

**KING SOLOMON MINES LIMITED**

**FINANCIAL REPORT**

**FOR HALF YEAR ENDED 30 SEPTEMBER 2011**

	<b>Page</b>
<b>Directors' Report</b>	<b>2-3</b>
<b>Condensed Consolidated Statement of Comprehensive Income</b>	<b>4</b>
<b>Condensed Consolidated Statement of Changes in Equity</b>	<b>5</b>
<b>Condensed Consolidated Statement of Financial Position</b>	<b>6</b>
<b>Condensed Consolidated Statement of Cash Flows</b>	<b>7</b>
<b>Notes to the Condensed Financial Statements</b>	<b>8-17</b>
<b>Auditor's Review</b>	<b>18</b>

# **KING SOLOMON MINES LIMITED**

## **DIRECTORS' REPORT**

### **FOR HALF YEAR ENDED 30 SEPTEMBER 2011**

Your directors have pleasure in presenting the interim financial report for the half year ended 30 September 2011.

#### **DIRECTORS**

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

John C. Quinn (Non-Executive Chairman)

Stephen J. McPhail (Managing Director)

A. Bruce Bell (Executive Director)

Fu La (Executive Director)

Christopher D. Castle (Non-Executive Director)

#### **REVIEW OF OPERATIONS**

The net loss of the Group for the half year ended 30 September 2011 amounted \$220,531 (half year ended 30 September 2010: \$1,546,207)

#### **EXPLORATION ACTIVITIES**

Field activity through the six months to 30 September has been divided more or less equally between KSO's porphyry copper project at Bu Dun Hua (BDH) and its Mud-house gold prospect at Sonid North.

#### **Bu Dun Hua Porphyry Copper Project (100% KSO)**

By 30 September, the company had completed eight diamond drill-holes for 3,269m at BDH and had another two in progress. The first hole, BDH018 was a deep hole into the Whitehorse porphyry plug, testing for more consistent copper ( $\pm$  molybdenum) mineralisation than that encountered in shallower holes in 2010. The 60° hole was drilled into the core of the plug to 1,022m down-hole but failed to pass out of the late quartz-sericite alteration zone over-print.

The other seven holes (for 2,247m) were drilled as a scout program testing magnetic and/or geochemical anomalies elsewhere within the tenement but predominantly within the western part of a 5+ km structural corridor hosting the Whitehorse plug. While each of the seven holes encountered persistently hydrothermally altered rocks, intrusive lithologies were limited to dykes or intrusive breccias and geochemistry was persistently lead/zinc rather than copper

anomalous. The implication is that the intrusive bodies causing the alteration (and the target for copper mineralisation) in this western zone at least, may lie outside of the range of the holes.

On-going drill-core studies will be focused on the search for lateral and vertical vectors towards intrusive targets. Drill-holes underway or planned for the remainder of the field season will be moving progressively northeast, over and beyond the Whitehorse plug.

### **Sonid North Gold project (100% KSO)**

Exploration at Sonid North has been focused principally on the Mud-house gold prospect although some work has also been undertaken at geochemical anomalies occurring elsewhere in the tenement.

At Mud-house, 15 diamond drill-holes for 3,929m had been completed by 30 September. A sixteenth hole was in progress and a further five holes were planned before the anticipated end of the field season in early November. Most of the holes have intersected several narrow, commonly brecciated, sericite-altered, gold-arsenic mineralised veins or shears. They appear to be sub-parallel and occur within a south to southwest dipping zone up to 200m thick, at least 1km along-strike, and at least 300m down dip. The host rocks are predominantly quartz diorite although different phases (including a porphyry phase) are present. The intrusive rocks are cut by andesite and rhyolite dykes. While most of the more than 100 gold intercepts to date have been in the range 0.1g/t to 1.0g/t Au, values of up to 11.1g/t Au over 2m have been located. Intermittent silver values (up to 39.8g/t Ag over 1.4m) have also been noted.

Because of widespread and often thick sand cover at surface, exploration at Mud-house has of necessity been via progressive step-out drilling. The limits of the mineralisation have not been reached and the possibility that the package encountered to date may still be a peripheral zone, remains real. Gold anomalies elsewhere in the Sonid North tenement have been only cursorily investigated to date.

*The information on mineralisation contained in this report accurately reflects information compiled by A B Bell, BSc, F AusIMM(CP), Executive Director a Competent Person (as defined by the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves), who has relevant experience in relation to such mineralisation and has consented to the inclusion of such information in this report.*

**KING SOLOMON MINES LIMITED**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	30 September 2011	30 September 2010
	Unaudited \$	Unaudited \$
	Note	
<b>Other Income</b>		
Dividend Income	377	259
Foreign Exchange Gain	210,966	-
Gain on Sale from Fixed Assets	21,605	
Interest Received	60,596	24,975
Lease Income	38,438	19,555
	-----	-----
<b>Total Other Income</b>	<b>331,982</b>	<b>44,789</b>
<b>Expenses</b>		
Amortisation	301	-
Depreciation	9,190	6,987
Directors' Fees	46,263	42,556
Share Option Expense	52,253	52,713
Employee Benefits Expense	10,565	15,022
Foreign Exchange Loss	-	2,255
Office Expenses	115,916	74,361
Professional Fees	144,553	134,817
Other Expenses	155,480	83,551
Write Off of Exploration Expenditure	3, 6 17,884	1,178,734
	-----	-----
<b>Total Expenses</b>	<b>552,405</b>	<b>1,590,996</b>
<b>Loss before Tax</b>	<b>(220,423)</b>	<b>(1,546,207)</b>
Income Tax Expense	108	-
	-----	-----
<b>Loss from Continuing Operations attributable to the Owners of the Company</b>	<b>(220,531)</b>	<b>(1,546,207)</b>
	-----	-----
<b>Loss attributable to the Owners of the Company</b>	<b>(220,531)</b>	<b>(1,546,207)</b>
<b>Other Comprehensive Income</b>		
Currency Translation Differences	28,573	(122,139)
	-----	-----
<b>Total Comprehensive Income net of tax attributable to Owners of the Company</b>	<b>(191,958)</b>	<b>(1,668,346)</b>
	=====	=====
	\$/share	\$/share
<b>Loss Per Share</b>		
Basic Loss per Share	9	
From continuing operations		(0.02)
From discontinuing operations		(0.02)
Diluted Loss per Share	9	
From continuing operations		(0.02)
From discontinuing operations		(0.02)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**KING SOLOMON MINES LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	Note	Share Capital \$	Share Options \$	Foreign Currency Translation Reserve \$	Accumulated Loss \$	Total Shareholder Funds \$
<b>Equity as at 1 April 2010</b>		<b>11,543,121</b>	<b>465,409</b>	<b>495,328</b>	<b>(7,311,141)</b>	<b>5,192,717</b>
<b>Comprehensive Income:</b>						
Loss for Period		-	-	-	(1,546,207)	(1,546,207)
<b>Other Comprehensive Income:</b>						
Currency Translation Differences		-	-	(122,139)	-	(122,139)
<b>Total Comprehensive Income for the Period</b>		<b>-</b>	<b>-</b>	<b>(122,139)</b>	<b>(1,546,207)</b>	<b>(1,668,346)</b>
<b>Transactions with owners:</b>						
Options Expense	7	-	52,713	-	-	52,713
<b>Total transactions with Owners:</b>		<b>-</b>	<b>52,713</b>	<b>-</b>	<b>-</b>	<b>52,713</b>
<b>Equity as at 30 September 2010</b>		<b>11,543,121</b>	<b>518,122</b>	<b>373,189</b>	<b>(8,857,348)</b>	<b>3,577,084</b>
<b>Equity as at 1 April 2011</b>		<b>16,603,068</b>	<b>546,902</b>	<b>428,352</b>	<b>(9,314,065)</b>	<b>8,264,257</b>
<b>Comprehensive Income:</b>						
Loss for Period		-	-	-	(220,531)	(220,531)
<b>Other Comprehensive Income:</b>						
Currency Translation Differences		-	-	28,573	-	28,573
<b>Total Comprehensive Income for the Period</b>		<b>-</b>	<b>-</b>	<b>28,573</b>	<b>(220,531)</b>	<b>(191,958)</b>
<b>Transactions with owners:</b>						
Options Expense	7	-	52,253	-	-	52,253
Options Expired	7	389,882	(389,882)	-	-	-
<b>Total transactions with Owners:</b>		<b>389,882</b>	<b>(337,629)</b>	<b>-</b>	<b>-</b>	<b>52,253</b>
<b>Equity as at 30 September 2011</b>		<b>16,992,950</b>	<b>209,273</b>	<b>456,925</b>	<b>(9,534,596)</b>	<b>8,124,552</b>

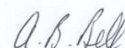
**KING SOLOMON MINES LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2011**

	Note	30 September 2011 Unaudited \$	31 March 2011 Audited \$	30 September 2010 Unaudited \$
<b>SHAREHOLDERS' FUNDS</b>				
Share Capital	7	16,992,950	16,603,068	11,543,121
Share Options	7	209,273	546,902	518,122
Foreign Currency Translation Reserve		456,925	428,352	373,189
Accumulated Losses		(9,534,596)	(9,314,065)	(8,857,348)
		-----	-----	-----
<b>TOTAL FUNDS EMPLOYED</b>		<b>8,124,552</b>	<b>8,264,257</b>	<b>3,577,084</b>
		=====	=====	=====
<b>REPRESENTED BY:</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	5	2,866,370	5,129,300	893,636
Prepayments		9,354	-	17,120
Other Receivables - Related Parties	12	6,638	24,700	12,536
Other Receivables - Tax on Interest		18,650	15,577	57,319
Other Receivables - Other		159,915	148,104	121,010
		-----	-----	-----
Total Current Assets		3,060,927	5,317,681	1,101,621
<b>CURRENT LIABILITIES</b>				
Accounts Payable - Related Parties	12	(42,477)	(41,518)	(37,727)
Accounts Payable - Other		(540,261)	(114,867)	(243,320)
		-----	-----	-----
Total Current Liabilities		(582,738)	(156,385)	(281,047)
		-----	-----	-----
<b>NET CURRENT ASSETS</b>		<b>2,478,189</b>	<b>5,161,296</b>	<b>820,574</b>
<b>NON CURRENT ASSETS</b>				
Property Plant and Equipment		751,756	282,605	343,650
Intangible Assets		9,000	-	-
Exploration and Evaluation Assets	6	4,885,607	2,820,356	2,412,860
		-----	-----	-----
Total Non Current Assets		5,646,363	3,102,961	2,756,510
		-----	-----	-----
<b>NET ASSETS</b>		<b>8,124,552</b>	<b>8,264,257</b>	<b>3,577,084</b>
		=====	=====	=====

On behalf of the Board



Stephen McPhail **Director** 1 December 2011



Bruce Bell **Director** 1 December 2011

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

**KING SOLOMON MINES LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

		30 September 2011 Unaudited \$	30 September 2010 Unaudited \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was received from:			
Interest		66,791	33,169
Dividends		269	259
Lease		-	31,289
Withholding Tax on Interest		16,761	-
		<u>83,821</u>	<u>64,717</u>
Cash was applied to:			
Payments to suppliers		381,233	405,478
Withholding-tax on Interest		19,834	10,475
		<u>401,067</u>	<u>415,953</u>
Net cash flow - Operating activities	10	(317,246)	(351,236)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was received from:			
Sale of Property Plant and Equipment		98,267	-
		<u>98,267</u>	<u>-</u>
Cash was applied to:			
Purchase of Intangible Assets		10,204	-
Purchase of Property Plant and Equipment		567,267	44,185
Exploration Expenditure		1,578,878	865,418
		<u>2,156,349</u>	<u>909,603</u>
Net cash flow - Investing activities		(2,058,082)	(909,603)
Net decrease in cash and cash equivalents		<u>(2,375,328)</u>	<u>(1,260,839)</u>
Cash and cash equivalents at Beginning of Year		5,129,300	2,197,912
Effects of exchange rate changes on cash and cash equivalents		112,398	(43,437)
Cash at End of Year		<u>2,866,370</u>	<u>893,636</u>
Represented by:			
Cash at Bank	5	585,286	343,636
Short Term Bank deposits	5	<u>2,281,084</u>	<u>550,000</u>
Cash at End of Year	5	<u>2,866,370</u>	<u>893,636</u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

#### 1. GENERAL INFORMATION

*These financial statements are presented in Australian Dollars being the Group's presentation currency unless otherwise noted.*

King Solomon Mines Limited (the Company) and its subsidiary (together the Group) were incorporated for the purpose of exploring and developing gold, copper and other metallic deposits in China and are profit oriented entities.

The Company is a limited liability company incorporated on 28 January 2003 and domiciled in New Zealand. The address of its registered office is Unit 31, 2 Bishop Dunn Place, East Tamaki, Manukau.

#### **Going concern**

The use of the going concern assumption is dependent on the ability of the Group to fund its planned future expenditure, the level of which is dependent on the results of current drilling campaigns.

The Group will seek additional capital to fund further exploration and/or development expenditure. The ability to obtain funding is dependent on the outcome of the drilling campaigns.

The financial statements of the Group have been prepared on a going concern basis. The Directors are confident that funding will be available to meet future expenditure given their ability to tailor work programmes to meet the funding available. However, there is uncertainty related to the results of the current drilling campaigns and the ability of the Group to obtain future funding.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Group be unable to obtain future funding. Such adjustments may include assets being realised at amounts other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that may arise and to reclassify certain non-current assets as current in the statement of financial position.

These condensed consolidated financial statements were approved by the Board of Directors on 1 December 2011.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half yearly financial report does not include all notes of the type normally included within the annual financial report and therefore can not be expected to provide as full an understanding of the financial performance, financial position and financing activities of the Group as the full financial report. Accordingly, this report should be read in conjunction with the Annual Financial Report of King Solomon Mines Limited for the year ended 31 March 2011.

The principal accounting policies applied in the preparation of these condensed consolidated financial statements of the Group are the same as those followed in the Annual Report for the year ended 31 March 2011.

#### **Basis of preparation**

The condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 and NZ IAS 34 which deal with Interim Financial Reporting, and follow Generally Accepted Accounting Practice in New Zealand.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The condensed consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993, and should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with NZ IFRSs and IFRS.

#### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The review of capitalised exploration expenditure at 30 September 2011 resulted in a write off for impairment of \$17,884 (31 March 2011: \$1,133,559, 30 September 2010: \$1,178,734). Write offs reflect exploration results and commodity market conditions that do not justify the carrying value of exploration costs. The carrying value of exploration and evaluation assets after the impairment is considered to be recoverable through future development or sale and is based on expected reserves and sales prices for each asset.

#### 4. SEGMENT INFORMATION

Management has determined the operating segment based on the reports reviewed by The King Solomon Mines Limited Board which is responsible for making strategic decisions.

As at 30 September 2011, the Group is organised into one main business segment; the activity of exploring and developing gold, copper and other metallic deposits.

As there is only one main segment as at 30 September 2011 the disclosures on the face of the Condensed Consolidated Statement of Comprehensive Income and the Statement of Financial Position represent the Group as one business segment.

##### Geographical Information:

The Group operates its business of exploration in China with the bulk of the administrative functions being performed in New Zealand and Australia.

This is demonstrated by the geographical breakdown of non-current assets shown in total on the Statement of Financial Position:

	New Zealand Unaudited \$	China Unaudited \$	Consolidated Unaudited \$
<b>30 September 2010</b>			
Property Plant and Equipment	10,025	333,625	343,650
Exploration and Evaluation Assets	-	2,412,860	2,412,860
Total Non Current Assets	<u>10,025</u>	<u>2,746,485</u>	<u>2,756,510</u>

**KING SOLOMON MINES LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

<b>31 March 2011</b>	<b>New Zealand Audited \$</b>	<b>China Audited \$</b>	<b>Consolidated Audited \$</b>
Property Plant and Equipment	9,013	273,592	282,605
Exploration and Evaluation Assets	-	2,820,356	2,820,356
<b>Total Non Current Assets</b>	<u>9,013</u>	<u>3,093,948</u>	<u>3,102,961</u>

<b>30 September 2011</b>	<b>New Zealand Unaudited \$</b>	<b>China Unaudited \$</b>	<b>Consolidated Unaudited \$</b>
Property Plant and Equipment	7,963	743,793	751,756
Intangible Assets	9,000	-	9,000
Exploration and Evaluation Assets	-	4,885,607	4,885,607
<b>Total Non Current Assets</b>	<u>16,963</u>	<u>5,629,400</u>	<u>5,646,363</u>

**5. CASH AND CASH EQUIVALENTS**

	30 September 2011 Unaudited \$	31 March 2011 Audited \$	30 September 2010 Unaudited \$
Cash	781	202	353
Cash at Bank	584,505	2,429,098	343,283
Short Term Bank Deposits	2,281,084	2,700,000	550,000
	<u>2,866,370</u>	<u>5,129,300</u>	<u>893,636</u>

**6. EXPLORATION AND EVALUATION INCOME AND EXPENDITURE**

The Group is still in the exploration phase of its operations in China, as such all exploration and evaluation expenditure incurred since the grant of a business licence has been capitalised as exploration phase expenditure. This capitalisation is subject to continuous critical review.

As at 30 September 2011 the amount of liabilities arising from the exploration for and evaluation of mineral resources is \$485,305 (30 September 2010: \$204,549, 31 March 2011 \$18,964).

The capitalised exploration and evaluation expenditure carried forward has been determined as follows:

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	30 September 2011 Unaudited 6 Months \$	31 March 2011 Audited 12 Months \$	30 September 2010 Unaudited 6 Months \$
<u>Exploration phase:</u>			
Opening Balance	2,820,356	2,597,047	2,597,047
Foreign Exchange on Opening Balance	105,524	(93,368)	(70,027)
Expenditure incurred during the Year	1,977,611	1,716,800	1,064,574
Expenditure written off during the Year (Refer note 3)	-	(1,133,559)	(1,178,734)
Amoyitele expenditure written off due to sale (Refer note 3)	(4,028)	-	-
Beyinhar North expenditure written off due to sale (Refer note 3)	(13,856)	(148,091)	-
Wuritu expenditure written off due to sale (Refer note 3)	-	(118,473)	-
Closing Balance	<u>4,885,607</u>	<u>2,820,356</u>	<u>2,412,860</u>

The exploration and evaluation expenditure has been allocated across the following prospects:

Prospect	30 September 2011 Unaudited 6 Months \$	31 March 2011 Audited 12 Months \$	30 September 2010 Unaudited 6 Months \$
Sonid North	1,528,585	474,695	245,037
Naogaoshandu	253,650	250,000	250,000
Beyinhar North	-	-	50,000
Marmot	491,873	447,790	400,000
Wuritu	-	-	108,955
Bu Dun Hua	2,611,499	1,647,871	1,358,868
Total Exploration and Evaluation Expenditure	<u>4,885,607</u>	<u>2,820,356</u>	<u>2,412,860</u>

#### Operating Lease

Inner Mongolia Plate Mining Limited as lessor granted a lease on 1<sup>st</sup> April 2011 for the mining of iron ore in the Naogaoshandu exploration licence for a period of one year commencing 1st April 2011. The annual lease payment is 500,000 Chinese Yuan (approximately \$77,000).

#### 7. SHARE CAPITAL

##### Issued Share Capital

Issued share capital is represented by:

	30 September 2011 Unaudited			31 March 2011 Audited			30 September 2010 Unaudited		
	Number of Shares	Issue Price \$	Average Issue Price \$/Share	Number of Shares	Issue Price \$	Average Issue Price \$/Share	Number of Shares	Issue Price \$	Average Issue Price \$/Share
Opening Balance	166,287,552	16,603,068	0.10	90,775,040	11,543,121	0.13	90,775,040	11,543,121	0.13
Shares Issued	-	-	-	75,512,512	5,257,080	0.07	-	-	-
Capital Raising Costs	-	-	-	-	(197,133)	-	-	-	-
Options Expired	-	389,882	-	-	-	-	-	-	-
Closing Balance	<u>166,287,552</u>	<u>16,992,950</u>	0.10	<u>166,287,552</u>	<u>16,603,068</u>	0.10	<u>90,775,040</u>	<u>11,543,121</u>	0.13

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

All shares are fully paid and rank equally with regard to voting rights and distribution of profit.

75,512,512 new shares were issued over 4 separate shares issues from November 2010 to March 2011. All shares have no par value, are fully paid and rank equally with regard to voting rights and distribution of profit.

#### Share Options

Options are currently issued to directors and four employees.

Options exercisable as at balance date are as follows:

	Expiry date	*	30 September 2011 Unaudited		31 March 2011 Audited		30 September 2010 Unaudited	
			Average exercise price in \$A per share	Options	Average exercise price in \$A per share	Options	Average exercise price in \$A per share	Options
Opening Balance	4 May 2011	*	0.30	6,279,999	0.30	6,279,999	0.30	6,279,999
Opening Balance	29 July 2014	*	0.10	3,100,000	0.10	3,100,000	0.10	3,100,000
Granted	25 March 2016	*	0.12	500,000	-	-	-	-
Granted	29 July 2016	*	0.12	2,900,000	-	-	-	-
Forfeited			-	-	-	-	-	-
Exercised			-	-	-	-	-	-
Lapsed	4 May 2011		0.30	(6,279,999)	-	-	-	-
Closing Balance			<u>0.11</u>	<u>6,500,000</u>	<u>0.23</u>	<u>9,379,999</u>	<u>0.23</u>	<u>9,379,999</u>

At the 31 March 2008 Annual General Meeting, an employee share option scheme was adopted. This resolution enabled the board to issue shares and options to acquire ordinary shares.

Under that resolution 400,000 options were approved by the Board to two selected employees.

In addition at the 31 March 2009 Annual General Meeting held 29 July 2009, shareholders passed a resolution authorising the Board to grant 900,000 options to each of the executive directors being Stephen McPhail, Bruce Bell and Fu La or 2,700,000 options in total to executive directors.

Both sets of options were issued under the employee share purchase scheme on 31 August 2009 to vest 33% on 29 July 2010, 33% on 29 July 2011 and 34% on 29 July 2012.

The exercise price for these options is \$A0.10 per share.

These options have an expiry date of 29 July 2014.

A further 500,000 options were approved by the Board for one selected employee on 9 May 2011 to vest 33% on 25 March 2012, 33% on 25 March 2013 and 34% on 25 March 2014.

The exercise price for these options is \$A0.12 per share.

These options have an expiry date of 25 March 2016.

At the 31 March 2011 Annual General Meeting held 29 July 2011, shareholders passed a resolution authorising the Board to grant 800,000 options to each of the executive directors being Stephen McPhail, Bruce Bell and Fu La or 2,400,000 options in total to executive directors. In addition a further 500,000 options were issued to two selected employees under the same conditions.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

Both sets of options were issued under the employee share purchase scheme on 29 July 2011 to vest 33% on 29 July 2012, 33% on 29 July 2013 and 34% on 29 July 2014.

The exercise price for these options is \$A0.12 per share.

These options have an expiry date of 29 July 2016.

The fair value of outstanding options (calculated using a binomial valuation model) and the significant inputs into the model are shown below:

Fair Value of Options to the Company				Significant Inputs into Pricing Model		
Expiry Date	Number of Options Granted	Fair Value of each option \$	Total Fair Value of Options \$	Share Price \$	Risk Free Interest Rate %	Price Volatility %
25 March 2016	500,000	0.0748	37,400	0.12	5.285	112
29 July 2016	2,900,000	0.0576	167,040	0.12	4.950	111
	<u>6,500,000</u>		<u>403,770</u>			

#### 8. INVESTMENT IN SUBSIDIARIES

Name of Subsidiary	Principal Activity	Equity Holding		
		30 September 2011 Unaudited	31 March 2011 Audited	30 September 2010 Unaudited
Inner Mongolia Plate Mining Co Limited	Exploration	90%	90%	90%

On 8 March 2006, King Solomon Mines Limited and Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited signed an agreement to form Inner Mongolia Plate Mining Co Limited, a sino foreign equity joint venture of which King Solomon Mines Limited owns 90% and Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited holds 10% in trust for King Solomon Mines Limited due to Chinese regulatory requirements.

As King Solomon Mines Limited effectively owns 100% of this subsidiary and retains all the risks and rewards of ownership, the Group has not accounted for any minority interest. Inner Mongolia Plate Mining Co Limited has a balance date of 31 December in line with Chinese regulatory requirements.

#### 9. EARNINGS PER SHARE

	30 September 2011 Unaudited \$	30 September 2010 Unaudited \$
Loss from continuing operations attributable to equity holders of the Company	(220,531)	(1,546,207)
Weighted average number of ordinary shares on issue	166,287,552	90,775,040
Basic earnings per share from continuing operations(\$ per share)	(0.00)	(0.02)
Diluted earnings per share	(0.00)	(0.02)

**KING SOLOMON MINES LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

The Group recorded losses for the periods presented. Diluted losses per share have not been calculated as the effect of including the share options would be anti-dilutive. Hence the diluted earnings per share is the same as the basic earnings per share.

**10. RECONCILIATION OF FINANCIAL PERFORMANCE AND OPERATING CASH FLOW**

	30 September 2011 Unaudited \$	30 September 2010 Unaudited \$
(Deficit) for Period	(220,531)	(1,546,207)
Non Cash Items		
Amortisation	301	-
Depreciation	9,190	6,987
Gain on Sale	(21,605)	-
Write Off of Exploration Expenditure	17,884	1,178,734
Share Options	52,253	52,713
Foreign Exchange	(210,966)	2,255
Movement in Working Capital		
Other Receivables - Related Parties	18,062	13,674
Other Receivables - Tax on Interest	(3,073)	(10,475)
Other Receivables - Other	(11,811)	(47,631)
Prepayments	(9,354)	(3,734)
Accounts Payable - Related Parties	959	(2,032)
Accounts Payable - Other	425,394	172,297
Items classified as Investing Activities		
Increase in Accounts Payable for Exploration	(363,949)	(167,817)
Net Cash from / (used in) Operating Activities	<u>(317,246)</u>	<u>(351,236)</u>

**11. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES**

The Company and Group leases property in New Zealand and China and has entered into one non cancellable operating lease terminating 1 April 2013. The Group has the first call when this lease comes up for renewal in China.

Inner Mongolia Plate Mining Co Limited was unable to extend the lease of its office in Hohhot for any significant period of time and purchased another office for RMB 2,600,000. RMB 2,100,000 of this has been paid leaving a commitment of RMB 500,000.

On 1 January 2009, Bodhi Svaha Holdings Limited, Selwyn Geosurveys Limited and Inner Mongolia Ao Meng Xin Economic and Trade Co Limited agreed to reduce their respective fees due under their services agreements with the Company by 20%. Under these services agreements, they respectively provide the services of Stephen McPhail, Bruce Bell and Fu La.

**KING SOLOMON MINES LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

Payment of the forgone services fees incurred remains contingent on a change in circumstances for the Company defined to be any of the following events:

- a) Control Event taking place
- b) Termination by the Company of a Services Agreement without cause
- c) The Company having at least \$7,500,000 in cash or cash equivalent

A Control Event includes

- 1) A person securing control of 40% of voting rights in the Company
- 2) Sale of the Company or all of its assets
- 3) Merger of the Company with another party

Accordingly the amount shown below has not been recognised as a liability in these accounts but is instead recorded as a contingency.

Services agreement fee to Bodhi Svaha Holdings Limited	\$ 99,000
Services agreement fee to Selwyn Geosurveys Limited	\$ 113,042
Services agreement fee to Inner Mongolia Ao Meng Xin Economic and Trade Limited	\$ 82,500

In addition as recorded in note 7, the Company currently has 6,500,000 options issued to executive directors and selected employees. Options are being expensed in the periods in which the options vest. Total option valuation was calculated at \$403,770 (30 September 2010: \$589,212) of which \$52,253 has been expensed for the six months ended 30 September 2011 (30 September 2010: \$52,713).

The Group had no other commitments, nor contingent assets or liabilities at 30 September 2011 (30 September 2010: \$Nil).

## **12. TRANSACTIONS WITH RELATED PARTIES**

King Solomon Mines Limited provided funds to Inner Mongolia Plate Mining Limited, a subsidiary of King Solomon Mines Limited, as share capital and advances.

Payment for consulting fees and reimbursement of expenses was made to Stephen McPhail (Director and Shareholder), Bodhi Svaha Holdings Limited and Black Box Spatial Limited being companies in which Stephen McPhail has an interest.

Payments for consulting fees and reimbursement of expenses were made to Selwyn Geosurveys Limited and Black Box Spatial Limited being companies in which Bruce Bell (Director and Shareholder) has an interest.

Payment of consulting fees, reimbursement of expenses and funding for Inner Mongolia Plate Mining Limited was made to Fu La (Director and Shareholder) and to Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited being a company in which Fu La has an interest.

Payment of director fees and expenses were made to John Quinn (Director and Shareholder) and to Widespread Limited (Shareholder) for Chris Castle (Director).

**KING SOLOMON MINES LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

Payment for wages and reimbursement of expenses was made to Anna Di (Shareholder).

Payment for accounting fees was made to Michael Wilcox (Shareholder).

<b>RELATED PARTY EXPENDITURE</b>	30 September 2011 Unaudited \$	31 March 2011 Audited \$	30 September 2010 Unaudited \$
<b>Directors</b>			
Black Box Spatial	(29)	1,809	1,811
Bruce Bell	-	342	342
Bodhi Svaha Holdings Ltd	86,913	152,240	72,423
Chris Castle	-	1,191	507
Fu La	51,427	57,886	22,244
Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited	168,608	120,000	60,000
John Quinn	52,793	69,218	38,437
Selwyn Geosurveys Ltd	109,041	197,625	99,724
Stephen McPhail	490	2,285	1,301
Widespread Limited	18,702	34,200	16,938
<b>Shareholders</b>			
Di Anna	10,800	52,572	30,718
Michael Wilcox	15,857	17,953	7,625
	<u>514,602</u>	<u>707,321</u>	<u>352,070</u>

<b>OWING TO RELATED PARTIES</b>	30 September 2011 Unaudited \$	31 March 2011 Audited \$	30 September 2010 Unaudited \$
<b>Directors</b>			
Bodhi Svaha Holdings Ltd	14,299	14,176	12,309
Selwyn Geosurveys Ltd	17,974	18,227	15,681
Stephen McPhail		373	380
<b>Shareholder</b>			
Di Anna	792	737	747
Michael Wilcox	9,412	8,005	8,610
	<u>42,477</u>	<u>41,518</u>	<u>37,727</u>

**KING SOLOMON MINES LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

<b>OWING BY RELATED PARTIES</b>	30 September 2011 Unaudited \$	31 March 2011 Audited \$	30 September 2010 Unaudited \$
<b>Directors</b>			
Black Box Spatial	-	-	267
* Bruce Bell	-	2,517	692
* Fu La	4,590	19,814	10,040
* Selwyn Geosurveys Ltd	1,585	-	1,537
Stephen McPhail	463	-	-
<b>Shareholder</b>			
* Di Anna	-	2,369	-
	<u>6,638</u>	<u>24,700</u>	<u>12,536</u>

\* These represent advances for exploration expenditure.

**13. FEES TO AUDITORS**

Fees payable to the auditors for the review of the financial statements for the six months to 30 September 2011 amounted to \$9,799 (30 September 2010: \$10,804).

**14. SUBSEQUENT EVENTS**

There are no other subsequent events for this period.



## ***Independent Accountants' Report*** to the Shareholders of King Solomon Mines Limited

### ***Report on the Interim Financial Statements***

We have reviewed the interim condensed financial statements ("financial statements") of King Solomon Mines Limited on pages 4 to 17, which comprise the statement of financial position as at 30 September 2011, the statement of comprehensive income and statement of changes in equity and statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### ***Directors' Responsibility for the Interim Financial Statements***

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2011, and its financial performance and cash flows for the period ended on that date.

### ***Accountants' Responsibility***

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2011 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

Other than in our capacity as accountants conducting this review we have no relationship with, or interests in, King Solomon Mines Limited.

### ***Opinion***

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 September 2011 and its financial performance and cash flows for the period ended on that date.



## ***Independent Accountants' Report***

King Solomon Mines Limited

### ***Emphasis of Matter***

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in Note 1 of the financial statements concerning the ability of the Group to fund its planned future expenditure, the level of which is dependent on the results of current drilling campaigns. There are inherent uncertainties as to the outcome of these matters.

These financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the current drilling campaigns and the ability of the Group to obtain future funding.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Group be unable to obtain future funding. Such adjustments may include assets being realised at amounts other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that may arise and to reclassify certain non-current assets and liabilities as current in the statement of financial position.

### ***Restriction on Distribution or Use***

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an accountants' 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 shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

*PricewaterhouseCoopers*

Chartered Accountants  
1 December 2011

Wellington