



# **Solomon Gold plc**

Annual Report

For the period ended 30 June 2007

## **CORPORATE INFORMATION**

### **DIRECTORS**

Nicholas Mather (Chief Executive Officer)  
Cameron Wenck (Non-Executive Chairman)  
Brian Moller (Non-Executive Director)  
Dr Robert Weinberg (Non-Executive Director)

### **COMPANY SECRETARY**

Duncan Cornish

### **REGISTERED OFFICE**

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United Kingdom

Registered Number 5449516

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### **AUDITORS**

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### **NOMINATED ADVISOR**

RFC Corporate Finance Ltd  
Level 14, 19-31 Pitt Street  
Sydney NSW 2000, Australia

### **BROKER**

Hanson Westhouse Ltd  
One Angel Court, London EC2R 7H  
United Kingdom

### **BANKERS**

Macquarie Bank Ltd (Brisbane Branch)  
300 Queen Street, Brisbane QLD 4000  
Australia

### **SOLICITORS**

Faegre & Benson LLP  
7 Pilgrim Street, London EC4V 6LB  
United Kingdom

### **AUSTRALIAN SOLICITORS**

Hopgood Ganim  
Level 8, Waterfront Place  
1 Eagle Street, Brisbane QLD 4000

### **REGISTRARS**

Computershare Investor Services plc  
The Pavilions, Bridgwater Road  
Bristol BS99 7NH

## CHAIRMAN'S STATEMENT

Dear Shareholder,

The year to 30<sup>th</sup> June 2007 saw your company further intensify its mineral exploration activities in Solomon Islands on the Country's main island of Guadalcanal. Our drilling program has experienced a strong turn around from the initially slow start and frustrating delays experienced in the 2006 year. The drilling program has been escalated such that we now have three fully operational drilling rigs on Guadalcanal Island. Despite the inevitable difficulties drilling in such perilous terrain, approximately 7,500 metres were drilled in the 12 months ending November 2007, over the prospects at Sutakiki, Koloula and more recently, Chikora.

In 2006, the Company identified a very extensive and intensely mineralised copper gold porphyry system at Sutakiki. Results from extensive, deep drilling of this system throughout the year have ratified our initial optimism around the discovery. We were encouraged by the results of the first hole drilled at Sutakiki, which intersected 309 metres grading 0.54 g/t gold. Although the grade was low, the intersection was very large. Subsequent drilling was encouraging enough to further intensify our drilling program at Sutakiki.

The company's exploration strategies will, we believe, be vindicated in the coming year as a result of follow up drilling planned for the very encouraging discovery, recently made at Sutakiki. Solomon Gold recently reported a high-grade intersection of 32 metres grading 9.45 g/t gold from 108m depth, in drill-hole SK11. Drilling around the discovery has commenced and we await the results. This is undoubtedly a very significant find and has created some well deserved attention and interest in the company.

Solomon Gold's exploration capabilities have been boosted by the recruitment of additional geologists and the engagement of further drilling rigs over the past year. Our increased scale should result in improved cost efficiencies going forward. Your Board and Management are convinced that Solomon Gold's ambitious programme, foreseen when the Company commenced operations there in September 2005, is likely to lead to a major gold discovery.

The Company and its wholly owned operating subsidiary, Australian Resource Management (ARM) P/L, continues to enjoy a harmonious working relationship with the landowners, local people and the Solomon Islands Government. We fully expect this to continue into the future. Throughout this program, your company has managed its activities in an environment of high competition for all services, particularly assay laboratories, drilling rigs and geophysical survey crews. These issues are regularly addressed and we look forward to further improvements in turnaround times for assays.

Solomon Gold continually monitors field efficiency given the higher cost of operating in the Guadalcanal environment. Higher operating costs result from the degree of difficulty of access and slow drilling incurred due to constant collaring of drill holes through landslide scree. The company is targeting significant improvements in operating efficiency and is now aiming to deliver around 18,000 metres of drilling over the next 12 months of operations. This will be achieved using three drilling rigs and double shifting as much as possible.

In addition the Company has identified additional exploration techniques, which we believe will rapidly uncover high priority targets. This has been achieved with the benefit of reprocessed aeromagnetic information, originally collected by ARM in 1997 and will be further augmented by an airborne electromagnetic survey is planned for February 2008. The mineralogical characteristics of the discovery in SK11 suggest that areas of similar mineralisation will stand out in this survey.

The Company has met the expenditure forecasts of the original programs and budgets for the Solomon Gold project on Guadalcanal. In order to meet the future costs of exploration and resource definition around the recent discovery, a capital raising will be undertaken in the near future.

In November 2007, Solomon Gold appointed a new Broker and Nominated Advisor in Hanson Westhouse plc and RFC Corporate Finance Limited respectively. The Company looks forward to a successful relationship with both Hanson Westhouse and RFC.

On behalf of the Board, I wish to acknowledge the extraordinary commitment of our managers and staff in the field. Their tireless work and never-ending faith in the project has kept us focused and optimistic during otherwise difficult times. Their efforts will surely be rewarded in the future. During the year our inaugural Operations Manager and Executive Director, David Jelley, resigned for personal reasons and we thank him for his efforts on behalf of the Company and wish him the best for his future.

Finally, I would like to take this opportunity to thank all shareholders for their support and patience throughout the last two years and to commend to you the Solomon Gold exploration program going forward. Your Board is confident that the next 12 months will see substantial progress towards the definition of a world-class gold mineral system, substantiating our original representations to you.

Cameron Wenck  
Chairman

## OPERATIONS REVIEW

### *About Solomon Gold plc*

Solomon Gold holds five granted tenements on the main Island of Guadalcanal, Solomon Islands, for minerals exploration focusing on copper and gold rich porphyry systems and high grade epithermal gold mineralisation. The tenements cover 468km<sup>2</sup> and are current, including rights to renewal periods, until 10 November 2011. The company listed on AIM (London Stock Exchange) on 10 February 2006 after a £5m capital raising. The Company has expended those funds in accordance with the proposed work program and budget and has now established the necessary infrastructure and field support facilities and gathered sufficient data from surface mapping, sampling and subsurface drilling programs to enable a further program of exploration drilling to enable, with added efficiency, the exploration for world class gold and copper orebodies.

The Company believes the area has the potential for the discovery of a world class copper gold porphyry system similar to other large gold equivalent orebodies in the region such as Ok Tedi (50m oz Au Eq), Grasberg (100m oz Au Eq), Lihir (40m oz Au) and Bougainville (50m oz Au Eq). These orebodies are located on the circum-Pacific zone of volcanoes and associated mineralisation and Solomon Gold management have identified geological features which point to a strong possibility of similar discoveries being made on the Solomon Gold tenements.

Solomon Gold has identified approximately 30 km<sup>2</sup> of mineralisation indicative of significant porphyry copper gold and epithermal gold mineralisation systems and is currently engaged in a three rig program, drilling key targets. Recently the drilling program returned a spectacular intersection of 32 metres at a grade of 9.45 grams per tonne from 108m depth gold at the Sutakiki Prospect, demonstrating the potential for discovery of a high grade gold resource. The high grade gold mineralisation encountered in the recent drilling is characteristic of high grade gold deposits related to mineralised transform structures in Papua New Guinea such as Porgera and in the Indonesian archipelago such as Halmahera.

Solomon Gold is staffed by an active team of expatriate and Solomon Island geologists and field hands, supported by integrated logistics support services including a helicopter contract.

Solomon Gold's key prospects are the Sutakiki, Mbina and Chikora gold and copper prospects which all align on a key transform structure through Guadalcanal, and the Mbetilonga Copper gold project, just 15 km south of Honiara, the national capital.

The program is augmented by the services of two drilling contractors operating a total of three rigs. The past year has seen Solomon Gold focus its exploration efforts primarily on the Sutakiki prospect in the Sutakiki Valley on the northern side of Guadalcanal and the Mbina and Chikora prospects in the Koloula Valley on the southern side of Guadalcanal. During the year the Company perfected access into the Kuma Valley to the east of the Koloula Valley and conducted stream sediment and mapping and sampling programs over areas of extensive mineralisation. No work was conducted on the Mbetilonga prospect area and the Poleo application to the west of Koloula was relinquished.

In addition the Company applied for several new tenement areas. One of these has been granted.

The Fauro Island area was applied for over an extinct volcanic caldera which has yielded significant surface and drilling results for gold in the past, in programs conducted by other explorers. Solomon Gold's relationships with local landowners are expected to deliver access to the area in the near future. Fauro is located in the Western Provinces immediately south of the Papua New Guinea border and the giant Bougainville copper gold porphyry. The Fauro project has potential for both epithermal gold and porphyry style copper gold deposits.

Three exploration licence areas prospective for Nickel laterites on east Guadalcanal, and Makira and Ngella in the Floridas island group were applied for.

It is the current intention of Solomon Gold to define a world class gold or porphyry copper gold deposit and ultimately bring it to production. Solomon Gold has access to the required exploration development and financing skills to achieve this goal.

### ***Drilling***

To date Solomon Gold has completed a total of 8,701 metres of drilling on the Guadalcanal field operations as follows:

Mbetilonga	909 metres (5 holes)
Koloula (Mbina and Chikora )	1,754 metres (3 holes)
Sutakiki	6,038 metres (11 holes)
<i>Total</i>	<i>8,701 metres</i>

Of this, 4,480 metres were completed during the year under review and 3,156 metres were completed since the end of the financial year.

Solomon Gold expects to increase the drilling rate in the forthcoming year as a result of application of improved drilling practices in unconsolidated surface landslide material, increased frequency of double or extended drilling shifts and enhanced operational standards from the drilling companies.

### ***Mapping and sampling***

87 stream sediment, 1,174 soil and 1,103 rock chip samples were collected during the year. The bulk of this activity was centred on the Sutakiki Valley where the Company made a significant gold discovery.

### ***Logistics***

The establishment of three field camps at Sutakiki, Mbina and Mbetilonga has enabled the continuance of field operations on a full effort basis. The Company maintains a full communications and accommodation service at the Sutakiki Camp, which is also the geological base for the Sutakiki field program.

### ***Personnel***

During the year Solomon Gold employed a number of local Solomon Islands personnel on the project in positions including field hands, cooks, logistics officers , laboratory technicians, book keepers and clerks receptionists and geologists. The integration of local communities and employees has been a key element of Solomon Gold's uniquely constructive approach to community relations on Guadalcanal.

The attention to local management issues by Mr Nicholas Biliki, a Solomon Islander who is the Company's manager of administration and community affairs on the island, has been key in the achievement of Solomon Gold's unprecedented access to field areas on Guadalcanal.

### ***Law and Order***

Law and order has been maintained in Solomon Islands throughout the year. The Regional Assistance Mission to Solomon Islands ("RAMSI") continued to provide support to the Country in accordance with resolutions of the Solomon Islands Government. Australia has indicated that it intends to provide an amount of some AUD 800 million for the period 2004 to 2009 and there is no indication of any reduction in the commitment to RAMSI or Solomon Islands in the near future.

## ***Sutakiki***

During the year under review Solomon Gold focused its efforts on the Sutakiki Valley, 30 km south east of the capital of Solomon Islands, Honiara.

The Sutakiki Valley presented as one of the most important targets for Solomon Gold, based on its presence on the Guadalcanal transform structure, and the retrieval by Newmont, during a brief field visit in 1989, of stream sediment samples up to 73 ppb gold and float samples in the river up to 1.8 g/t gold. Final reports by Newmont rated the porphyry prospectivity of the headwaters highly. After a period of establishment of Solomon Gold's credentials with the local peoples of the Sutakiki Valley, Solomon Gold gained access to the area and followed up the Newmont results. The source of the gold anomalism was located up the River in an outcrop which returned 85 m @ 0.8 g/t gold in composite 5 metre channel samples in a mineralised porphyry. Landslides further exposed the mineralised porphyry, and rock chip sampling of a complex vein system exposed returned up to 1000 g/t gold. Excluding this high sample the veins averaged 7 g/t gold and the first drill hole was located underneath this discovery outcrop. The drillhole SK01 returned 309 metres at a grade of 0.5g/t gold and 0.16% copper. Further drilling in the Sutakiki Valley up to SK010 did not identify any further significant gold mineralised zones. Mapping and sampling in the area identified north westerly trending fault systems, with zones of intense shearing and mineralisation grading up to 3.5 g/t gold in Valehailala Creek, just 500 metres north of the discovery zone in the Sutakiki River. The Company also discovered open space veins with similar grades outcropping beside the fault, with an east west or east south east orientation.

Drillhole SK 011 was drilled underneath these occurrences and resulted in the discovery of intense sulphide mineralisation in the Sutakiki fault zone, returning 32 metres @ 9.45 g/t gold from 108m depth including 10 metres @ 21 g/t, including 1 metre @ 74 g/t gold. Subsequent inspection and reinterpretation of airborne magnetic data collected in 1997 resulted in the identification of structures evident in the magnetic data with the same orientation and position as those observed in the field.

Solomon Gold has resolved a structural key for the mineralisation which demonstrates that there are a number of locations nearby with similar potential for high grade gold mineralisation.

At the time of this report the company was awaiting the receipt of assay results from sampling programs along the strike extent of the Suta Fault. Rock chip sampling from Vurakindi Creek, 1 km to the west returned 3.5 g/t from breccias exhibiting similar characteristics to the mineralisation in SK11.

In the next 8 months Solomon Gold intends to drill nine holes from each of 4 drill pads along an 800 metre extension of the Suta Fault, to a depth of 300 metres in order to test the resource potential of the recent discovery. The Company intends after completion of the current program in the Koloula Valley at the Mbina and Chikora prospects, to place an additional drilling rig on the Sutakiki Prospect.

## ***Mbina***

The Mbina Prospect is located in the Koloula River Valley 4 km to the south west of Sutakiki. At Mbina, complex porphyry intrusions are mineralised with copper and gold over long distances. Channel sampling of exposures in the Koloula River have previously returned up to 125 metres @ 0.23 % copper and 0.5 g/t gold. The mineralisation occurs in a 2km by 300m wide zone on the east side of the Mbina copper porphyry system. During the year drilling at Mbina in KL01 intersected numerous narrow veins trending east south east which returned grades up to 6.7 g/t over 1 metre sections. Drillhole KL02 has been drilled from the same pad as KL01 and assays are awaited. KL03 is at the time of this report being drilled from the same pad to the north west to test western extensions of the vein system encountered in KL01 and a magnetic zone interpreted to be a mineralised porphyry. Additional mapping and sampling has outlined several other drill targets which the Company plans to drill over the next six months.

### ***Chikora - Vurakave.***

The Chikora copper molybdenum porphyry prospect is located 2 km south west of Mbina in the Koloula valley and 6 km south west of Sutakiki.

At Chikora, copper and molybdenum mineralisation is evident over a 2.5 x 1.5 km zone in which soil sampling by Utah International in the 1970s and Solomon Gold's subsidiary ARM in the late 1990s and augmented by recent sampling, has returned values over 3000 ppm copper. Molybdenum is also present and has been assayed up to 0.17% in rock chip samples at the Vurakave prospect on the north east of the Chikora grid. Mapping and rock chip sampling at Vurakave has identified intermittent zones of quartz veining containing visible molybdenite over a 600m x 200m zone of interest.

Utah drilled 13 short vertical holes into Chikora in the 1970s. The best hole was CH08 returning 115m @ 0.34% Copper and 142 ppm Molybdenum from 152m to 266m and showing mineralisation strengthening with depth, Maximum values of 0.76% Cu and 820ppm Molybdenum (0.082%) were intersected in the zone near the end of the hole. The hole was drilled vertically and is believed to have missed the sub-vertical quartz copper molybdenum sulphide veins outcropping in the Chikora prospect area. The current Solomon Gold hole CK01 is inclined so as to better test the steeply dipping veins in the area.

Solomon Gold has reinterpreted all the existing data and designed and commenced a two hole drilling program to test the area of high copper anomalies in soils and a drill intersection by Utah Mining in 1974. The first hole, CK01, penetrated 44 m of loose surface material before entering disseminated 1% bornite (copper sulphide) mineralisation in a porphyry intrusive. CK01 at the time of this report was at a depth of 361 metres and drilling to 600 metres. The hole was in a mineralised biotite porphyry containing frequent copper sulphide veins.

The Chikora prospect is situated at a vertical elevation of between 650 and 1,000 metres above sea level, and only 6 km from the south coast of Guadalcanal. The Chikora prospect is believed by Solomon Gold geologists to represent a deeper, copper and molybdenum phase of the gold mineralisation evident at higher elevations at the Mbina (850 to 1,100 m asl ) and Sutakiki gold and copper prospects (950 to 1,300 m asl).

### ***Kuma***

During the year, the Company gained access to the Kuma River Valley to the east of the Koloula Valley where reconnaissance had showed extensive alteration of the regionally dominant Suta Volcanics. The Company conducted a regional sampling and mapping program which did not identify any significant mineralised zones in outcrop. A stream sediment maximum of 0.43 g/t was encountered which is considered to be highly anomalous, however the source of that gold has not yet been identified. The area is still considered to offer considerable prospectivity and will be reassessed in the forthcoming year.

### ***Mbetilonga***

During the year, the Company conducted further mapping sampling and drilling programs at Mbetilonga, 15 kms south of Honiara. Extensive surface mineralisation has not yet led to a significant drilling intersection. The Company has tested several target areas at Mbetilonga, with five drill holes of which two, MB-04 at Hambusimaloso and MB05, at Hahala were drilled in the current year. Neither hole intersected significant mineralisation.

The Mbetilonga tenement area covers more than 50 km<sup>2</sup> of prospective volcanic, intrusive and altered sedimentary rocks, widely anomalous in copper. At Hambusimaloso, copper anomalism over 0.1% copper in soil samples extends over 2km<sup>2</sup> and peaks at over 13.5% copper in rock chip samples. Magnetic anomalies coincident with porphyry intrusions at Hahala, 2 km north of Hambusimaloso, did not yield significant gold mineralisation.

Additional important targets at Mbetilonga are at Vuralanggoma on the eastern side of the tenement and at Vatuchichi in the northern section of the mineralised area. Solomon Gold intends to conduct further drilling at Vuralanggoma and Vatuchichi in the forthcoming year. At Vatuchichi drilling is planned to test magnetic anomalies underneath a limestone cover and at the outcropping mineralisation, where epithermal gold mineralisation is recorded up to 51 g/t gold in rock chip samples. At Vuralanggoma a hole drilled by Utah in the 1970s intersected a 38 metre thick zone at a grade of 0.34% copper and Solomon Gold plans to confirm and extend the previous results.

## **Corporate**

Since the end of the year, Solomon Gold has appointed Hanson Westhouse plc as Broker and RFC Corporate Finance as Nominated Advisor to the Company.

## **Qualified Person**

Information in this report relating to the exploration results is based on data reviewed by Mr Nicholas Mather (B.Sc. Hons Geol.), the Chief Executive Officer of the Company. Mr Mather is a Fellow of the Australasian Institute of Mining and Metallurgy who has in excess of 25 years experience in mineral exploration and is a Qualified Person under the AIM Rules. Mr Mather consents to the inclusion of the information in the form and context in which it appears.

## **Risks and Uncertainties**

**The Directors consider that the factors and risks described below are the most significant.**

### **Use of Funds**

The Company has prepared detailed budgets setting out the way in which it proposes its funds from time to time. However, the quantum and timing of expenditure will necessarily be dependent upon the continued positive results from the Company's ongoing exploration activities on the Tenements and an ongoing acceptable state of law and order. As the Company conducts its drilling and exploration programs, it is possible that results and circumstances may dictate a departure from the existing budget at the time. Further, the Company may, from time to time as opportunities arise, utilise part of its financial resources (including the funds raised as part of the Placing) to participate in additional opportunities that arise and fit within the Company's broader objectives, as a means of advancing shareholder value.

### **No production history**

The Group currently has no producing properties and its ultimate success may depend on its operating ability to generate cashflow from producing properties in the future. The Group has not generated any revenue to date and there is no assurance that it will do so in the future.

### **General exploration and extraction risks**

There is no certainty that the Company will identify commercially mineable reserves in the Tenements. The Company is currently in the early stages of exploration. The exploration for and development of mineral deposits involves significant uncertainties and the Group's operations will be subject to all of the hazards and risks normally encountered in such activities and in addition, several unusual risks. These hazards and risks include unusual and unexpected geological formations, rock falls, landslides, flooding and other climatic conditions, aircraft or boat accidents and injury or death in civil unrest any one of which could result in damage to, or destruction of, the Company's facilities, damage to life or property, environmental damage or pollution and legal liability which could have a material adverse impact on the business, operations and financial performance of the Company. Although precautions to minimise risk will be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks. There are no key man insurance policies taken out on any of the Company's personnel.

The Company's exploration models and the bases for its search for potential resources are subject to variation or alternate interpretation from time to time as a result of the receipt of new exploration data and interpretation thereon which may not be evident to the Company or the Directors at the date of this document.

The targets identified by the Company's personnel and consultants, are based on current experience and modelling and all available data. There is no guarantee that surface sample grades of any metal or mineral taken in the past will persist below the surface of the ground.

As is common with all exploration ventures, there is also uncertainty and therefore risk associated with the Company's operating parameters and costs which can be difficult to predict and are often affected by factors outside the Company's control. Few properties which are explored are ultimately developed into producing assets. There can be no guarantee that the estimates of quantities and grades of gold and minerals disclosed will be available for extraction and sale. With all natural resources operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of other extraction methods tested in pilot conditions. Natural resources exploration is speculative in nature and there can be no assurance that any potential mineral deposits will be discovered.

### **Project development risks**

If the Company discovers a potentially economic resource or reserve there is no assurance that the Company will be able to develop a mine thereon, or otherwise commercially exploit such resource or reserve. Further, there can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Company's current personnel, systems, procedures and controls will be adequate to support the Company's operations as operations expand. Any failure of management to manage effectively the Company's growth and development could have a material adverse effect on the Company's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Company's current strategy will develop as anticipated.

### **Operational considerations**

The Company's operational targets are subject to the completion of planned operational goals on time and according to budget and are dependent on the effective support of the Company's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Company.

The locations of all of the Company's current exploration activities dictate that climatic conditions have an impact on operations and, in particular, severe weather, including cyclones, could prevent access to the Tenements and disrupt the delivery of supplies, equipment and fuel. It is therefore possible that exploration and extraction activity levels might fluctuate. Unscheduled interruptions to the Company's operations due to mechanical or other failures, or industrial relations-related issues, or problems with the supply of goods or services could have a serious impact on the financial performance of those operations. Being located on the Pacific "Rim of Fire", Solomon Islands are exposed to the risk of damage from earthquakes and tsunamis.

Operations in Solomon Islands will expose the Company's staff, contractors and consultants to a variety of tropical diseases and related risks. These include but are not limited to malaria and other numerous skin diseases. The Company may be exposed to liabilities as a result of this.

To mitigate potential access and related issues, the Company has entered into a helicopter services agreement.

There are also operational risks associated with frequent power outages that occur in Solomon Islands' capital, Honiara. These regular outages make the transacting of business in Solomon Islands difficult, and may have an adverse impact on the ability of the Company to achieve its objectives in a timely manner.

### **Personnel**

The Company has a small management team and the loss of any key individual could affect the Group's business. Additionally, the Company will be required to secure other personnel to facilitate its exploration programme on each of the Tenements. Any inability to secure appropriate or retain current personnel may have a materially adverse impact on the business and operations of the Company.

### **Economic, political, judicial, administrative, taxation or other regulatory factors**

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company (through its subsidiary ARM) operates and holds its major assets.

No assurance can be given as to the future policies of any new Government that might be elected. Any policy changes of any new Government may have a material adverse impact on the business, operations and financial performance of the Company.

### **Tenements and regulatory environment**

There is no guarantee that if ARM applies for a mining lease in respect of minerals it has discovered within the Tenements that it will be granted one. The grant of a mining lease is subject to the exercise of ministerial discretion and no guarantee can be given as to the favourable exercise of any such discretion. There is no guarantee of the terms of any mining lease. The exploration and extraction activities of ARM are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, site safety, toxic substances, environmental and other matters. Although the Directors believe that ARM's exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing or future rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of exploration and extraction, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company.

### **Title matters**

Whilst the Company has the benefit of granted PLs and has diligently investigated its title to, and rights and interests in, the Tenements, there is no absolute guarantee that such title, rights and interests will be held valid in the event of any undetected defects. If a defect does exist it is possible that ARM may lose all or part of its interest in those Tenements to which the defect relates.

The grant and future renewals of PLs, as the case may be, are governed by the requirements and restrictions set out in the Mining Act. Whilst the Company believes it is entitled to rely upon all the actions of the Minerals Board and the Minister as being valid, compliance with the requirements and restrictions under the Mining Act may be open to differing interpretations which, in the case of an adverse interpretation, may have a material adverse effect on the Company's title.

### **Volatility of prices of gold and copper**

The market prices of gold and copper are volatile and are affected by numerous factors which are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, interest rates, inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in gold or copper prices could render less economic, or uneconomic, some or all of the exploration activities to be undertaken by the Group.

### **Currency fluctuations**

The future value of the Ordinary Shares may fluctuate in accordance with movements in the foreign currency exchange rates. For example, it is common practice in the mining industry for mineral production revenue to be denominated in USD, although some but not all of the costs of exploration production will be incurred in USD and not all of the ore or metal obtained from the Tenements will be sold in USD denominated transactions.

### **Uninsured risks**

The Company, as a participant in exploration and potential extraction activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance cover) arising

from negative environmental impact or other damage or injury.

### **Additional requirements for capital**

Substantial additional financing may be required if the Company is to be successful pursuing its ultimate strategy. No assurances can be given that the Company will be able to raise the additional finance that it may require for its anticipated future operations. Copper and gold prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures, operating expenses and geological results and the political environment are all factors which will have an impact on the amount of additional capital that may be required. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of the Tenements, incur financial penalties or reduce or terminate its operations.

### **Landowner issues**

In the case of mining and exploration operations in Solomon Islands, there is a complex land tenure structure and while ARM's PLs and Access Agreements entitle it to explore for the duration of the term of each PL, the existing legislative framework only provides for limited forms of negotiation between the landowners/community leaders on the one hand and mining companies on the other. It is also incumbent on the Director of Mines and the mining tenement holder to identify which landowners and community leaders they need to negotiate with. The Company does not guarantee that the identifications made to date and upon which the Access Agreements are currently based may not be contested. As a consequence there may be unexpected difficulties experienced in progressing a promising resource into a commercial mining operation.

The Company has also procured Access Agreements for areas within the Tenements after the grant of the Tenement. Whilst the Company believes that it is entitled to rely upon the same to conduct exploration within these areas, no assurance can be given that there may not be some future challenge to the Company's ability to do so.

Whilst the Company has the Access Agreements with landowners covering the majority of the prospective areas identified by the Company within the Tenements, its ability to carry out exploration in the residual areas will require additional access agreements to be entered into. The ability of the Company to secure the benefits of all of the access agreements is dependent upon, *inter alia*, the contracting parties' willingness to perform and discharge their obligations thereunder. There may be legal and commercial limitations in respect of enforcement of contractual rights. Additionally, the Company will not be permitted to explore in areas nominated by the landowners as reserved or protected areas under section 4(2) of the Mining Act. Whilst the Company is actively seeking to liaise with landowners to identify relevant reserved or protected areas, some considerable uncertainty exists as to the precise location of these areas, the identification of which requires the input of the indigenous population. The inability of the Company to identify these areas, or a claim by landowners that reserved or protected areas exist over areas identified by the Company as prospective, may have a material adverse effect on the ability of the Company to conduct its exploration programme in the manner identified in this document.

### **Sovereign risk and civil disobedience**

The Company intends to make significant investment of capital in Solomon Islands. The conduct of exploration and mining-related activities and the investment of capital and placement of personnel in Solomon Islands are potentially subject to a degree of sovereign risk and civil disobedience generally. A decay in law and order in Solomon Islands may expose the Company to un-budgeted costs delays and other potential damage and loss.

### **Environmental risks**

Inherent with mining operations is an environmental risk. The legal framework governing this area is constantly developing. Thus the Company is unable to fully ascertain any future liability that might arise from new law or regulation although such regulation is typically strict and may impose severe penalties.

The proposed activities of the Company, as with any exploration, may have environmental impact which may result in unbudgeted delays, damage, loss and other costs and obligations including, without limitation, rehabilitation

and/or compensation. Additionally, there is a risk that the Company's operations and financial position may be adversely affected by the actions of environmental groups or any other group or person opposed in general to the Company's activities and in particular the proposed exploration and mining by the Company within Solomon Islands.

### **Taxation**

In addition to the normal level of corporation tax imposed on all companies, mining companies are required to pay government royalties, indirect taxes and other imposts which generally relate to revenue or cash flows. Industry profitability can be affected by changes in government taxation policies.

ARM carries on business in Solomon Islands and will be subject to income and other taxes in that country. The rates of taxation that may apply to ARM on income and other profits may be higher than the rates that apply in the United Kingdom or Australia. No guarantee can be given that these rates will not vary.

## **FINANCIAL REVIEW**

### **Equity**

During the 2007 accounting year there was no change to the Company's issued share capital.

On 12 September 2006 the Company issued 650,000 unlisted share options to directors, employees and consultants of the Company. The options were issued free of charge and are exercisable at prices between 50 pence and 100 pence per ordinary share. The period during which these share options can be exercised is between 1 January 2007 and 1 January 2011.

At 30 June 2007 the Company had 26,825,001 ordinary shares, 2,389,997 unlisted options and 326,400 unlisted warrants on issue. A further 500,000 unlisted options (£0.20 expiring 8 November 2010) are being issued to the Company's NOMAD.

At the date of this report, the Company had 26,825,001 ordinary shares, 1,689,997 unlisted options and 326,400 unlisted warrants on issue.

### **Financial Controls and Risk Management**

The Board regularly reviews the risks to which the Group is exposed and ensures through Board Committees and regular reporting that these risks are managed and minimised as far as possible. The Audit Committee is responsible for the implementation and review of the Group's internal financial controls and financial risk management systems.

## **DIRECTORS**

The Board consists of one Executive Director and three Non-Executive Directors.

### **Cameron Wenck (Non-Executive Chairman)**

Cameron Wenck (46), appointed 22 November 2005, is a financial adviser and company director with 18 years' experience in the financial services industry. Earlier in his career he worked for the London stockbrokers Scrimgeour Vickers and chartered accountants PricewaterhouseCoopers. He has a Bachelor of Commerce, a Diploma of Financial Planning, is a Fellow of the Australian Society of Accountants and a Certified Financial Planner.

### **Nicholas Mather (Chief Executive Officer)**

Nicholas Mather (50), appointed 11 May 2005, graduated in 1979 from the University of Queensland with a B.Sc. (Hons, Geology). He has 25 years' experience in exploration and resource company management in a variety of countries. His career has taken him to numerous countries exploring for precious and base metals and fossil fuels. Nicholas Mather has focused his attention on the identification of and investment in large resource exploration projects.

He was managing director of BeMaX Resources NL (an ASX-listed company) from 1997 until 2000 and instrumental in the discovery of the world class Ginkgo mineral sand deposit in the Murray Basin in 1998. As an executive director of Arrow Energy NL (also ASX-listed) until his resignation in 2004, Nicholas Mather drove the acquisition and business development of Arrow's large Surat Basin Coal Bed Methane project in south-east Queensland. He was managing director of Auralia Resources NL, a junior gold explorer, before its USD23 million merger with Ross Mining NL in 1995. He was a non-executive director of Ballarat Goldfields NL until 2004, having assisted that company in its recapitalization and requote on the ASX in 2003.

Nicholas Mather is Chief Executive of D'Aguilar Gold Ltd, a non-executive director of ASX-listed Bow Energy Limited and TSX-V listed Waratah Coal Inc.

### **Brian Moller (Non-Executive Director)**

Brian Moller (49), appointed 11 May 2005, is a corporate partner in the Brisbane-based law firm Hopgood Ganim Lawyers, the Australian solicitors to the Company. He was admitted as a solicitor in 1981 and has been a partner at Hopgood Ganim since 1983. He practices almost exclusively in the corporate area with an emphasis on capital raising, mergers and acquisitions.

Brian Moller holds an LLB Hons from the University of Queensland and is a member of the Australian Mining and Petroleum Law Association.

Brian Moller acts for many publicly-listed resource and industrial companies and brings a wealth of experience and expertise to the board, particularly in the corporate regulatory and governance areas. He is a non-executive director of ASX listed D'Aguilar Gold Ltd and Platina Resources Ltd and TSX-V listed WCB Capital Ltd.

**Dr Robert Weinberg**  
**(Non-Executive Director)**

Rob Weinberg (60), appointed 22 November 2005, gained his doctorate in geology from Oxford University in 1973. He has more than 30 years experience of the international mining industry and is an independent mining research analyst and consultant. He is a Fellow of the Geological Society of London.

Prior to his current activities he was Managing Director, Institutional Investment at the World Gold Council, and a Director of Gold Bullion Securities. Previously he was a Director of the investment banking division at Deutsche Bank in London after having been head of the global mining research team at SG Warburg Securities. He has also held senior positions within Societe Generale and was head of the mining team at James Capel & Co. He was formerly marketing manager of the gold and uranium division of Anglo American Corporation of South Africa Ltd.

Dr Weinberg is a non-executive Director of AIM listed Falkland Gold and Minerals Ltd, ASX listed Kasbah Resources Ltd and Medusa Mining Ltd, a company listed on the ASX, AIM and the Frankfurt Stock Exchange

**SECRETARY**

Mr Duncan Cornish was the Secretary of the Company during the period and until the date of this report.

**Duncan Cornish**  
**(Company Secretary and Chief Financial Officer)**

Duncan Cornish (40) has more than ten years experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst and Young and PricewaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

Mr Cornish is a Chartered Accountant. He holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## **DIRECTORS' REPORT**

The directors present their annual report and audited financial statements for the year ended 30 June 2007.

### **PRINCIPAL ACTIVITIES**

The principal activities of Solomon Gold plc (the "Company") and its subsidiaries (together "Solomon Gold" or the "Group") are gold and mineral exploration in Solomon Islands. Details of the Group's activities, together with a description of the principal risks and uncertainties facing the Group, and the development of the business, are given in the Chairman's Statement and Operations Review.

The principal activity of the Company is that of a holding company.

### **BUSINESS REVIEW**

A review of the Group's business and future developments is set out in the Operations review and Financial review.

### **LAND AND BUILDINGS**

The directors are of the view that the book value and market value of land and buildings are not materially different. The land and buildings were acquired during 2007 and no independent valuation has been obtained since its acquisition.

### **GOING CONCERN**

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches. Further funding is raised as and when required. When any of the Group's projects move to the development state, specific financing will be required.

### **CURRENCY**

The functional and presentational currency is Australian dollars ("A\$") and all amounts presented in the Directors' Report and financial statements are presented in Australian dollars unless otherwise indicated.

### **RESULTS**

The Group's consolidated loss for the period was A\$1,201,646 (2006: A\$652,322).

### **CHANGES IN SHARE CAPITAL DURING 2007**

A statement of changes in the share capital of the Company is set out in note 15 to the financial statements.

### **DIVIDENDS PAID OR RECOMMENDED**

The directors do not recommend the payment of a dividend.

### **FINANCIAL INSTRUMENTS**

The Company does not undertake financial instrument transactions that are speculative or unrelated to the Company's or Group's activities. The Company's financial instruments consist mainly of deposits with banks, accounts payable, and loans to subsidiaries. Further details are provided in note 18 to the financial statements.

### **POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Group policy on the payment of creditors is to settle bills in accordance with the terms agreed with suppliers.

At the year end there were 7 days (2006: 32 days) worth of purchases in Group trade creditors and 14 days (2006: 21 days) worth of purchases in Company trade creditors.

## SUBSEQUENT EVENTS

On 23 August 2007, 700,000 unlisted share options in Solomon Gold plc expired as a result of employee resignations.

On 8 November 2007, Hanson Westhouse Limited was appointed as Broker to the Company.

On 8 November 2007, RFC Corporate Finance Ltd was appointed as Nominated Advisor to the Company. As part of its appointment, RFC will be issued 500,000 unlisted options at an exercise price of £0.20 expiring on 8 November 2010.

## DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the period were as follows:

Cameron Wenck	Non-Executive Chairman
Nicholas Mather	Chief Executive Officer
Brian Moller	Non-Executive Director
Robert Weinberg	Non-Executive Director
David Jelley	Executive Director – Operations (resigned 23 May 2007)

The Company has a Directors' and Officers Liability insurance policy with AFM Insurance Brokers Pty Ltd for all its directors. The policy indemnifies directors up to a level of A\$5 million.

The directors who held office at the end of the financial year held interests in the ordinary shares and unlisted options of the Company as shown in the tables below.

On 12 September 2006, the Company issued share options exercisable at prices between 50 pence and 100 pence per ordinary share to the following directors: Cameron Wenck 75,000, Brian Moller 75,000 and Robert Weinberg 75,000. The period during which these share options can be exercised is between 1 January 2007 and 1 January 2011.

Shares held	At 30 June 2007	At 30 June 2006
Nicholas Mather	565,159	565,159
Brian Moller	92,535	92,535
Cameron Wenck	212,045	212,045
Robert Weinberg	27,000	-

Share options held	At 30 June 2007	At 30 June 2006	Option Price	Exercise Period
Nicholas Mather	233,333	233,333	50p	01/01/07 – 01/01/10
	233,333	233,333	75p	01/01/08 – 01/01/11
	233,334	233,334	100p	01/01/08 – 01/01/11
Cameron Wenck	25,000	-	50p	01/01/07 – 01/01/10
	25,000	-	75p	01/01/08 – 01/01/11
	25,000	-	100p	01/01/08 – 01/01/11
Brian Moller	25,000	-	50p	01/01/07 – 01/01/10
	25,000	-	75p	01/01/08 – 01/01/11
	25,000	-	100p	01/01/08 – 01/01/11
Robert Weinberg	25,000	-	50p	01/01/07 – 01/01/10
	25,000	-	75p	01/01/08 – 01/01/11
	25,000	-	100p	01/01/08 – 01/01/11

## MAJOR SHAREHOLDERS

The Company had been notified of the following interests in shares held as at 30 November 2007:

Major Shareholders	Number of Shares	% of Issued Capital
Credit Suisse Client Nominees (UK) Ltd	5,761,171	21.48
Tenstar Trading Limited	2,225,766	8.30
Pershing Keen Nominees Limited	1,228,000	4.58
Pershing Keen Nominees Limited	1,110,959	4.14
RAB Special Situations (Master) Fund Limited	852,103	3.18

In addition, the Company had been notified (in accordance with the Disclosure and Transparency Rules, "DTR") of the following interests in Shares held as at 10 December 2007:

Major Shareholders	Number of Shares	% of Issued Capital
Universities Superannuation Scheme Limited	1,000,000	3.73
Fidelity International Limited	2,000,000	7.45

## CORPORATE GOVERNANCE

In formulating the Company's corporate governance procedures the Board of Directors takes due regard of the principles of good governance set out in the Revised Combined Code issued by the Financial Reporting Council in July 2003 (as appended to the Listing Rules of the Financial Services Authority) so far as is practicable for a company of Solomon Gold's size.

The board of Solomon Gold plc is made up of one executive director and three non-executive directors. Cameron Wenck chairs the Board and Nicholas Mather is the Company's Chief Executive. It is the Board's policy to maintain independence by having at least half of the Board comprising non-executive directors who are free from any business or other relationship with the Group. The structure of the Board ensures that no one individual or group is able to dominate the decision making process.

The Board ordinarily meets on a monthly basis providing effective leadership and overall control and direction of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the directors in a timely manner, prior to Board meetings. The Board also receives summary financial and operational reports before each Board meeting. The Board delegates certain of its responsibilities to management, who have clearly defined terms of reference.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any director may take independent professional advice at the Company's expense in the furtherance of his duties.

One third of the directors retire from office at every Annual General Meeting of the Company. In general, those directors who have held office the longest time since their election are required to retire. A retiring director may be re-elected and a director appointed by the Board may also be elected, though in the latter case the director's period of prior appointment by the Board will not be taken into account for the purposes of rotation.

The Audit Committee, which meets not less than twice a year and is responsible for ensuring that the financial performance, position and prospects of the Group are properly monitored as well as liaising with the Company's auditors to discuss accounts and the Group's internal controls. The Committee is chaired by Brian Moller, the other members being Cameron Wenck and Robert Weinberg. The Audit committee has reviewed the systems in place and considers these to be appropriate.

The Remuneration Committee, which meets at least once a year and is responsible for making decisions on directors' remuneration packages, is chaired by Cameron Wenck. Brian Moller and Robert Weinberg are the other committee members.

Remuneration of executive directors is established by reference to the remuneration of executives of equivalent status both in terms of the level of responsibility of the position and by reference to their job qualifications and skills. The Remuneration Committee will also have regard to the terms which may be required to attract an executive of equivalent experience to join the Board from another company. Such packages include performance related bonuses and the grant of share options.

The Board attaches importance to maintaining good relationships with all its shareholders and ensures that all price sensitive information is released to all shareholders at the same time, in accordance with London Stock Exchange rules. The Company's principal communication with its investors is through the Annual General Meeting and through the annual report and accounts and the interim statement.

The 2007 Annual General Meeting will provide an opportunity for the Chairman to present to the shareholders a report on current operations and developments and will enable the shareholders to question and express their views about the Company's business. A separate resolution will be proposed on each substantially separate issue, including the receipt of the financial statements and shareholders will be entitled to vote either in person or by proxy.

A Health, Safety, Environment and Community Committee (HSEC Committee) is responsible for the overall health, safety and environmental performance of the Company and its operations and its relationship with the local community and is chaired by Brian Moller, the other members being Nicholas Mather and Robert Weinberg.

#### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

The Group made no political or charitable donations in the year.

#### **AUDITORS**

A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

#### **Provision of information to auditors**

In the case of each person who are directors of the Company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

This report was approved by the board on 11 December 2007 and signed on its behalf.

**Duncan Cornish**  
**Company Secretary**  
Level 5, 60 Edward Street  
Brisbane QLD 4000  
Australia

## **INDEPENDENT AUDITORS' REPORT**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLOMON GOLD PLC**

We have audited the group and parent company financial statements ('the financial statements') of Solomon Gold plc for the year ended 30 June 2007 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of changes in shareholders' equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the chairman's statement, operations review and financial review that is cross referenced from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement, the operations review and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2007 and of its loss for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

### Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the group's and the company's ability to continue as a going concern. As explained in note 1 to the financial statements, the company raises finance for the group's exploration and appraisal activities in discrete tranches, and will need to raise further funds in the near future to continue with its planned exploration programme and to provide working capital. The future of the group depends on the ability of the company to raise such finance. This indicates the existence of a material uncertainty which may cast significant doubt about the company and the group's ability to continue as a going concern. If the company is unable to secure such additional funding, this may have a consequential impact on the carrying value of the related exploration assets and the investment of the parent company. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

PKF (UK) LLP  
Registered Auditors  
London, UK

11 December 2007

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Group 2007 A\$	Group 2006 A\$
Revenue		-	-
Cost of sales		-	-
<b>Gross profit</b>		-	-
Other income		3,302	72,924
Administrative expenses		(1,552,102)	(908,064)
Exploration costs written off		-	(10,000)
<b>Operating loss</b>		(1,548,800)	(845,140)
Finance income	6	347,154	192,818
<b>Loss before and after tax</b>	3	(1,201,646)	(652,322)
<b>Loss for the period</b>		(1,201,646)	(652,322)
<b>Basic and diluted loss per ordinary share</b>			
- Basic and diluted	8	(0.0448)	(0.0431)

## CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 30 JUNE 2007

	Notes	Group 2007 A\$	Group 2006 A\$	Company 2007 A\$	Company 2006 A\$
<b>Assets</b>					
Property, plant and equipment	10	273,969	71,189	1,414	2,173
Intangible assets	11	6,799,726	2,201,948	-	-
Investment in subsidiary	9	-	-	10,516,194	2,248,885
<b>Total non-current assets</b>		<b>7,073,695</b>	<b>2,273,137</b>	<b>10,517,608</b>	<b>2,251,058</b>
Other receivables and prepayments	13	381,724	257,677	243,997	220,228
Cash and cash equivalents	14	3,450,530	9,077,456	937	9,055,488
<b>Total current assets</b>		<b>3,832,254</b>	<b>9,335,133</b>	<b>244,934</b>	<b>9,275,716</b>
<b>Total assets</b>		<b>10,905,949</b>	<b>11,608,270</b>	<b>10,762,542</b>	<b>11,526,774</b>
<b>Equity</b>					
Share capital	15	631,679	631,679	631,679	631,679
Share premium	15	10,752,408	10,752,408	10,752,408	10,752,408
Other reserves		849,251	389,874	849,251	389,874
Retained loss		(1,853,968)	(652,322)	(1,857,699)	(553,631)
<b>Total equity</b>		<b>10,379,370</b>	<b>11,121,639</b>	<b>10,375,639</b>	<b>11,220,330</b>
<b>Liabilities</b>					
Trade and other payables	16	526,579	486,631	386,903	306,444
<b>Total current liabilities</b>		<b>526,579</b>	<b>486,631</b>	<b>386,903</b>	<b>306,444</b>
<b>Total liabilities</b>		<b>526,579</b>	<b>486,631</b>	<b>386,903</b>	<b>306,444</b>
<b>Total equity and liabilities</b>		<b>10,905,949</b>	<b>11,608,270</b>	<b>10,762,542</b>	<b>11,526,774</b>

The financial statements were approved and authorised for issue by the Board and were signed in its behalf on 11 December 2007.

Nicholas Mather  
Director

## STATEMENT OF CHANGES IN EQUITY

### Group Statement of changes in shareholders' equity

	Note	Share capital A\$	Share premium A\$	Share option reserve A\$	Warrants reserve A\$	Retained loss A\$	Total A\$
<b>Balance at 11 May 2005*</b>		-	-	-	-	-	-
Loss for the period		-	-	-	-	(652,322)	(652,322)
New share capital subscribed		631,679	12,879,279	-	-	-	13,510,958
Share issue costs		-	(2,126,871)	-	-	-	(2,126,871)
Value of options issued to directors, employees and consultants		-	-	217,071	-	-	217,071
Value of warrants issued		-	-	-	172,803	-	172,803
<b>Balance at 30 June 2006</b>		<b>631,679</b>	<b>10,752,408</b>	<b>217,071</b>	<b>172,803</b>	<b>(652,322)</b>	<b>11,121,639</b>
Loss for the period		-	-	-	-	(1,201,646)	(1,201,646)
New share capital subscribed		-	-	-	-	-	-
Share issue costs		-	-	-	-	-	-
Value of options issued to directors, employees and consultants		-	-	459,377	-	-	459,377
Value of warrants issued		-	-	-	-	-	-
<b>Balance 30 June 2007</b>	<b>15</b>	<b>631,679</b>	<b>10,752,408</b>	<b>676,448</b>	<b>172,803</b>	<b>(1,853,968)</b>	<b>10,379,370</b>

### Company Statement of changes in shareholders' equity

	Note	Share capital A\$	Share premium A\$	Share option reserve A\$	Warrants reserve A\$	Retained loss A\$	Total A\$
<b>Balance at 11 May 2005*</b>		-	-	-	-	-	-
Loss for the period		-	-	-	-	(553,631)	(553,631)
New share capital subscribed		631,679	12,879,279	-	-	-	13,510,958
Share issue costs		-	(2,126,871)	-	-	-	(2,126,871)
Value of options issued to directors, employees and consultants		-	-	217,071	-	-	217,071
Value of warrants issued		-	-	-	172,803	-	172,803
<b>Balance at 30 June 2006</b>		<b>631,679</b>	<b>10,752,408</b>	<b>217,071</b>	<b>172,803</b>	<b>(553,631)</b>	<b>11,220,330</b>
Loss for the period		-	-	-	-	(1,304,068)	(1,304,068)
New share capital subscribed		-	-	-	-	-	-
Share issue costs		-	-	-	-	-	-
Value of options issued to directors, employees and consultants		-	-	459,377	-	-	459,377
Value of warrants issued		-	-	-	-	-	-
<b>Balance 30 June 2007</b>	<b>15</b>	<b>631,679</b>	<b>10,752,408</b>	<b>676,448</b>	<b>172,803</b>	<b>(1,857,699)</b>	<b>10,375,639</b>

\* The Company was incorporated on 11 May 2005 with one subscriber share of £0.0001.

**CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
30 JUNE 2007**

	Note	Group 2007 A\$	Group 2006 A\$	Company 2007 A\$	Company 2006 A\$
<b>Cash flows from operating activities</b>					
Operating loss		(1,201,646)	(652,322)	(1,304,068)	(553,631)
Depreciation		28,955	12,290	759	117
Share based payment expense		459,377	217,071	459,377	217,071
Increase in other receivables and prepayments		(124,046)	(253,587)	(23,793)	(220,228)
Increase/(decrease) in trade and other payables		39,947	(23,608)	80,483	145,865
Forgiveness of loan liability	3	-	(72,924)	-	-
<b>Cash used in operations</b>		<b>(797,413)</b>	<b>(773,080)</b>	<b>(787,242)</b>	<b>(410,806)</b>
<b>Net cash outflow from operating activities</b>		<b>(797,413)</b>	<b>(773,080)</b>	<b>(787,242)</b>	<b>(410,806)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(231,735)	(72,147)	-	(2,290)
Acquisition of intangible assets (exploration expenditure)		(4,597,778)	(1,541,712)	-	-
Loans advanced to subsidiary		-	-	(8,267,309)	(1,978,314)
Payment for subsidiaries net of cash acquired		-	17,497	-	-
<b>Net cash outflow from investing activities</b>		<b>(4,829,513)</b>	<b>(1,596,362)</b>	<b>(8,267,309)</b>	<b>(1,980,604)</b>
<b>Cash flows from financing activities</b>					
Proceeds from the issue of ordinary share capital		-	13,240,362	-	13,240,362
Payment of issue costs		-	(1,793,464)	-	(1,793,464)
<b>Net cash inflow from financing activities</b>		<b>-</b>	<b>11,446,898</b>	<b>-</b>	<b>11,446,898</b>
<b>Net increase in cash and cash equivalents</b>		<b>(5,626,926)</b>	<b>9,077,456</b>	<b>(9,054,551)</b>	<b>9,055,488</b>
Cash and cash equivalents at beginning of period		9,077,456	-	9,055,488	-
<b>Cash and cash equivalents at end of period</b>		<b>3,450,530</b>	<b>9,077,456</b>	<b>937</b>	<b>9,055,488</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

### NOTE 1 ACCOUNTING POLICIES

The Company is a public limited company incorporated in England and Wales and is listed on the AIM market of the London Stock Exchange.

#### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The accounting policies set out below have been applied consistently throughout these consolidated financial statements.

#### **(b) Basis of preparation of financial statements and going concern**

The consolidated financial statements are presented in Australian dollars ("A\$").

The Company was incorporated on 11 May 2005. The Group has elected, from incorporation, to prepare annual consolidated financial statement in accordance with IFRS.

A separate income statement for the parent company has not been presented as permitted by section 230(4) of the Companies Act 1985.

In common with many exploration companies, the Company raises finance for the Group's exploration and appraisal activities in discrete tranches. The Company needs to raise additional funds in the near future to enable it to proceed with its approved annual plan of expenditure and to provide adequate working capital. The Company is well advanced with an equity fund raising and the directors are confident that this can be successfully completed and they have therefore concluded that the Group is a going concern. In the event that the Company is unable to secure this finance it may not be able to continue as a going concern.

In addition, the funds will not be sufficient to bring the projects into development and production and, in due course, further funding will be required. In the event that the Company is unable to secure further finance it may not be able to fully develop the project.

#### **(c) Basis of consolidation**

##### *(i) Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is recognised where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

##### *(ii) Transactions eliminated on consolidation*

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associated and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **(d) Foreign currency**

The Company's functional and presentational currency is Australian dollars (A\$). The exchange rate at 30 June 2007 was

£0.42347/A\$1.0 (30 June 2006: £0.40205/A\$1.0; 11 May 2005: £0.41254/A\$1.0).

### **(e) Property, plant and equipment**

#### *(i) Owned asset*

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy i below).

#### *(ii) Subsequent costs*

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

#### *(iii) Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives of all categories of assets are:

Office Equipment	3 years
Furniture and Fittings	5 years
Motor Vehicles	5 years
Plant and Equipment	5 years
Land and Buildings	12 years

The residual value is assessed annually. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in the income statement.

### **(f) Intangible assets**

#### *Deferred exploration and evaluation costs*

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written-off as incurred.

Exploration and evaluation costs arising following the acquisition of an exploration licence are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads. Deferred exploration costs are carried at historical cost less any impairment losses recognised.

If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the ore reserves on a unit of production basis.

The recoverability of deferred exploration and evaluation costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Group to obtain the necessary financing to complete the development of ore reserves and future profitable production or proceeds from the disposal thereof.

### **(g) Other receivables and prepayments**

Other receivables and prepayments are not interest bearing and are stated at amortised cost.

### **(h) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowing in current liabilities on the balance sheet.

### **(i) Impairment**

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project-by-project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, typically when one of the following circumstances apply:

- Unexpected geological occurrences that render the resource uneconomic;
- Title to the asset is compromised;
- Variations in metal prices that render the project uneconomic; and
- Variations in the currency of operation.

### **(j) Share capital**

The Company's ordinary shares are classified as equity.

### **(k) Employee benefits**

#### *(i) Share based payment transactions*

Certain Group employees are rewarded with share based instruments. These are stated at fair value at the date of grant and this is expensed on a straight line basis over the estimated vesting period. The latter is based on the Group's estimate of shares that will eventually vest.

Fair value is estimated using either a binomial or a Black-Scholes valuation model, whichever is more appropriate to the instrument granted. The estimated life of the instrument used in the model is adjusted for management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

### **(l) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

### **(m) Trade and other payables**

Trade and other payables are not interest bearing and are stated at amortised cost.

### **(n) Revenue**

During the exploration phase, any revenue generated from incidental sales is treated as a contribution towards previously incurred costs and offset accordingly.

### **(o) Expenses**

#### *(i) Financing costs*

Financing costs comprise interest payable on borrowing calculated using the effective interest rate method and interest receivable on funds invested.

#### *(ii) Finance income*

Interest income is recognised in the income statement as it accrues, using the effective interest method.

### **(p) Taxation**

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

#### **(q) Segment reporting**

A segment is a component of the Group distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group currently operates in one business and geographical segment, being mineral exploration in Solomon Islands.

#### **(r) Business combinations**

Business combinations are accounted for by applying the purchase method whereby the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date, and also recognises goodwill, which is subsequently tested for impairment rather than amortised.

#### **(s) Accounting policies for the Company**

The accounting policies applied to the Company are consistent with those adopted by the Group with the exception of the following:

##### *(i) Company income statement*

As permitted by Section 230 of the Companies Act 1985, the income statement of the Company has not been separately presented in these financial statements. The Company's loss for the year was AS1,304,068.

##### *(ii) Subsidiary investments*

Investments in subsidiary undertakings are stated at cost less impairment losses.

#### **(t) Changes in accounting policies**

International Financial Reporting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting year ended 30 June 2007:

<b>IFRS /Amendment</b>	<b>Title</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
IAS 1 amendment	Capital disclosures	1 January 2007	1 July 2007
IFRS 7	Financial instruments: disclosures	1 January 2007	1 July 2007
IFRS 8	Operating segments	1 January 2009	1 July 2009
IAS 23 amendment	Borrowing costs	1 January 2009	1 July 2009
IFRIC 10	Interim financial reporting and impairment	1 November 2006	1 July 2007
IFRIC 11	IFRS 2—Group and treasury share transactions	1 March 2007	1 July 2007
IFRIC 12	Service concession arrangements	1 January 2008	1 July 2008

Management have reviewed the impact of the above standards and have determined that they do not result in any changes to accounting policies.

#### **NOTE 2 SEGMENT REPORTING**

The Group currently operates in one business and geographical segment being mineral exploration in Solomon Islands.

**NOTE 3 LOSS BEFORE TAX**

	<b>Group 2007 A\$</b>	<b>Group 2006 A\$</b>
<b>Loss is stated after charging/(crediting):</b>		
Auditors' remuneration:		
Fees payable to the company's auditor for the audit of the company's annual accounts	59,490	12,500
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	-	8,400
Other services pursuant to legislation <sup>(1)</sup>	28,037	108,206
Tax services	28,668	-
Depreciation	28,955	12,290
Foreign exchange gains/(losses)	6,547	-
Forgiveness of loan liability <sup>(2)</sup>	-	(72,924)

(1) Other services provided by the auditors and their associates in 2007 primarily relate to the review of Interim accounts.

(2) The former parent company of ARM forgave intercompany debts of A\$72,924.

**NOTE 4 STAFF NUMBERS AND COSTS**

The average number of persons employed (including directors) during the year, analysed by category, was as follows:

	<b>Group 2007</b>	<b>Group 2006</b>	<b>Company 2007</b>	<b>Company 2006</b>
Corporate finance and administration	11	7	5	5
Technical	21	16	1	1
	<b>32</b>	<b>23</b>	<b>6</b>	<b>6</b>

The aggregate payroll costs of these persons were as follows:

	<b>Group 2007 A\$</b>	<b>Group 2006 A\$</b>	<b>Company 2007 A\$</b>	<b>Company 2006 A\$</b>
Wages and salaries	1,415,892	984,598	489,163	488,076
Contributions to defined contribution plans	34,239	10,018	-	-
Share based payments	459,377	217,071	459,377	217,071
	<b>1,909,508</b>	<b>1,211,687</b>	<b>948,540</b>	<b>705,147</b>

Included within staff costs is A\$876,270 (2006: A\$715,128) which has been capitalised as part of deferred exploration costs.

**NOTE 5 REMUNERATION OF KEY MANAGEMENT PERSONNEL**

	Basic Annual Salary A\$	Other Benefits* A\$	Pensions A\$	Total Remuneration A\$
<b>2007</b>				
<b>Directors</b>				
Nicholas Mather	186,146	165,730	-	<b>351,876</b>
Brian Moller	75,637	5,471	-	<b>81,108</b>
Cameron Wenck	87,953	5,471	-	<b>93,424</b>
David Jelley	184,615	165,730	-	<b>350,345</b>
Robert Weinberg	61,727	5,471	-	<b>67,198</b>
	596,078	347,873	-	<b>943,951</b>
<b>Non-Directors</b>	276,456	31,008	-	<b>307,464</b>
<b>TOTAL</b>	<b>872,534</b>	<b>378,881</b>	-	<b>1,251,415</b>

	Basic Annual Salary A\$	Other Benefits* A\$	Pensions A\$	Total Remuneration A\$
<b>2006</b>				
<b>Directors</b>				
Nicholas Mather	271,888	87,329	-	<b>359,217</b>
Brian Moller	55,347	-	-	<b>55,347</b>
Cameron Wenck	49,805	-	-	<b>49,805</b>
David Jelley	104,517	87,329	-	<b>191,846</b>
Robert Weinberg	32,490	-	-	<b>32,490</b>
	514,047	174,658	-	<b>688,705</b>
<b>Non-Directors</b>	160,646	-	-	<b>160,646</b>
<b>TOTAL</b>	<b>674,693</b>	<b>174,658</b>	-	<b>849,351</b>

\*Share based payments issued.

**NOTE 6 FINANCE INCOME**

	Group 2007 A\$	Group 2006 A\$
Interest income	347,154	192,818
<b>Finance income</b>	<b>347,154</b>	<b>192,818</b>

## NOTE 7 INCOME TAX EXPENSE

### Factors affecting the tax charge for the current period

The tax credit for the period is lower than the credit resulting from the application of the standard rate of corporation tax in the UK of 30% (2006: 30%) being applied to the loss before tax arising during the year. The differences are explained below.

	Group 2007 A\$	Group 2006 A\$
<b>Tax reconciliation</b>		
Loss before tax	(1,201,646)	(652,322)
Tax at 30% (2006: 30%)	(360,494)	(195,697)
<b>Effects (at 30%) of:</b>		
Capitalisation of exploration costs	(2,301,695)	(423,896)
Non-deductible expenses	137,813	116,963
Tax losses carried forward	2,524,376	502,630
<b>Tax on loss</b>	-	-

### Factors that may affect future tax charges

The Group has tax losses of A\$3,027,006 (2006: A\$502,630) carried forward which may be deductible from future taxable profits.

## NOTE 8 LOSS PER SHARE

The calculation of basic loss per ordinary share on total operations is based on losses of A\$1,201,646 (2006: A\$652,322) and the weighted average number of ordinary shares outstanding of 26,825,001 (2006: 15,122,193).

There is no difference between the diluted loss per share and the basic loss per share presented as the share options on issue during the period were not considered dilutive. At 30 June 2007 there were 2,389,997 (2006: 1,739,997) share options on issue.

**NOTE 9 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

	Country of incorporation and operation	Principal activity	Solomon Gold plc's effective interest	
			2007	2006
Australian Resource Management (ARM) Pty Ltd	Australia	Exploration	100%	100%
Solomon Operations Ltd*	Solomon Islands	Exploration	100%	-

\*Solomon Operations Ltd was incorporated on 27 April 2007.

	Investment in subsidiary undertakings		Total A\$
	Shares A\$	Loans A\$	
<b>Cost</b>			
Balance at 11 May 2005*	-	-	-
Other acquisitions	270,571	-	270,571
Advances in the period	-	1,978,314	1,978,314
Balance at 30 June 2006	270,571	1,978,314	2,248,885
Other acquisitions	-	-	-
Advances in the period	-	8,267,309	8,267,309
<b>Balance 30 June 2007</b>	<b>270,571</b>	<b>10,245,623</b>	<b>10,516,194</b>
<b>Amortisation and impairment losses</b>			
Balance at 30 June 2006	-	-	-
<b>Balance 30 June 2007</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amounts</b>			
At 30 June 2006	270,571	1,978,314	2,248,885
<b>At 30 June 2007</b>	<b>270,571</b>	<b>10,245,623</b>	<b>10,516,194</b>

\*Solomon Gold plc was incorporated on 11 May 2005.

Details of all loans within the group made during the year are set out below:

	Shares A\$	Loans A\$	Total A\$
<b>Cost</b>			
Balance at 30 June 2006	270,571	1,978,314	2,248,885
Advances in the period from Solomon Gold plc to ARM Pty Ltd	-	8,267,309	8,267,309
<b>Total Investment in subsidiary for the Company at 30 June 2007</b>	<b>270,571</b>	<b>10,245,623</b>	<b>10,516,194</b>
Advances in the period from ARM Pty Ltd to Solomon Operations Ltd		264,036	264,036
<b>Total Investment in subsidiary by the group at 30 June 2007</b>	<b>270,571</b>	<b>10,509,659</b>	<b>10,780,230</b>

#### NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings A\$	Plant and Equipment A\$	Motor vehicles A\$	Office equipment A\$	Furniture & Fittings A\$	Total A\$	Company A\$
<b>Cost</b>							
Balance 11 May 2005*	-	-	-	-	-	-	-
Additions	-	32,318	30,092	21,069	-	83,479	2,290
<b>Balance 30 June 2006</b>	<b>-</b>	<b>32,318</b>	<b>30,092</b>	<b>21,069</b>	<b>-</b>	<b>83,479</b>	<b>2,290</b>
Additions	194,000	15,675	-	7,350	14,710	231,735	-
<b>Balance 30 June 2007</b>	<b>194,000</b>	<b>47,993</b>	<b>30,092</b>	<b>28,419</b>	<b>14,710</b>	<b>315,214</b>	<b>2,290</b>
<b>Depreciation &amp; impairment losses</b>							
Balance 11 May 2005*	-	-	-	-	-	-	-
Depreciation charge for the year	-	(3,439)	(3,256)	(5,595)	-	(12,290)	(117)
<b>Balance 30 June 2006</b>	<b>-</b>	<b>(3,439)</b>	<b>(3,256)</b>	<b>(5,595)</b>	<b>-</b>	<b>(12,290)</b>	<b>(117)</b>
Depreciation charge for the year	(5,768)	(7,912)	(6,002)	(8,246)	(1,027)	(28,955)	(759)
<b>Balance 30 June 2007</b>	<b>(5,768)</b>	<b>(11,351)</b>	<b>(9,258)</b>	<b>(13,841)</b>	<b>(1,027)</b>	<b>(41,245)</b>	<b>(876)</b>
<b>Carrying amounts</b>							
At 11 May 2005*	-	-	-	-	-	-	-
At 30 June 2006	-	28,879	26,836	15,474	-	71,189	2,173
At 1 July 2006	-	28,879	26,836	15,474	-	71,189	2,173
<b>At 30 June 2007</b>	<b>188,232</b>	<b>36,642</b>	<b>20,834</b>	<b>14,578</b>	<b>13,683</b>	<b>273,969</b>	<b>1,414</b>

\*Solomon Gold plc was incorporated on 11 May 2005.

## NOTE 11 INTANGIBLE ASSETS

	Deferred exploration costs A\$
<b>Cost</b>	
Balance 11 May 2005*	-
Additions	2,201,948
Disposals	-
Balance 30 June 2006	2,201,948
Additions	4,597,778
Disposals	-
<b>Balance 30 June 2007</b>	<b>6,799,726</b>
<b>Amortisation and impairment losses</b>	
Balance 30 June 2006	-
Provision for impairment	-
<b>Balance 30 June 2007</b>	<b>-</b>
<b>Carrying amounts</b>	
At 11 May 2005*	-
At 30 June 2006	2,201,948
At 1 July 2006	2,201,948
<b>At 30 June 2007</b>	<b>6,799,726</b>

\*Solomon Gold plc was incorporated on 11 May 2005.

### Impairment loss

During the year the Group has not considered it necessary to make a provision for impairment against any of its deferred exploration assets.

## NOTE 12 DEFERRED TAXATION

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following amounts. In accordance with IFRS deferred tax has been calculated at the future rate of corporation tax of 28% as Finance Act 2007 had been substantially enacted by the balance sheet date.

	Group 2007 A\$	Group 2006 A\$
Deductible temporary differences	23,918	15,972
Tax losses	3,027,006	502,630
	3,050,924	518,602

The deferred tax asset in respect of these items has not been recognised as future taxable profit is not anticipated within the foreseeable future.

**NOTE 13 OTHER RECEIVABLES AND PREPAYMENTS**

	<b>Group 2007 A\$</b>	<b>Group 2006 A\$</b>	<b>Company 2007 A\$</b>	<b>Company 2006 A\$</b>
Other receivables	345,285	212,486	213,065	175,037
Prepayments	36,439	45,191	30,932	45,191
	<b>381,724</b>	<b>257,677</b>	<b>243,997</b>	<b>220,228</b>

**NOTE 14 CASH AND CASH EQUIVALENTS**

	<b>Group 2007 A\$</b>	<b>Group 2006 A\$</b>	<b>Company 2007 A\$</b>	<b>Company 2006 A\$</b>
Bank balances	492,272	501,633	921	479,665
Call deposits	2,958,258	8,575,823	16	8,575,823
Cash and cash equivalents in the statement of cash flows	<b>3,450,530</b>	<b>9,077,456</b>	<b>937</b>	<b>9,055,488</b>

**NOTE 15 CAPITAL AND RESERVES****(a) Authorised Share Capital**

	<b>2007 No. of shares</b>	<b>2007 Nominal value £</b>
On incorporation – ordinary shares of £0.0001 each	1,000,000,000	100,000
Consolidated into ordinary shares of £0.01 each on 27 October 2005	10,000,000	100,000
Creation of additional shares of £0.01 each on 27 October 2005	40,000,000	400,000
At 30 June 2006 and 2007 – Ordinary Shares	<b>50,000,000</b>	<b>500,000</b>

**(b) Changes in issued Share Capital and Share Premium**

For the year ended 30 June 2007

	<b>Number of shares</b>	<b>Nominal value A\$</b>	<b>Share premium A\$</b>	<b>Total A\$</b>
Subscriber share issued upon incorporation 11 May 2005	1	-	-	-
Share issued for purchase of Australian Resource Management (A.R.M.) Pty Ltd on 18 October 2005	10,500,000	245,838	24,733	270,571
Shares issued at £0.10 – placing 14 November 2005	6,325,000	151,291	1,361,618	1,512,909
Share issue costs charged to share premium	-	-	(76,359)	(76,359)
Shares issued at £0.50 – placing 10 February 2006	10,000,000	234,550	11,492,928	11,727,478
Share issue costs charged to share premium	-	-	(2,050,512)	(2,050,512)
<b>Ordinary shares of 1p each at 30 June 2006 and 2007</b>	<b>26,825,001</b>	<b>631,679</b>	<b>10,752,408</b>	<b>11,384,087</b>

**Potential issues of ordinary shares**

At 30 June 2007 the Company had 2,389,997 options and 326,400 warrants outstanding for the issue of ordinary shares, as follows:

## Options

Date of grant	Exercisable from	Exercisable to	Exercise prices	Number granted	Number at 30 June 2007
10 February 2006	1 January 2007	1 January 2011	£0.50 to £1.00	1,739,997	1,739,997
12 September 2006	1 January 2007	1 January 2011	£0.50 to £1.00	650,000	650,000
				<b>2,389,997</b>	<b>2,389,997</b>

## Warrants

Date of grant	Exercisable from	Exercisable to	Exercise prices	Number granted	Number at 30 June 2006
13 September 2005	13 September 2005	8 September 2008	£0.30	126,400	126,400
10 February 2006	10 February 2006	10 February 2009	£0.50	200,000	200,000
				<b>326,400</b>	<b>326,400</b>
Total contingently issuable shares at 30 June 2007					2,716,397

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### Share options and warrants issued

On 12 September 2006 the Company issued 650,000 unlisted share options to directors, employees and consultants of the Company. The options were issued free of charge and are exercisable at prices between 50 pence and 100 pence per ordinary share. The period during which these share options can be exercised is between 1 January 2007 and 1 January 2011.

On 10 February 2006, following the successful Admission to trading on AIM, the Company issued 1,739,997 unlisted share options to directors, employees and consultants of the Company. The options were issued free of charge and are exercisable at prices between 50 pence and 100 pence per ordinary share. The period during which these share options can be exercised is between 1 January 2007 and 1 January 2011.

The Company issued 126,400 warrants to Williams de Broë pursuant to a Pre-Admission Placing. Williams de Broë are the Company's broker and nominated advisor, and have subsequently been acquired by the Evolution Group plc. The warrants were constituted pursuant to an instrument dated 13 September 2005 by the Company. Each warrant entitles the holder upon exercise and payment of 30 pence to the allotment and issue of one new ordinary share, fully paid. The warrants are exercisable at any time up to 8 September 2008.

On 10 February, following the successful Admission to trading on AIM, the Company issued 200,000 warrants to Williams de Broë. Each warrant entitles the holder upon exercise and payment of 50 pence to the allotment and issue of one new ordinary share, fully paid. The warrants are exercisable at any time up to 10 February 2009.

### Dividends

The directors do not recommend the payment of a dividend.

### NOTE 16 TRADE AND OTHER PAYABLES

	Group 2007 A\$	Group 2006 A\$	Company 2007 A\$	Company 2006 A\$
<b>Current</b>				
Trade payables	131,744	115,731	52,344	42,234
Other payables	213,185	216,155	160,604	160,604
Accrued expenses	181,650	154,745	173,955	103,606
	<b>526,579</b>	<b>486,631</b>	<b>386,903</b>	<b>306,444</b>

## NOTE 17 EMPLOYEE BENEFITS

### Share-based payments

On 12 September 2006 the Company issued 650,000 unlisted share options to directors, employees and consultants of the Company. The options were issued free of charge and are exercisable at prices between 50 pence and 100 pence per ordinary share. The options are exercisable between 10 February 2007 and 10 February 2011, subject to the vesting conditions set by the Board at the time of the grant.

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Outstanding at the beginning of the period	£0.75	1,739,997	-	-
Granted during the period	£0.75	650,000	£0.75	1,739,997
Outstanding at the end of the period	£0.75	2,389,997	£0.75	1,389,997
Exercisable at the end of the period	£0.50	796,664	-	-

The options outstanding at 30 June 2007 have an exercise price in the range of £0.50 pence and £1.00 pence (2006: £0.50-1.00) and a weighted average contractual life of 3.18 years (2006: 4.29 years).

Share options held at 30 June 2007	Share options held at 30 June 2006	Option price	Exercise periods
796,664	579,998	£0.50	01/01/07 – 01/01/10
796,665	579,998	£0.75	01/01/08 – 01/01/11
796,668	580,001	£1.00	01/01/08 – 01/01/11
2,389,997	1,739,997		

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

Fair value of share options and assumptions outstanding at beginning of period	£0.50 options	£0.75 options	£1.00 options
Fair value at issue date	£0.50	£0.50	£0.50
Exercise price	£0.50	£0.75	£1.00
Expected volatility	51.173%	51.173%	51.173%
Option life	3.88 years	4.88 years	4.88 years
Expected dividends	0.00%	0.00%	0.00%
Risk-free interest rate (short-term)	4.296%	4.263%	4.263%

The calculation of the volatility of the share price was based on the Company's daily closing share price over the period from issue date to the date of calculation of the option valuation (22 September 2006).

<b>Fair value of share options and assumptions granted during period</b>	<b>£0.50 options</b>	<b>£0.75 options</b>	<b>£1.00 options</b>
Fair value at issue date	£0.245	£0.245	£0.245
Exercise price	£0.50	£0.75	£1.00
Expected volatility	51.173%	51.173%	51.173%
Option life	3.31 years	4.31 years	4.31 years
Expected dividends	0.00%	0.00%	0.00%
Risk-free interest rate (short-term)	4.263%	4.246%	4.246%

The calculation of the volatility of the share price was based on the Company's daily closing share price over the period from issue date to the date of calculation of the option valuation (22 February 2007).

#### **NOTE 18 FINANCIAL INSTRUMENTS**

The Board of directors determines, if required, the degree to which it is appropriate to use financial instruments, commodity contracts or other hedging contracts or techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign currency risk and liquidity risk, each of which is discussed below. The main credit risk is the non-collection of other receivables which include tax (VAT, withholding tax), refunds and tenement security deposits.

During the period ending 30 June 2007 no trading in commodity contracts was undertaken.

##### *Foreign currency risk*

The Group has potential currency exposures in respect of items denominated in foreign currencies comprising:

- Transactional exposure in respect of operating costs, capital expenditures and, to a lesser extent, sales incurred in currencies other than the functional currency of operations which require funds to be maintained in currencies other than the functional currency of operation; and
- Translational exposures in respect of investments in overseas operations which have functional currencies other than Australian dollars. Currency risk in respect of non-functional currency expenditure is reviewed by the Board.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than the Group functional currency. Foreign exchange differences on retranslation of such assets and liabilities are taken to the income statement.

	<b>Group 2007 A\$</b>	<b>Group 2006 A\$</b>
Solomon Island dollar (SBD)	146,027	16,683

In respect of other monetary assets and liabilities held in currencies other than Australian dollars, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

##### *Liquidity risks*

The Group raises funds as required on the basis of budgeted expenditure for the next twelve months. When funds are sought, the Group balances the costs and benefits of equity and debt financing. When funds are received they are deposited with banks of high standing in order to obtain market interest rates. Funds are provided to local sites monthly, based on the sites' forecast expenditure.

##### *Fair values*

The fair values reflect the carrying amounts shown in the balance sheet.

For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables and payables are not deemed material and have used the notional amount to determine the fair value.

## NOTE 19 COMMITMENTS

Pursuant to a contract for the provision of a helicopter to assist in exploration and drilling, the Group has a commitment to pay A\$772,800 (in equal monthly payments) between 12 May 2007 and 12 May 2008. The commitment relates to a minimum usage (flying hours) of the helicopter over the commitment period. The Group expects to utilise the minimum flying hours over the commitment period.

The Company has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Company.

The commitments to be undertaken are as follows:

Tenement Number	Commitment (A\$)	Period to meet commitment
PL 02/05	1,106,773	10/11/05 – 10/11/08
PL 03/05	354,269	10/11/05 – 10/11/08
PL 04/05	1,106,773	10/11/05 – 10/11/08
PL 05/05	485,323	10/11/05 – 10/11/08
PL 08/06	419,000	23/11/06 – 22/11/09

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements. The Company also has the ability to meet expenditure requirements by joint venture or farm in agreements.

## NOTE 20 RELATED PARTIES

### (a) Group

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

#### a) Transactions with Directors and Director-Related Entities

- (i) On 6 December 2005 Solomon Gold Plc has entered into a consultancy agreement with Samuel Capital Ltd (“Samuel”), an entity associated with Nicholas Mather (a director). Under this agreement, Mr Mather will act as an executive director of the Company at an annual salary of £69,500, terminable by either party giving twelve months written notice. The appointment of Samuel shall be for two years, unless a renewal has been mutually agreed upon, from the date of Admission (10 February 2006). Samuel provided consultancy services to the Company prior to 6 December 2006 on commercial terms. At 30 June 2007 A\$186,146 was payable to Samuel (2006: A\$271,888). These amounts are included in Note 5 (Remuneration of Key Management Personnel).
- (ii) Solomon Gold Plc has entered into an Administration and Services Agreement with D’Aguilar Gold Ltd, an entity associated with Nicholas Mather (a director) and Brian Moller (a director) whereby D’Aguilar Gold Ltd has agreed to provide certain services including the provision by D’Aguilar Gold of its premises (for the purposes of conducting the Company’s business operations), use of existing office furniture, equipment and certain stationery, together with general telephone, reception and other office facilities (“Services”). In consideration for the provision of the Services, the Company shall reimburse D’Aguilar Gold Ltd for any expenses incurred by it in providing the Services. Under the terms of the Administration and Services Agreement, D’Aguilar Gold is required to provide its services for a period ending on 10 February 2008. The Administration and Services Agreement may be terminated upon the occurrence of an insolvency event of the other party, a failure to remedy a material breach of the Administration and Services Agreement by the other party or upon three months written notice to the other party. D’Aguilar Gold Ltd was paid A\$17,233 (2006: A\$8,426) for the provision of administration, management and office facilities to the Company during the year.
- (iii) Mr Brian Moller (a director), is a partner in the Australian firm Hopgood Ganim lawyers. Hopgood Ganim were paid A\$114,018 (2006: A\$364,165) for the provision of legal services to the Company during the year. The services were based on normal commercial terms and conditions.

#### (b) Share and Option transactions of Directors are shown in the Directors Report

## (b) Company

The Company has a related party relationship with its subsidiaries (see note 9), directors and other key personnel (see note 20 (a)).

### *Subsidiaries*

The Company has an investment in subsidiaries balance of A\$10,516,194 which comprises funds advanced during the period of A\$8,267,309 (see note 9). As the Company does not expect repayment of this amount and will not call payment until the subsidiary can adequately pay it out of working capital, this amount has been included in the carrying amount of the investment in the Parent Entity's balance sheet. The following table details transactions carried out with subsidiary undertakings:

	A\$
At 11 May 2005	-
Transactions during period	2,248,885
Balance 30 June 2006	2,248,885
Transactions during period	8,267,309
<b>Balance 30 June 2007</b>	<b>10,516,194</b>

The Company has a professional services agreement with ARM to provide certain management services to ARM. During the period A\$46,888 (2006: nil) was paid to the Company for the provision of professional services.

## (c) Controlling party

In the directors' opinion there is no ultimate controlling party.

## NOTE 21 SUBSEQUENT EVENTS

On 23 August 2007, 700,000 unlisted share options in Solomon Gold plc expired as a result of employee resignations.

On 8 November 2007, Hanson Westhouse Limited was appointed as Broker to the Company.

On 8 November 2007, RFC Corporate Finance Ltd was appointed as Nominated Advisor to the Company.

## NOTE 22 ACCOUNTING ESTIMATES AND JUDGEMENTS

### Key sources of estimation uncertainty

The Audit Committee has carried out an assessment of the carrying values of deferred exploration costs and any required impairment.

#### *Koloula PL 02/05*

Exploration on Koloula PL 02/05 is at an early stage and the drill testing of the key targets has only recently commenced. Drilling targets have been prepared for several localities in the tenement based on data collected by the Company and its subsidiaries in 1996 and 1997. Tested drill locations have intersected mineralised zones which provide encouragement in support of the presence of a significant minerals system. There is no exploration data to hand, or access or other conditions notified or evident which have the effect of adversely affecting the prospectivity of the tenement. It is considered likely that ongoing exploration and expenditure will result in a resource or commercial arrangement in excess of the costs of such a discovery. The carrying value of A\$0.6 million is considered to be unimpaired.

#### *Central Guadalcanal PL 03/05*

Exploration on Central Guadalcanal PL 02/05 is at an early stage and the drill testing of the key targets has not yet commenced. Previous rock chip channel sampling of anomalies in the tenement by previous workers and Solomon Gold's wholly owned subsidiary ARM, demonstrates potential for the presence of significant gold resources. There is no exploration data to hand, or access or other conditions notified or evident which have the effect of adversely affecting the prospectivity of the tenement. It is considered likely that ongoing exploration and expenditure will result in a resource or commercial arrangement in excess of the costs of such a discovery. The carrying value of A\$0.2 million is considered to be unimpaired.

#### *Mbetilonga PL 04/05*

Even allowing for the expenditure of in excess of A\$1.3 m on Exploration on Mbetilonga PL 02/05, this tenement is still at an early stage and the drill testing of the key targets has not yet been completed. Five holes have been drilled into two prospects in the tenement, with inconclusive results and several targets are yet to be tested. Assay data from the first five holes are low and it is believed that the holes were drilled on the periphery of a significant mineral system. Rock types encountered in the holes are considered to indicate the presence nearby of a significant system. There is no exploration data to hand, or access or other conditions notified or evident which have the effect of adversely affecting the prospectivity of the tenement. It is considered likely that ongoing exploration and expenditure will result in a resource or commercial arrangement in excess of the costs of such a discovery. The carrying value of A\$3.0 million is considered to be unimpaired.

#### *Sutakiki PL 05/05*

Exploration on Sutakiki PL 02/05 is at an early stage however the drill testing of the key targets to date has indicated that there are both high tonnage low grade and high grade low tonnage prospects in the tenement. The results of mapping sampling and drilling programs in the tenement to date are consistent with the discovery of a significant gold and copper mineral system which may ultimately yield resources. There is no exploration data to hand, or access or other conditions notified or evident which have the effect of adversely affecting the prospectivity of the tenement. It is considered likely that ongoing exploration and expenditure will result in a resource or commercial arrangement in excess of the costs of such a discovery. The carrying value of A\$2.8 million is considered to be unimpaired.

#### *Kuma PL 08/06*

Exploration on Kuma is at an early stage and the mapping and sampling phase of the program of testing of the key targets has resulted in the identification of extensive mineralised complexes which show potential to yield resources. The project area and prospects are considered to have been enhanced by the results in the nearby Sutakiki area. There is no exploration data to hand, or access or other conditions notified or evident which have the effect of adversely affecting the prospectivity of the tenement. It is considered likely that ongoing exploration and expenditure will result in a resource or commercial arrangement in excess of the costs of such a discovery. The carrying value of A\$0.2 million is considered to be unimpaired.

#### *Florida PL 57/07*

Exploration on Florida is at an early stage and work has identified prospective rocks hosting significant nickel anomalies. The carrying value of A\$2.4 thousand is considered to be unimpaired.

#### *East Guadalcanal Application*

Exploration on East Guadalcanal is at an early stage and the tenement has not yet been granted. The carrying value of A\$1.0 thousand is considered to be unimpaired.

#### *Makira Wainoni Application*

Exploration on Makira Wainoni is at an early stage and tenement has not yet been granted. The carrying value of A\$1.0 thousand is considered to be unimpaired.

#### **Critical accounting judgements**

No critical accounting judgements that would have a significant effect on the amounts recognised in the financial statements have been made by the directors and management of the Company in applying the Group's accounting policies.