

KING SOLOMON MINES LIMITED

FINANCIAL REPORT

FOR HALF YEAR ENDED 30 SEPTEMBER 2010

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KING SOLOMON MINES LIMITED

DIRECTORS' REPORT

FOR HALF YEAR ENDED 30 SEPTEMBER 2010

Your directors have pleasure in presenting the interim financial report for the half year ended 30 September 2010.

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 2010 amounted \$1,546,207 (half year ended 30 September 2009: \$563,852)

EXPLORATION ACTIVITIES

Work was undertaken on each of KSO's Inner Mongolia projects through the reporting period. The activity has however been focussed on Bu Dun Hua where porphyry copper, molybdenum and gold mineralisation was discovered in 2009; and Sonid North where a new gold prospect (Mud-house) has been emerging.

Bu Dun Hua Copper-Gold project (100% KSO)

Ongoing drilling and other exploration at Bu Dun Hua has defined the Whitehorse porphyry copper-molybdenum prospect and the Baiyundu sub/epithermal silver-lead-zinc prospect. It has also established four additional drill targets, each with potential for discovery of other copper-mineralised porphyry intrusives. As exploration has continued, so has the appreciation of the size of the hydrothermal alteration/mineralisation system at Bu Dun Hua increased. The area of prospectivity for large-scale copper (\pm molybdenum \pm gold) deposit discovery is now in the order of 12 sq. km and further growth is considered likely.

Sonid North Gold project (100% KSO)

Reconnaissance prospecting, geological mapping and geochemical sampling directed attention to what has become the Mud-house prospect at Sonid North. Trenching, two phases of RAB sampling and an initial RC drill program have resulted in the discovery of a potentially large-scale, gently-dipping and potentially open-pittable system of gold mineralised veins and shears. Where intersected by drill-holes to date, the mineralisation indicates are that these holes are still peripheral to the larger central part of the deposit.

Marmot Copper-Molybdenum project (100% KSO)

Mineralisation discovered at Marmot has resolved into three more-or-less distinct but coalescing hydrothermal systems viz. molybdenum mineralisation associated with a porphyry intrusive; copper mineralisation hosted primarily in an undifferentiated meta-volcanic/meta-sediment sequence; and, gold mineralisation associated with a granitic intrusive. Drilling has this year been focused on the gold mineralisation resulting in discovery of widespread but low-grade gold values along an intrusive contact zone.

Naogaoshandu Gold project (100% KSO)

Further trenching and drilling of the South Ridge gold prospect has established the presence of gold mineralisation along the sheared lower contact of a granitic intrusive. While high-grades have been encountered in quartz veins along this contact, the size and intensity of the veins have not met KSO's criteria in the areas investigated to date. There is still potential for discovery of bulk-mineable low-grade gold mineralisation or of increased size and intensity of quartz veins elsewhere along the contact zone.

Wuritu Copper project (100% KSO)

KSO has been re-assessing Wuritu in light of a persistent iron-copper-gold geochemical relationship observed both within and peripheral to the project tenement. There is much interest developing worldwide for IOCG (iron oxide, copper, gold) deposits and Inner Mongolia is geologically very well situated for their occurrence. The current re-assessment remains in progress.

Beyinhar North Gold project (100% KSO)

Drilling of the three leading targets at Beyinhar North has failed to produce results worthy of further exploration under KSO's criteria.

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 2010

	30 September 2010 Unaudited Note	30 September 2009 Unaudited \$
Other Income		
Dividend Income	259	387
Gain on Sale from Exploration Licences	-	98,176
Interest Received	24,975	62,472
Lease Income	19,555	23,479
Total Other Income	44,789	184,514
Expenses		
Amortisation	-	1,296
Depreciation	6,987	10,534
Directors' Fees	42,556	42,482
Share Option Expense	52,713	10,688
Employee Benefits Expense	15,022	16,053
Foreign Exchange Loss	2,255	351,725
Office Expenses	74,361	76,760
Professional Fees	134,817	130,338
Other Expenses	83,551	108,376
Write Off of Exploration Expenditure	3, 6 1,178,734	-
Total Expenses	1,590,996	748,252
Loss before Tax	(1,546,207)	(563,738)
Income Tax Expense	-	114
Loss from Continuing Operations attributable to the Owners of the Company	(1,546,207)	(563,852)
Loss attributable to the Owners of the Company	(1,546,207)	(563,852)
Other Comprehensive Income		
Currency Translation Differences	(122,139)	(328,679)
Total Comprehensive Income net of tax attributable to Owners of the Company	(1,668,346)	(892,531)
	\$/share	\$/share
Loss Per Share		
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 STATEMENT OF CHANGES IN EQUITY
FOR SIX MONTHS ENDED 30 SEPTEMBER 2010

	Note	Share Capital \$	Share Options \$	Foreign Currency Translation Reserve \$	Accumulated Loss \$	Total Shareholder Funds \$
Equity as at 1 April 2009		11,502,308	430,695	851,711	(5,043,595)	7,741,119
Comprehensive Income:						
Loss for Period		-	-	-	(563,852)	(563,852)
Other Comprehensive Income:						
Currency Translation Differences		-	-	(328,679)	-	(328,679)
Total Comprehensive Income for the Period		-	-	(328,679)	(563,852)	(892,531)
Transactions with owners:						
Options Issued	7	-	10,688	-	-	10,688
Options Expired	7	40,813	(40,813)	-	-	-
Total transactions with Owners:		40,813	(30,125)	-	-	10,688
Equity as at 30 September 2009		11,543,121	400,570	523,032	(5,607,447)	6,859,276
Equity as at 1 April 2010		11,543,121	465,409	495,328	(7,311,141)	5,192,717
Comprehensive Income:						
Loss for Period		-	-	-	(1,546,207)	(1,546,207)
Other Comprehensive Income:						
Currency Translation Differences		-	-	(122,139)	-	(122,139)
Total Comprehensive Income for the Period		-	-	(122,139)	(1,546,207)	(1,668,346)
Transactions with owners:						
Options Issued	7	-	52,713	-	-	52,713
Total transactions with Owners:		-	52,713	-	-	52,713
Equity as at 30 September 2010		11,543,121	518,122	373,189	(8,857,348)	3,577,084

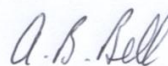
KING SOLOMON MINES LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2010

		30 September 2010 Unaudited \$	31 March 2010 Audited \$	30 September 2009 Unaudited \$
SHAREHOLDERS' FUNDS				
Share Capital	7	11,543,121	11,543,121	11,543,121
Share Options	7	518,122	465,409	400,570
Foreign Currency Translation Reserve		373,189	495,328	523,032
Accumulated Losses		(8,857,348)	(7,311,141)	(5,607,447)
		-----	-----	-----
TOTAL FUNDS EMPLOYED		3,577,084	5,192,717	6,859,276
		=====	=====	=====
REPRESENTED BY:				
CURRENT ASSETS				
Cash and Cash Equivalents	5	893,636	2,197,912	3,101,376
Prepayments		17,120	13,386	18,212
Other Receivables - Related Parties	12	12,536	26,210	8,568
Other Receivables - Tax on Interest		57,319	46,844	91,620
Other Receivables - Other		121,010	73,379	83,159
		-----	-----	-----
Total Current Assets		1,101,621	2,357,731	3,302,935
CURRENT LIABILITIES				
Accounts Payable - Related Parties	12	(37,727)	(39,759)	(42,092)
Accounts Payable - Other		(243,320)	(71,023)	(196,374)
		-----	-----	-----
Total Current Liabilities		(281,047)	(110,782)	(238,466)
		-----	-----	-----
NET CURRENT ASSETS		820,574	2,246,949	3,064,469
NON CURRENT ASSETS				
Property Plant and Equipment		343,650	348,721	422,135
Intangible Assets		-	-	792
Exploration and Evaluation Assets	6	2,412,860	2,597,047	3,371,880
		-----	-----	-----
Total Non Current Assets		2,756,510	2,945,768	3,794,807
		-----	-----	-----
NET ASSETS		3,577,084	5,192,717	6,859,276
		=====	=====	=====

On behalf of the Board



Stephen McPhail **Director** 2 December 2010



Bruce Bell **Director** 2 December 2010

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 2010

		30 September 2010	30 September 2009
	Note	Unaudited \$	Unaudited \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was received from:			
Interest		33,169	66,417
Dividends		259	273
Lease		31,289	56,350
Withholding Tax on Interest		-	92,005
		-----	-----
		64,717	215,045
Cash was applied to:			
Payments to suppliers		405,478	384,878
Withholding-tax on Interest		10,475	32,631
		-----	-----
		415,953	417,509
Net cash flow - Operating activities	10	(351,236)	(202,464)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was received from:			
Sale of Licence Area		-	187,832
		-----	-----
		-	187,832
Cash was applied to:			
Purchase of Property Plant and Equipment		44,185	45,728
Exploration Expenditure		865,418	539,648
		-----	-----
		909,603	585,376
Net cash flow - Investing activities		(909,603)	(397,544)
		-----	-----
Net decrease in cash and cash equivalents		(1,260,839)	(600,008)
Cash and cash equivalents at Beginning of Year		2,197,912	3,931,078
Effects of exchange rate changes on cash and cash equivalents		(43,437)	(229,694)
		-----	-----
Cash at End of Period		893,636	3,101,376
		=====	=====
Represented by:			
Cash at Bank	5	343,636	972,361
Short Term Bank deposits	5	550,000	2,129,015
		-----	-----
Cash at End of Period	5	893,636	3,101,376
		=====	=====

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 2010

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 3 Mutu Road, Paekakariki.

The financial statements of the Group have been prepared on a going concern basis. The Directors anticipate that King Solomon Mines Limited, as an exploration entity, will be required to raise additional capital in the future to continue as a going concern.

These condensed consolidated financial statements were approved by the Board of Directors on 2 December 2010.

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 2010.

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 2010 except as described below.

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.

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 2010, which have been prepared in accordance with NZ IFRSs.

Accounting Policies

The following new standards are mandatory for the first time for the financial year beginning 1 April 2010.

"NZ IFRS 3 (Revised), 'Business combinations'

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss component of the statements of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard does not have an impact on the Group's financial statements."

"NZ IAS 27 (revised), 'Consolidated and separate financial statements'

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The revised standard does not have an impact on the Group's financial statements."

"NZ IAS 38 (amendment), 'Intangible Assets'

The amendment is part of the annual improvements project published in April 2009 and the group and company will apply NZ IAS 38 (amendment) from the date NZ IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the group or company's financial statements."

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 2010 resulted in a write off for impairment of \$1,178,734 (31 March 2010: \$1,303,711, 30 September 2009: \$Nil). 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 2010, the Group is organised into one main business segment; the activity of exploring and developing gold, copper and other metallic deposits.

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

As there is only one main segment as at 30 September 2010 the disclosures on the face of the 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 \$
30 September 2009			
Property Plant and Equipment	17,555	404,580	422,135
Intangible Assets	792	-	792
Exploration and Evaluation Assets	-	3,371,880	3,371,880
Total Non Current Assets	<u>18,347</u>	<u>3,776,460</u>	<u>3,794,807</u>
	New Zealand Audited \$	China Audited \$	Consolidated Audited \$
31 March 2010			
Property Plant and Equipment	11,773	336,948	348,721
Exploration and Evaluation Assets	-	2,597,047	2,597,047
Total Non Current Assets	<u>11,773</u>	<u>2,933,995</u>	<u>2,945,768</u>
	New Zealand Unaudited \$	China Unaudited \$	Consolidated Unaudited \$
30 September 2010			
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>

5. CASH AND CASH EQUIVALENTS

	30 September 2010 Unaudited \$	31 March 2010 Audited \$	30 September 2009 Unaudited \$
Cash	353	189	260
Cash at Bank	343,283	504,338	972,101
Short Term Bank Deposits	550,000	1,693,385	2,129,015
	<u>893,636</u>	<u>2,197,912</u>	<u>3,101,376</u>

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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 2010 the amount of liabilities arising from the exploration for and evaluation of mineral resources is \$204,549 (30 September 2009: \$115,366, 31 March 2010 \$29,090).

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

	30 September 2010 Unaudited 6 Months \$	31 March 2010 Audited 12 Months \$	30 September 2009 Unaudited 6 Months \$
<u>Exploration phase:</u>			
Opening Balance	2,597,047	3,064,170	3,064,170
Foreign Exchange on Opening Balance	(70,027)	(302,146)	(255,379)
Expenditure incurred during the Period	1,064,574	1,225,204	652,745
Expenditure written off during the Period (Refer note 3)	(1,178,734)	(1,303,711)	-
Amoyitele expenditure written off due to sale (Refer note 3)	-	(86,470)	(89,656)
Closing Balance	2,412,860	2,597,047	3,371,880

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

Prospect	30 September 2010 Unaudited 6 Months \$	31 March 2010 Audited 12 Months \$	30 September 2009 Unaudited 6 Months \$
Sonid North	245,037	106,917	107,326
Naogaoshandu	250,000	594,186	572,988
Beyinhar North	50,000	318,929	307,129
Marmot	400,000	500,000	1,626,610
Wuritu	108,955	100,000	222,919
Bu Dun Hua	1,358,868	977,015	534,908
Total Exploration and Evaluation Expenditure	2,412,860	2,597,047	3,371,880

Operating Lease

Inner Mongolia Plate Mining Limited as lessor granted a lease on 26th May 2009 for the mining of iron ore in the Wuritu exploration licence for a period of two years commencing 1st July 2009. The annual lease payment for the first year was 500,000 Chinese Yuan (approximately \$94,000) and the annual lease payment for the second year was to be based on the market conditions. The value of remaining iron ore has been determined to be of no market value. Consequently no market rental is assessed.

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

7. SHARE CAPITAL

Issued Share Capital

Issued share capital is represented by:

	30 September 2010 Unaudited	31 March 2010 Audited	30 September 2009 Unaudited
Issue Price (\$)	11,543,121	11,543,121	11,543,121
Number of Shares	90,775,040	90,775,040	90,775,040
Average Issue Price (\$ per share)	0.13	0.13	0.13

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

Share Options

Options are currently issued to directors and two employees.

Options exercisable as at balance date are as follows:

		30 September 2010 Unaudited		31 March 2010 Audited		30 September 2009 Unaudited	
	Expiry date	Average exercise price in \$A per share	Options	Average exercise price in \$A per share	Options	Average exercise price in \$A per share	Options
At 1 April	18 April 2009	0.25	-	0.25	500,000	0.25	500,000
At 1 April	4 May 2011	0.30	6,279,999	0.30	6,279,999	0.30	6,279,999
At 1 April	29 July 2014	0.10	3,100,000	0.10	-	0.10	-
Granted	29 July 2014	0.10	-	0.10	3,100,000	0.10	3,100,000
Forfeited		-	-	-	-	-	-
Exercised		-	-	-	-	-	-
Lapsed	18 April 2009	0.25	-	0.25	(500,000)	0.25	(500,000)
		<u>0.30</u>	<u>9,379,999</u>	<u>0.30</u>	<u>9,379,999</u>	<u>0.30</u>	<u>9,379,999</u>

* No participation in future dividends until exercised

Options issued to the lead broker (Cameron Sharebrokers Limited) who facilitated the float on 18 April 2007 expired 18 April 2009 and the cost of the options previously held as part of the Share Option Reserve has been transferred to Issued Capital.

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 the executive directors being Stephen McPhail, Bruce Bell and Fu La or 2,700,000 options in total to executive directors.

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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

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

These options have an expiry date of 29 July 2014.

The fair value per option granted determined using the binomial valuation model was \$A0.0643 per option giving a total fair value for all of the options granted of \$A199,330. The significant inputs into the model were share price of \$A0.08 at the issue date, exercise price and option life disclosed above, annual risk-free interest rate of 4.92% and an expected dividend yield of nil. The expected future share price volatility was 120% and was based on an analysis of seven listed Australian mining companies.

Ordinary shares have no par value.

8. INVESTMENT IN SUBSIDIARIES

Name of Subsidiary	Principal Activity	Equity Holding		
		30 September 2010 Unaudited	31 March 2010 Audited	30 September 2009 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 2010 Unaudited \$	30 September 2009 Unaudited \$
Loss from continuing operations attributable to equity holders of the Company	(1,546,207)	(563,852)
Weighted average number of ordinary shares on issue	90,775,040	90,775,040
Basic earnings per share from continuing operations(\$ per share)	(0.02)	(0.01)
Diluted earnings per share	(0.02)	(0.01)

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.

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

10. RECONCILIATION OF FINANCIAL PERFORMANCE AND OPERATING CASH FLOW

	30 September 2010 Unaudited \$	30 September 2009 Unaudited \$
(Deficit) for Period	(1,546,207)	(563,852)
Non Cash Items		
Amortisation	-	1,296
Depreciation	6,987	10,534
Write Off of Exploration Expenditure	1,178,734	-
Share Options	52,713	10,688
Foreign Exchange	2,255	351,725
Movement in Working Capital		
Other Receivables - Related Parties	13,674	27,293
Other Receivables - Other	(58,106)	105,935
Prepayments	(3,734)	11,274
Accounts Payable - Related Parties	(2,032)	1,211
Accounts Payable - Other	172,297	82,499
Items classified as Investing Activities		
Increase in Accounts Payable for Exploration	(167,817)	(53,235)
Sale of Exploration Licence	-	(187,832)
Net Cash from / (used in) Operating Activities	<u>(351,236)</u>	<u>(202,464)</u>

11. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

The Company and Group leases property in New Zealand and China and has entered into two non cancellable operating leases terminating between 31 January 2011 and 1 April 2013. In addition, the Group has the first call when these leases come up for renewal in China.

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.

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

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

- 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	\$ 63,000
Services agreement fee to Selwyn Geosurveys Limited	\$ 73,500
Services agreement fee to Inner Mongolia Ao Meng Xin Economic and Trade Limited	\$ 52,500

In addition as recorded in note 7, the Company has issued 3,100,000 options to executive directors and selected employees. Option valuation was calculated at \$199,330 of which \$52,713 has been expensed (30 September 2009; \$10,688). Options will be expensed in the periods in which the options vest.

The Group had no other commitments, nor contingent assets or liabilities at 30 September 2010 (30 September 2009: \$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 and reimbursement of expenses 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).

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

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

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

RELATED PARTY EXPENDITURE	30 September 2010 Unaudited \$	31 March 2010 Audited \$	30 September 2009 Unaudited \$
Directors			
Black Box Spatial	1,811	5,869	5,055
Bruce Bell	342	3,395	-
Bodhi Svaha Holdings Ltd	72,423	140,936	68,120
Chris Castle	507	-	-
Fu La	22,244	39,257	9,176
Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited	60,000	120,000	60,000
John Quinn	38,437	63,244	29,666
Selwyn Geosurveys Ltd	99,724	210,380	106,363
Stephen McPhail	1,301	4,189	2,218
Widespread Limited	16,938	33,702	16,855
Shareholders			
Di Anna	30,718	49,607	30,227
Michael Wilcox	7,625	42,503	22,531
	<u>352,070</u>	<u>713,082</u>	<u>350,211</u>

OWING TO RELATED PARTIES	30 September 2010 Unaudited \$	31 March 2010 Audited \$	30 September 2009 Unaudited \$
Directors			
Bodhi Svaha Holdings Ltd	12,309	12,150	12,231
Chris Castle	-	-	353
John Quinn	-	-	567
Selwyn Geosurveys Ltd	15,681	16,972	16,630
Stephen McPhail	380	96	-
Shareholder			
Di Anna	747	741	901
Michael Wilcox	8,610	9,800	11,410
	<u>37,727</u>	<u>39,759</u>	<u>42,092</u>

KING SOLOMON MINES LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

OWING BY RELATED PARTIES	30 September 2010 Unaudited \$	31 March 2010 Audited \$	30 September 2009 Unaudited \$
Directors			
Black Box Spatial	267	-	-
* Bruce Bell	692	1,470	1,644
* Fu La	10,040	21,602	6,924
* Selwyn Geosurveys Ltd	1,537	1,547	-
Shareholder			
* Di Anna	-	1,591	-
	<u>12,536</u>	<u>26,210</u>	<u>8,568</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 2010 amounted to \$10,804 (30 September 2009: \$14,524)

14. SUBSEQUENT EVENTS

The Board of King Solomon Mines Limited announced a placement of 13,600,000 fully paid ordinary shares at a price of \$0.07 to raise \$952,000 on 15 November 2010.

The funds raised were stated to finance the next stage of drilling on the Company's highly prospective Inner Mongolian copper and gold prospects and for general working capital purposes. The placement was managed by Bell Potter Securities Limited and made to a number of qualified sophisticated investors.

There are no other subsequent events for this period.

Accountants' Report

To the shareholders of King Solomon Mines Limited

We have reviewed the condensed consolidated financial statements ("financial statements") on pages 4 to 17. The financial statements provide information about the past financial performance and cash flows of the Group for the period ended 30 September 2010 and its financial position as at that date. This information is stated in accordance with the condensed accounting policies set out on pages 8 to 9.

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 accountant's 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.

Directors' responsibilities

The Group'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 2010 and its financial performance and cash flows for the period ended on that date.

Accountants' responsibilities

We are responsible for reviewing the financial statements presented by the Directors in order to report 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.

Basis of opinion

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 2010 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as accountants conducting this review.

Review 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 2010 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 3 November 2010 and our review opinion is expressed as at that date.



Chartered Accountants

Wellington