tin deposit by staking a claim. Subject to regulatory approval, the Company has granted Brett Resources Inc. ("Brett"), a related party with two common directors and one common officer, an option to acquire an 80% interest in the Sleitat Mountain property by issuing 1,000,000 common shares 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 had not terminated its interest in the project. 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.

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**6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

(m) 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 roughly 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 eight mineral claims totalling 3,760 hectares in the Cariboo Mining Division. The claims were located over and above the coal licenses on March 2, 2006 when the coal applications were submitted.

(n) Hall Lake

On October 3, 2006, the Company optioned the Hall Lake property from Eagle Plains Resources Ltd. and funded a small work program. The Company holds no further interest in the Hall Lake property.

Ownership in resource properties involve certain inherent risks due to the difficulties in determining the validity of certain interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource property interests. The Company has investigated the ownership of its interests and, to the best of its knowledge, they are in good standing.

The investment in and expenditures on resource properties comprises 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.

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**7. CAPITAL STOCK**

- (a) Authorized  
 Unlimited common shares without par value
- (b) Issued

	Number of Shares		Amount
Balance, July 31, 2004	31,187,531	\$	20,191,349
Shares issued for			
Cash, private placement	6,000,000		1,200,000
Share issue costs	0		(160,819)
Finder's fee	200,000		74,000
Exercise of warrants, cash	650,000		153,750
Exercise of options, cash	200,000		30,000
Property acquisition	1,000,000		370,000
Share issue costs			(71,240)
Balance, July 31, 2005	39,237,531		21,787,040
Shares issued for			
Cash, private placement	1,926,000		674,100
Share issue costs			(47,802)
Exercise of warrants, cash	900,000		180,000
Exercise of options, cash	1,250,000		204,000
Property acquisition	847,305		221,994
Benefit recognized from options exercised	0		24,000
Balance July 31, 2006	44,160,836	\$	23,043,332

During the year ended July 31, 2005, the Company completed a private placement of 6,000,000 units for gross proceeds of \$1,200,000. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 per share for 12 months. If the closing trading price of the Company's shares for ten consecutive trading days equals or exceeds \$0.45 per share after the four-month restricted resale period, the Company can give the warrant holders notice that they must exercise the warrants or they will expire within 30 days of such notice. The agent was paid a cash commission of \$96,000 and issued a warrant to purchase up to 900,000 common shares for a period of 12 months at a price of \$0.20 each.

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**7. CAPITAL STOCK (Continued)**

(b) Issued (Continued)

During the year ended July 31, 2006, the Company completed a private placement of 1,926,000 units for gross proceeds of \$674,100. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share for two years at a price of \$0.35 per share in the first year and \$0.50 per share in the second year. If the closing trading price of the Company's shares for five consecutive trading days equals or exceeds \$0.45 per share after a four-month restricted resale period in the first year, or \$0.60 per share in the second year, the Company can give the warrant holders notice that they must exercise the warrants or the warrants will expire within 20 days of such notice. Finder's fees were paid, consisting of cash commissions totaling 7% of proceeds and warrants to purchase up to a total of 152,100 common shares for a period of 12 months at a price of \$0.40 each.

(c) Stock options

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

	Number of Shares	Exercise Amount	Weighted Average Exercise Price
Outstanding, July 31, 2004	1,450,000	\$ 0.15 to \$ 0.30	\$ 0.18
Granted	1,600,000	\$ 0.17 to \$ 0.395	\$ 0.34
Expired	(200,000)	\$ 0.30	\$ (0.30)
Exercised	(200,000)	\$ 0.15	\$ (0.15)
Outstanding, July 31, 2005	2,650,000	\$ 0.15 to \$ 0.395	\$ 0.26
Granted	1,740,000	\$ 0.25 to \$ 0.36	\$ 0.26
Expired/Forfeited	(1,000,000)	\$ 0.36	\$ (0.36)
Exercised	(1,250,000)	\$ 0.15 to \$ 0.20	\$ (0.16)
<b>Outstanding and exercisable, July 31, 2006</b>	<b>2,140,000</b>	<b>\$ 0.25 to \$ 0.395</b>	<b>\$ 0.36</b>

The weighted average life of outstanding stock options at July 31, 2006 is 4.5 years.

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**7. CAPITAL STOCK (Continued)**

(c) Stock options (Continued)

As at July 31, the following options were outstanding:

	Exercise Price	Number of Shares	
		2006	2005
March 30, 2006	\$ 0.20	0	250,000
November 12, 2007	\$ 0.15	0	800,000
December 20, 2009	\$ 0.17	0	200,000
March 3, 2010	\$ 0.36	100,000	1,100,000
June 5, 2010	\$ 0.395	50,000	50,000
June 27, 2010	\$ 0.35	250,000	250,000
November 3, 2010	\$ 0.25	20,000	0
November 18, 2010	\$ 0.31	150,000	0
January 13, 2011	\$ 0.36	1,020,000	0
April 20, 2011	\$ 0.36	350,000	0
June 7, 2011	\$ 0.36	200,000	0

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

	2006	2005
Expected life (years)	2 to 5 years	4 to 5 years
Interest rate	3.9% to 4.3%	3.2% to 3.7%
Volatility	92.2% to 92.5%	90.4% to 92.8%
Dividend yield	0.00%	0.00%

The fair value of options vesting during the year ended July 31, 2006 as charged to professional and management fees, was \$338,900 (2005 - \$215,750).

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**7. CAPITAL STOCK (Continued)**

(d) Share purchase warrants

As at July 31, the following warrants were outstanding;

Expiry Date	Price	2006	2005
August 10, 2006	\$ 0.30	3,000,000	3,000,000
February 10, 2006	\$ 0.20	0	900,000
September 22, 2006	\$ 0.40	152,100	0
September 22, 2006/2007	\$ 0.35/\$ 0.50	963,000	0

During the year ended July 31, 2006, 900,000 warrants were exercised for gross proceeds of \$180,000 (2005 - 650,000 warrants were exercised for gross proceeds of \$153,750).

Subsequent to July 31, 2006, 152,100 and 3,000,000 warrants, exercisable at \$0.40 and \$0.30 per share respectively, expired unexercised.

(e) Contributed surplus

Contributed surplus increased in connection with the recognition of compensation cost relating to stock options. Contributed surplus is decreased when those stock options are exercised:

	2006	2005
Contributed surplus, beginning of year	\$ 215,750	\$ 0
Stock-based compensation expense for year	338,900	215,750
Reallocated on exercise of options	(24,000)	0
Contributed surplus, end of year	\$ 530,650	\$ 215,750

**8. INCOME TAX LOSSES**

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

	2006	2005
Income tax benefit computed at Canadian statutory rates	\$ (247,777)	\$ (384,588)
Permanent differences	148,834	62,936
Write-down of properties	17,668	262,045
Other	(17,027)	(48,783)
Unrecognized tax losses	98,302	37,150
	\$ 0	\$ (71,240)

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**8. INCOME TAX LOSSES (Continued)**

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

	<b>2006</b>	<b>2005</b>
Future income tax assets at approximate tax rates		
Canadian non-capital losses at 34% (2005 - 36%)	\$ 708,000	\$ 551,000
US losses at 35% (2005 - 35%)	1,610,000	1,520,000
Australian losses at 30% (2005 - 30%)	624,000	472,000
Canadian resource pool deductions at 34% (2005 - 36%)	2,500,000	2,100,000
	5,422,000	4,643,000
Valuation allowance	(5,422,000)	(4,643,000)
	<b>\$ 0</b>	<b>\$ 0</b>

The Company's losses for Canadian tax purposes are approximately \$1,630,000 (2005 - \$1,547,000), which may be carried forward to apply against future income for Canadian tax purposes. Expiry begins in 2006.

The Company's losses for US tax purposes are approximately US \$3,543,000 (2005 - US \$3,543,000), which may be carried forward to apply against future income for US tax purposes, expiring between 2007 and 2016.

The Company's losses for Australian tax purposes are approximately Au \$1,700,000 (2005 - Au \$1,700,000), which may be carried forward to apply against future income for Australian tax purposes.

The Company also has resource tax pool deductions of approximately \$4,500,000 (2005 - \$5,833,000), 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.

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**9. RELATED PARTY TRANSACTIONS AND BALANCES**

During the year, the Company paid:

- (a) office rent and administrative fees of \$30,000 (2005 - \$31,247) to a company with a common officer.
- (b) consulting and management fees of \$257,121 (2005 - \$203,035) to officers and directors.
- (c) included in accounts receivable is \$0 (2005 - \$7,500) receivable from a director.
- (d) included in prepaid expenses is \$4,604 (2005 - \$10,000) in advances to an officer.
- (e) included in accounts payable and accrued liabilities is \$4,542 (2005 - \$50,900) payable to a director.

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**10. SUBSEQUENT EVENT**

On October 3, 2006, the Company signed a Letter of Intent with Energold Minerals Inc. and Northern Dynasty Minerals Ltd. whereby the Company will have the right to earn, subject to TSX Venture Exchange approval and the execution of a formal option agreement, up to a 60% interest in the Eyapamikama Lake (VMS) project.

The Company, as the operator, has 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.

**11. COMPARATIVE FIGURES**

Certain of the comparative figures are reclassified to conform to the current year's presentation.