**An Exploration Stage Company**

**Condensed Consolidated Interim Financial Statements - Unaudited**

**Nine months ended April 30, 2014 and April 30, 2013**

**Expressed in Canadian Dollars**

**Solomon Resources Limited**
April 30, 2014
(Expressed in Canadian Dollars)

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Notice of No Auditor Review

Unaudited Condensed Consolidated Financial Statements

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# SOLOMON RESOURCES LTD.

## An Exploration Stage Company

**Suite 110-2300 Carrington Road, West Kelowna, B.C. V4T 2N6**
**Web Site: www.solomonresources.ca**

**NOTICE OF NO AUDITOR REVIEW OF**
**INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

For further information please contact:

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Phone (250) 768-1168

**SOLOMON RESOURCES LIMITED**
(An Exploration Stage Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at April 30, 2014 and July 31, 2013
Expressed in Canadian Dollars

| | Note | | **April 30 2014** | | July 31 2013 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current | | | | | |
| Cash and cash equivalents | | $ | **29,226** | $ | 37,403 |
| Taxes recoverable | | | **919** | | 1,288 |
| Prepaid expenses and advances | | | **10,715** | - | |
| | | | **40,860** | | 38,691 |
| Non-Current | | | | | |
| Mineral property interests | 7 | | **7,814** | | 1 |
| | | $ | **48,674** | $ | 38,692 |
| **LIABILITIES** | | | | | |
| Current | | | | | |
| Trade and other payables | | | **115,154** | | 277,219 |
| Due to related parties | 11 | | **51,016** | | 130,682 |
| | | | **166,170** | | 407,901 |
| Non-Current | | | | | |
| Loans payable to related parties | 11 | | **50,000** | - | |
| Total liabilities | | | **216,170** | | 407,901 |
| **SHAREHOLDERS' DEFICIENCY** | | | | | |
| Share Capital | 8 | | **30,358,067** | | 30,281,800 |
| Contributed surplus | | | **1,327,794** | | 1,327,794 |
| Deficit | | | **(31,853,357)** | | (31,978,803) |
| | | | **(167,496)** | | (369,209) |
| | | $ | **48,674** | $ | 38,692 |

**SOLOMON RESOURCES LIMITED**

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS (UNAUDITED)

For the three and nine months ended April 30, 2014 and April 30, 2013

Expressed in Canadian Dollars

| | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| | | **April 30** | April 30 | **April 30** | April 30 |
| | Note | **2014** | 2013 | **2014** | 2013 |
| **Expenses** | | | | | |
| Management fees | 11 | $ **11,181** | $ 14,234 | $ **61,205** | $ 85,099 |
| Travel, promotion and shareholder costs | | **5,260** | 16,952 | **9,558** | 46,219 |
| Professional fees | | **(1,313)** | 12,956 | **29,181** | 144,563 |
| Office and miscellaneous | | **1,602** | 60,035 | **11,624** | 92,152 |
| Rent | | **800** | 9,000 | **800** | 27,000 |
| Property maintenance | | **-** | - | **-** | 2,805 |
| Share based payments | 9 | **-** | - | **-** | 34,540 |
| Stock exchange fees | | **9,200** | 6,200 | **11,273** | 8,404 |
| Transfer agent fees | | **1,281** | 2,010 | **7,736** | 9,635 |
| **Loss before other items** | | **(28,011)** | (121,387) | **(131,377)** | (450,417) |
| Oil and gas royalties | | **-** | 5,164 | **3,914** | 8,740 |
| Recovery of expenditures on mineral properties | 7 | **-** | 19,997 | **56,249** | 24,616 |
| Impairment of mineral property interests | 7 | **-** | (808,414) | **-** | (808,414) |
| Interest on loans payable | 11 | **(503)** | - | **(503)** | - |
| Gain on disposal of equipment | 11 | **-** | 4,552 | **-** | 4,322 |
| Gain on settlement of debt | 11 | **-** | - | **196,739** | - |
| Gain/loss on exchange | | **424** | - | **424** | - |
| **Loss before income taxes** | | **(28,090)** | (900,088) | **125,446** | (1,221,153) |
| Deferred income tax recovery | 10 | **-** | - | **-** | - |
| **Net loss and comprehensive loss for the period** | | $ **(28,090)** | (900,088) | $ **125,446** | $ (1,221,153) |
| **Income (loss) per share for the period - Basic and Diluted** | | $ **0.00** | $ (0.02) | $ **0.00** | $ (0.03) |
| **Weighted Average Number of Common Shares Outstanding** | | **53,934,992** | 45,774,646 | **52,711,859** | 38,874,170 |

**SOLOMON RESOURCES LIMITED**
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the nine months ended April 30, 2014 and April 30, 2013
Expressed in Canadian Dollars

| | | Common Shares | Contributed Surplus | Subscriptions Received | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance July 31, 2012 | Note | $ 29,472,747 | $ 1,284,284 | 300,000 | $ (31,006,773) | $ 50,258 |
| Net loss for the period | | - | - | - | (1,221,153) | (1,221,153) |
| Shares issued for mineral property interests | 7,8 | 300,000 | - | - | - | 300,000 |
| Shares issued for cash | 8 | 732,200 | - | (300,000) | - | 432,200 |
| Shares issued for debt | 8,11 | 50,000 | - | - | - | 50,000 |
| Share issue costs | 8 | (55,615) | 8,970 | - | - | (46,645) |
| Share-based payments | 9 | - | 34,540 | - | - | 34,540 |
| Balance April 30, 2013 | | $ 30,499,332 | $ 1,327,794 | - | $ (32,227,926) | $ (400,800) |
| | | | | | | |
| Balance July 31, 2013 | | $ 30,281,800 | $ 1,327,794 | - | $ (31,978,803) | $ (369,209) |
| Net income for the period | | - | - | - | 125,446 | 125,446 |
| Shares issued for debt | 8,11 | 84,316 | - | - | - | 84,316 |
| Share issue costs | 8 | (8,049) | - | - | - | (8,049) |
| **Balance April 30, 2014** | | **$ 30,358,067** | **$ 1,327,794** | **$ -** | **$ (31,853,357)** | **$ (167,496 )** |

**SOLOMON RESOURCES LIMITED**
(An Exploration Stage Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine months ended April 30, 2014 and April 30, 2013
Expressed in Canadian Dollars

| | Note | | **April 30 2014** | | April 30 2013 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net income (loss) for the period | | $ | **125,446** | $ | (1,221,153) |
| Items not affecting cash | | | | | |
| Share-based payments | 9 | | **-** | | 34,540 |
| Impairment of mineral property interests | 7 | | **-** | | 795,552 |
| Gain on disposal of equipment | 11 | | **-** | | (4,322) |
| Gain on settlement of debt | 11 | | **(196,739)** | | - |
| Changes in non-cash working capital | | | | | |
| Tax receivables | | | **369** | | 7,612 |
| Deposits | | | **-** | | 47,260 |
| Prepaid expenses and advances | | | **(10,715)** | | 26,242 |
| Accounts payable and accrued liabilities | | | **(162,065)** | | 247,180 |
| Adjusted for settlement of debt for shares | 11 | | **162,598** | | |
| Due to related parties | 11 | | **(79,666)** | | (200,148) |
| Less: settled through the disposal of equipment | | | | | 29,280 |
| Less: settled through the disposal of mineral property interests | 11 | | **-** | | 20,000 |
| Less: settled with shares for debt | 11 | | **118,457** | | 50,000 |
| Cash used in operating actitivies | | | (42,315) | | (167,957) |
| **Cash Flows From Investing Activities** | | | | | |
| Reclamation bonds | | | **-** | | 10,000 |
| Purchase of equipment | | | **-** | | (25,264) |
| Investment in mineral property investments | 7 | | **(7,813)** | | (470,132) |
| **Total cash outflows from investing activities** | | | **(7,813)** | | (485,396) |
| **Cash Flows From Financing Activities** | | | | | |
| Proceeds from loans received | 11 | | **50,000** | | - |
| Proceeds (net) from share issuances | 8 | | **(8,049)** | | 376,585 |
| **Net cash provided by financing activities** | | | **41,951** | | 376,585 |
| **Decrease in cash during the period** | | | **(8,177)** | | (276,769) |
| **Cash and cash equivalents beginning of period** | | | **37,403** | | 281,261 |
| **Cash and cash equivalents end of period** | | $ | **29,226** | $ | 4,492 |

**SOLOMON RESOURCES LIMITED**
**(An Exploration Stage Company)**
**Notes to Condensed Consolidated Financial Statements for the nine months ended April 30, 2014 and April 30, 2013 (unaudited)**
**Canadian dollars**

## 1. NATURE OF OPERATIONS

Solomon Resources Limited (the "Company") was incorporated on August 1, 1989 under the laws of British Columbia. The Company is in the business of exploring and developing mineral property interests. The Company has not earned significant revenues from its mineral property interests and is considered to be in the exploration stage. The Company's corporate head office is at Suite 110-2300 Carrington Road, West Kelowna, B.C. V4T 2N6

## 2. GOING CONCERN ASSUMPTION

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

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

The Company reported a comprehensive gain of $125,446 for the nine months ended April 30, 2014 compared to a comprehensive loss of $1,221,151 for the nine months ended April 30, 2013, and has an accumulated deficit in the exploration stage of $31,853,357 as at April 30, 2014 (July 31, 2013 - $31,978,803). Although the Company has been successful at raising funds in the past through the issuance of share capital and the sale of assets, it is uncertain whether it will be able to continue this financing due to unpredictable economic conditions.

## 3. BASIS OF PREPARATION

These condensed financial statements are stated in Canadian dollars, which is the Company's functional and reporting currency.

These condensed financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34') using accounting policies consistent with International Financial Reporting Standards ("IFRS").

## 3. BASIS OF PREPARATION (cont'd)

The standards and interpretations within IFRS are subject to change and accordingly the accounting policies for the annual period that are relevant to these condensed consolidated financial statements will be finalized only when the financial statements are prepared for the year ending July 31, 2014.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Avasca Inc. (a dormant British Columbia company), Valhalla Minerals U.S.

Incorporated (a dormant Delaware corporation). All significant intercompany balances and transactions have been eliminated.

The condensed interim financial statements were authorized for issue by the Board of Directors on June 17, 2014.

## 4. SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to the accounting policies used by the Company since the date of the last audited annual consolidated financial statements.

## 5. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

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

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

(a) Credit risk

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

## 5. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. During the nine months ended April 30, 2014, the Company entered into shares-for-debt agreements to settle liabilities of $281,051. At April 30, 2014, the Company has cash of $29,226 (July 2013 - $37,403), which is not sufficient to meets its short-term business requirements. At April 30, 2014, the Company has accounts payable and accrued liabilities of $115,154 (July 31, 2013 - $277,219) and amounts due to related parties of $51,016 (July 31, 2013 - $130,682). Accounts payable and accrued liabilities have maturities of 30 days or less. Amounts due to related parties have no specified terms of payment. Additionally, the Company has non-current loans to related parties of $50,000 as at April 30, 2014 (July 31, 2013 - $Nil).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital. The Company is not currently exposed to any material market risks.

## 6. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular basis to ensure that the above objectives are met. The Company's capital is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the period ended April 30, 2014.

## 7. MINERAL PROPERTY INTERESTS

| | | Namibia Note (a) | 10 Mile Creek Note (b) | SW Yukon Note (c) | Rwanda Note (d) | Other Note (e) | Total |
|---|---|---|---|---|---|---|---|
| Balance, July 31, 2012 | $ | - | 8,381 | 3 | 21,988 | 2 | 30,374 |
| Expenditures | | | | | | | |
| Personnel | | - | - | - | 290,394 | - | 290,394 |
| Travel and accommodation | | - | - | - | 92,068 | - | 92,068 |
| Field costs | | - | - | - | 42,138 | - | 42,138 |
| Administration | | - | - | - | 48,343 | - | 48,343 |
| Option costs | | - | - | - | 120,000 | - | 120,000 |
| Disposals | | - | - | (3) | - | - | (3) |
| Impairment | | | (8,381) | - | (614,931) | (1) | (623,313) |
| Balance, July 31, 2013 | $ | - | - | - | - | 1 | 1 |
| Expenditures | | | | | | | |
| Travel and accommodation | | 7,813 | - | | - | | 7,813 |
| **Balance, April 30, 2014** | **$** | **7,813** | **-** | **-** | **-** | **1** | **7,814** |

During the nine months ended April 30, 2014 the Company:

(a) Namibia

On March 21, 2014, the Company and Helio Resource Corp ("Helio") entered into a Letter Agreement, whereby Solomon can earn up to a 60% interest in Helio's Damara Gold and Tin Project (DGP) in Namibia.

.

Subject to TSX Venture Exchange (the "Exchange") approval, the principal terms of the two-stage agreement are as follows:

- Solomon can acquire an initial 51% interest (Stage 1) by issuing an aggregate 15,000,000 common shares and completing $1,500,000 in exploration expenditures over a 3 year period; and
- Solomon can acquire an additional 9% interest (Stage 2) by issuing an additional 5,000,000 common shares and completing a further $1,500,000 in exploration expenditures in year 4.

The DGP Property is comprised of 2 exploration licenses covering 722km$^2$ located in Namibia, South Africa.

## 7. MINERAL PROPERTY INTERESTS (cont'd)

During the year ended July 31, 2013 the Company:

(b) Ten Mile Creek, Yukon Territory

During the year ended July 31, 2013 a camp owned by the Company at the Ten Mile Creek property was demobilized and the remaining value was written off.

(c) South West Yukon

During the year ended July 31, 2013 three claim groups in south west Yukon whose value had been written down to $3 were disposed of in terms of a debt settlement with a former director; the Company recorded a gain on disposal of mineral properties in the amount of $19,997.

(d) Rurembo Prospecting License, Republic of Rwanda

In July 2012, the Company signed a letter of intent with a group of private Canadian investors and secured an option to acquire a 100% interest in the Rurembo Prospecting License in the Republic of Rwanda. During the year ended July 31, 2013, the Company capitalized $592,943 in personnel, travel, administration, and camp and option costs. Following the abandonment of the option agreement the Company wrote off its investment on the property during the year ended July 31, 2013.

(e) Other Properties

(i) *Sleitat Mountain, Alaska*

During the year ended July 31, 2013, the Company sold its 20% interest in the Sleitat Mountain tin-tungsten-silver deposit near Dillingham, southwest Alaska, for proceeds of $60,000 and recorded a gain on disposal of mineral properties in the amount of $59,999.

(ii) *Quirk Creek, Alberta*

The Company held a petroleum and gas interest in the Quirk Creek region of Alberta and on November 19, 2013 the Company sold its interest for $56,250. Prior to the sale the Company received royalties of $3,914 during the nine months ended April 30, 2014 of (April 30, 2013 - $8,740). The proceeds of the sale were used in part to settle Company indebtedness.

## 7. MINERAL PROPERTY INTERESTS (cont'd)

***Environmental issues***

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. As at April 30, 2014, the Company has no known obligations in respect to any of its former properties.

***Realization of assets***

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

***Title to mineral property interests***

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

## 8. SHARE CAPITAL

(a) Authorized - Unlimited common shares without par value

(b) Issued

| | Number | Issue Price | | Total |
|---|---|---|---|---|
| Balance at July 31, 2012 | 26,669,972 | | $ | 29,472,747 |
| Issued for mineral property interests | 6,000,000 | $0.02 | | 120,000 |
| Issued for private placement | 14,644,000 | $0.05 | | 732,200 |
| Issued for liabilities | 1,000,000 | $0.02 | | 15,000 |
| Share issue costs | — | — | | (58,147) |
| Balance at July 31, 2013 | 48,313,972 | — | $ | 30,281,800 |
| Issued for liabilities | 5,621,020 | $0.015 | | 84,316 |
| Share issue costs | — | — | | (8,049) |
| **Balance at April 30, 2014** | **53,934,992** | **—** | | **30,358,067** |

During the year ended July 31, 2013:

(i) 14,644,000 new common shares were issued pursuant to a private placement that closed in two tranches (September 24 and October 31, 2012). Gross proceeds of $732,200 were raised, of which $300,000 had been received prior to July 31, 2012. The total legal, filing and brokerage cost of the issue, including the calculated value of finder warrants, was $49,675.

(ii) 6,000,000 new common shares were issued pursuant to the Company's letter of intent in respect to the Rurembo property in Rwanda (see note 7(d)) with a deemed value for the purposes of the agreement of $300,000 and a fair value for accounting purposes of $120,000; and

(iii) 1,000,000 new common shares were issued pursuant to a debt settlement agreement with the former Chief Executive Officer with a deemed value of $50,000 and a fair value of $15,000. (See Note 11 – Related Party Transactions).

During the nine months ended April 30, 2014:

(iv) 5,621,020 new common shares, with a fair value for accounting purposes of $84,315 ($0.015 per share), were issued to settle liabilities in the amount of $281,051 ($0.05 per share) leading to the Company recording a gain of $196,739. Included in the settlement was the issue of 2,791,761 new common shares issued to directors and a former director, officers, a relative of a former director and a law firm of which a director is a partner.

## 8. SHARE CAPITAL (cont'd)

(c) Share purchase warrants

Share purchase warrants activity was as follows:

| | Number of Warrants Outstanding | Exercise Price | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, July 31, 2012 | 2,978,734 | $ 0.10 to $ 0.30 | $0.17 |
| Issued | 15,153,600 | $0.10 | $0.10 |
| Expired | (1,134,734) | $ 0.10 to $ 0.30 | $0.27 |
| Balance, July 31, 2013 | 16,997,600 | $0.10 | $0.10 |
| Expired | (1,844,000) | $0.10 | $0.10 |
| **Balance, April 30, 2014** | **15,153,600** | **-** | **$0.10** |

As at April 30, 2014 the following share purchase warrants were outstanding. Under certain conditions the expiry date may be accelerated:

| Expiry Date | Exercise Price | Number of Warrants |
|---|---|---|
| September 24, 2014 | $ 0.10 | 6,564,000 |
| October 31, 2014 | $ 0.10 | 8,589,600 |
| **Total** | | **15,153,600** |

## 9. SHARE BASED PAYMENTS

(a) Option Plan Details

The Company has an incentive stock option plan (the "Plan") that allows it to grant share purchase 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 Exchange (currently $0.05). The Plan allows for a maximum of 10% of outstanding shares to be issued under the Plan. The Plan is subject to annual shareholder approval.

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 the death of an optionee, the options terminate at the earlier of 12 months after the date of death and the expiration of the option period.

**9. SHARE BASED PAYMENTS** (cont'd)

(a) Option Plan Details (cont'd)

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

Stock option activity was as follows:

| | Number of Options Outstanding | Exercise Price | Weighted Average Exercise Price |
|---|---|---|---|
| **Balance, July 31, 2012** | 2,260,000 | $ 0.10 to $ 3.60 | $ 0.25 |
| Granted | 1,300,000 | $ 0.10 | $ 0.10 |
| Expired/Cancelled | (20,000) | $ 3.60 | $ 3.60 |
| **Balance, July 31, 2013** | 3,540,000 | $ 0.10 to $ 2.50 | $ 0.18 |
| Expired | (3,080,000) | $0.10 to $2.50 | $0.18 |
| **Balance, April 30, 2014** | **460,000** | **$ 0.10 to $ 0.265** | **$ 0.14** |

As at April 30, 2014 the following stock options were outstanding.

| Expiry Date | Exercise Price | Number of shares |
|---|---|---|
| December 1, 2014 | $ 0.265 | 100,000 |
| December 17, 2015 | $ 0.165 | 60,000 |
| December 13, 2017 | $ 0.10 | 300,000 |
| Total | | **460,000** |

(b) Fair Value of Options Issued During the Period

There were no options granted during the nine months ended April 30, 2014. The weighted average fair value at grant date of options granted during the period ended April 30, 2013 was $0.031 per option.

## 9. SHARE BASED PAYMENTS (cont'd)

(b) Fair Value of Options Issued During the Period (cont'd)

There were Nil options granted during the period ended April 30, 2014 (April 30, 2013 – 1,300,000). The model input for options granted during the period ended April 30, 2013 is as follows:

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

| | **April 30, 2013** |
|---|---|
| Expected life (years) | 5 |
| Interest rate | 1.37% |
| Volatility | 165% |
| Dividend yield | 0.00% |

The fair value of options granted and vested during the period ended April 30, 2013 was $34,540. The expected volatility is based on the historical stock price of the Company for the period leading up to the grant date.

## 10. INCOME TAXES

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

| Available to | | Amount |
|---|---|---|
| 2015 | $ | 293,000 |
| 2026 | | 559,000 |
| 2027 | | 380,000 |
| 2028 | | 5,000 |
| 2029 | | 832,000 |
| 2030 | | 492,000 |
| 2031 | | 641,000 |
| 2032 | | 564,000 |
| 2033 | | 616,000 |
| | $ | 4,382,000 |

## 10. INCOME TAXES (cont'd)

The tax losses above do not include approximately $3,565,000 in non-capital losses that may be applied against future taxable income in the United States expiring in 2015.

The Company's tax position is calculated annually and readers are referred to the audited consolidated financial statements for the year ended July 31, 2013 for further details.

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

| **For the nine months ended April 30** | **2014** | **2013** |
|---|---|---|
| Total fees paid to directors, officers and a relative of a director | $51,336 | $211,175 |
| Of which - fees expensed | $51,336 | $85,099 |
| - fees capitalised to mineral property interests | $ - | $96,246 |
| - fees paid as share based payments | $ - | $29,830 |
| Share purchase options issued to directors, officers and a relative of a director (exercisable at $0.10 per share and valid for five years from date of issue) - number of options | - | 950,000 |
| Number of shares issued to directors, former directors, a relative of a former director and a law firm of which a director is a partner in terms of a debt settlement at a deemed price of $0.05 per share | 2,791,761 | - |
| Book value of debt settled with directors, former directors, a relative of a former director and a law firm of which a director is a partner | $139,588 | $93,501 |
| Gain on settlement of debt settled with directors, former directors, a relative of a former director and a law firm of which a director is a partner | $97,712 | $ - |
| Recovery on disposal of claims to a director | | $19,997 |
| Book value of office equipment sold to a relative of a director | $ - | $5,771 |
| Book value of debt settled with a relative of a director | $ - | $5,541 |
| Loss on disposal of equipment to a relative of a director | $ - | $(230) |
| Gain on disposal of equipment t a director | $ - | $23,501 |
| | **April 30, 2014** | **July 31, 2013** |
| Payable to directors, officers and a relative of a director | $51,016 | $130,682 |

## 11. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)

There are no fixed terms of repayment or interest for amounts payable to officers and directors.

**Loans payable to related parties**

(a) On March 17, 2014, the Company obtained an unsecured loan of $25,000 from a company owned by the CEO of the Company. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement.

(b) On April 17, 2014 the Company obtained an unsecured loan of $25,000 from a director of the Company. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement.

## 12. COMMITMENTS

The Company terminated its lease on an office during the year ended July 31, 2013 resulting in a penalty of $48,000 for early termination. During the period ended April 30, 2014, a part of this penalty was settled in cash and the balance was settled through the issuance of shares (note 8(b)(iii)).

## 13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| Nine months ended April 30 | 2014 | 2013 |
|---|---|---|
| Shares issued for debt | 5,621,020 | NIL |
| Mineral property interest expenditures included in accounts payable | $ - | $ 105,558 |
| Recovery of expenditure on mineral property interests previously written off | $ - | $19,997 |
| Write down of expenditures on mineral property interests | $ - | $808,814 |

## 14. SEGMENTED INFORMATION

The Company currently has no material assets. Historically its one reportable operating industry segment has been the exploration of mineral properties. Geographical information is as follows:

| | **Apr 30, 2014** | July 31, 2013 |
|---|---|---|
| Mineral property interests | | |
| Canada | **$ 1** | $ 1 |
| Namibia | **$ 7,813** | $ - |
| | **$ 7,814** | $ 1 |

## 15. EVENTS AFTER THE REPORTING DATE

### (a) Loans Payable

Due to non-related parties:

On May 7, 2014, the Company obtained an unsecured loan of $25,000 from a private investor. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement.

On May 16, 2014, the Company obtained an unsecured loan of $25,000 from a private investor. The loan bears interest of 15% compounded monthly and due quarterly with a maturity date of 24 months from the date of the loan agreement.

On May 16, 2014, the Company obtained an unsecured loan of $25,000 from a private investor. The loan bears interest of 15% compounded monthly and due quarterly with a maturity date of 24 months from the date of the loan agreement.

On June 11, 2014, the Company obtained an unsecured loan of $25,000 from a private investor. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement.

Due to related parties:

On May 5, 2014 the Company obtained an unsecured loan of $25,000 from a company owned by a director of the Company. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement

On June 6, 2014 the Company obtained an unsecured loan of $15,000 from a director of the Company. The loan bears interest of 15% compounded monthly and due annually with a maturity date of 24 months from the date of the loan agreement.

Subject to Exchange approval, the Company may issue bonus shares to certain lenders in connection with the loan advances.