

Melkior Resources Inc.

Annual Financial Statements

Years ended August 31, 2008 and 2007

Melkior Resources Inc.

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To the shareholders of
Melkior Resources Inc.

We have audited the balance sheets of Melkior Resources Inc. as at August 31, 2008 and 2007 and the statements of earnings, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP

Chartered Accountants

Val-d'Or

October 24, 2008 except as to Note 15b which is of November 7, 2008

Melkior Resources Inc.

(an exploration company)

Balance Sheets

	August 31	
	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	1,110,658	3,790,650
Short-term investments (Note 5)	3,018,060	-
Taxes and other receivable	47,126	208,956
Due from partners, without interest, on demand	90,568	246,355
Taxes credits receivable	71,995	285,455
Prepaid expenses	19,978	19,786
Listed shares held for trading	615,000	-
	<u>4,973,385</u>	<u>4,551,202</u>
Prepaid exploration expenses	62,690	-
Exploration funds (Note 4)	373,930	-
Equipments (Note 6)	9,630	15,126
Mining assets (Note 7)		
Mining properties	1,755,750	936,092
Deferred exploration expenses	7,496,106	5,962,266
	<u>14,671,491</u>	<u>11,464,686</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<u>524,487</u>	<u>376,210</u>
Shareholders' Equity		
Share capital (Note 8)	34,684,977	31,623,313
Contributes surplus (Note 8d)	1,249,429	454,977
Deficit	<u>(21,787,402)</u>	<u>(20,989,814)</u>
	<u>14,147,004</u>	<u>11,088,476</u>
	<u>14,671,491</u>	<u>11,464,686</u>

The accompanying notes are an integral part of the financial statements.

(s) Jens E. Hansen

Jens E. Hansen
President and Director

(s) Norman Farrell

Norman Farrell
Director

Melkior Resources Inc.

(an exploration company)

Statement of Earnings, Comprehensive Loss and Deficit

	Year ended August 31	
	2008	2007
	\$	\$
Expenses		
General and administrative	123,700	89,475
Travelling and promotion	20,771	12,483
Investors and shareholders relations	126,610	93,892
Professional and consulting fees	227,639	138,524
General exploration	1,225	1,560
Stock-based compensation	672,000	271,000
Amortization	2,748	-
Fair value variation on financial instruments held for trading	683,249	-
Foreign exchange loss	-	5,834
	<u>1,857,942</u>	<u>612,768</u>
Income		
Interest income	181,471	95,302
Management fees	24,231	77,157
Gain on disposal of mining assets	1,062,206	3,273
Gain on settlement of debt	-	5,000
	<u>1,267,908</u>	<u>180,732</u>
Loss before income taxes	<u>(590,034)</u>	<u>(432,036)</u>
Future income taxes (Note 9)	<u>323,000</u>	<u>277,000</u>
Net loss and comprehensive loss	<u>(267,034)</u>	<u>(155,036)</u>
Basic and diluted net loss per share	<u>-</u>	<u>-</u>
Weighted average number of outstanding common shares	<u>77,420,830</u>	<u>63,923,950</u>
Deficit, beginning of year	(20,989,814)	(20,005,007)
Net loss	(267,034)	(155,036)
Future income taxes related to flow-through shares	(323,000)	(277,000)
Share issue expenses	(207,554)	(552,771)
Deficit, end of year	<u>(21,787,402)</u>	<u>(20,989,814)</u>

The accompanying notes are an integral part of the financial statements.

Melkior Resources Inc.

(an exploration company)

Statement of Cash Flows

	Year ended August 31	
	2008	2007
	\$	\$
Operating activities		
Net loss	(267,034)	(155,036)
Non-cash items:		
Stock-based compensation	672,000	271,000
Amortization	2,748	-
Fair value variation on financial instruments held for trading	682,980	-
Foreign exchange loss	-	5,834
Interest accrued on interest income	(114,040)	-
Gain on disposal of mining assets	(1,062,206)	(3,273)
Gain on settlement of debt	-	(5,000)
Future income taxes	(323,000)	(277,000)
	<u>(408,552)</u>	<u>(163,475)</u>
Changes in non-cash working capital items		
Taxes and other receivable	150,303	(177,523)
Due from partners	(14,842)	-
Prepaid expenses	(192)	(12,055)
Accounts payable and accrued liabilities	45,732	422
	<u>181,001</u>	<u>(189,156)</u>
Cash flows from operating activities	<u>(227,551)</u>	<u>(352,631)</u>
Investing activities		
Purchase of short-term investments	(3,340,000)	-
Disposal of short-term investments	450,000	-
Exploration funds	(373,930)	-
Prepaid exploration expenses	(62,690)	-
Additions to equipments	-	(16,500)
Additions to mining properties	(50,368)	(176,370)
Disposal of mining properties	500,000	-
Deferred exploration expenses	(2,037,490)	(1,066,488)
Taxes credits cashed	241,308	38,397
Cash flows from investing activities	<u>(4,673,170)</u>	<u>(1,220,961)</u>
Financing activities		
Due to a director	-	(91,122)
Issuance of shares	2,352,525	5,007,475
Share issue expenses	(131,796)	(397,932)
Cash flows from financing activities	<u>2,220,729</u>	<u>4,518,421</u>
Net changes in cash and cash equivalents	(2,679,992)	2,944,829
Cash and cash equivalents, beginning of year	3,790,650	845,821
Cash and cash equivalents, end of year (Note 4)	<u>1,110,658</u>	<u>3,790,650</u>

See note 13 for additional information on the statement of cash flows

The accompanying notes are an integral part of the financial statements.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

1. Governing statutes and nature of operations

Melkior Resources Inc. (the 'Company'), incorporated under the Canada Business Corporation Act, is a mineral exploration enterprise.

The Company is in the process of exploring and evaluating its mining properties and projects and has not yet determined whether its properties contain ore reserves that are economically recoverable.

Although the Company has taken steps to verify title to mining properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property's titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2. Accounting changes

Taking effect on September 1, 2007, the Canadian Institute of Chartered Accountants ("CICA") issued new sections for financial instruments:

- Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments;
- Section 1530, "Comprehensive Income", requires an entity to recognize certain gains and losses in a separate statement, until such gains and losses are recognized in the statement of income;
- Section 3251, "Equity", establishes standards for the presentation of equity and changes in equity during the reporting fiscal year;
- Section 3861, "Financial Instruments – Disclosure and presentation" deal with the disclosure of financial instruments and non-financial derivatives in the financial statements.

The adoption of these sections had the following impact on the classification of the financial instruments:

- Cash and cash equivalents are classified as held for trading and recorded at their fair value and their change in fair value are included in the statement of operations;
- Recorded at their amortized cost using the effective interest method including any depreciation, other receivable and due from partners are classified as loans and receivables;
- Accounts payable and expense payable are classified as other liabilities and are measured at the amortized cost using the effective interest method.

That these new sections had no significant impact on the Financial Statements as of September 1, 2007.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2008 and 2007

2. Accounting changes (Cont'd)

Taking effect on September 1, 2007, the CICA issued Section 1506 "Accounting changes" which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Furthermore, the new standard requires the communication of the new primary sources of GAAP that are issued but not yet effective or not yet adopted by the Company. This new section has no impact on the financial results of the Company.

Future change in accounting standards

Taking effect September 1, 2008, the Company will adopted the following new accounting policies published by the CICA:

- Section 3862, "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" describe the required disclosure and presentation for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks. The new requirements only address disclosures and presentation will have no impact on the Company's financial results;
- Section 1535, "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The new requirements only address disclosures and will have no impact on the Company's financial results;
- Section 1400, "General Standards of Financial Statement Presentation", requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. The new requirements only address disclosures and will have no impact on the Company's financial results.

Adoption of International Financial Reporting Standard in Canada

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRSs"). The Company will get the training on the IFRS and will elaborate a plan to be ready for the Fiscal year 2012 conversion.

3. Accounting policies

Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include the carrying value of mining properties, deferred exploration expenses and stock-based compensation. Actual results may differ from those estimates.

Basis of presentation

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

Cash and cash equivalents

The Company's policy is to present cash and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2008 and 2007

3. Accounting policies (Cont'd)

Exploration funds

These funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

Equipments

Equipments are amortized over its estimated useful lives using the straight line depreciation method over a period of 3 years.

Mining assets

Acquisition cost and exploration expenses relating to a non-producing property are deferred until the mining property is brought into production or abandoned. If commercial production is achieved, the capitalized costs are amortized over the estimated useful life of the project. Upon abandonment or if the costs to date are determined to be unrecoverable, the accumulated costs are charges to earnings. Government assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses.

The recoverability of amounts shown for mining properties and deferred exploration expenses is dependent upon the ability of the Company to obtain necessary financing to complete the acquisition, exploration and development thereof, and upon future profitable production or proceed from the disposal of properties in excess of the accounting value.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of income and expenses relating to non-monetary assets and liabilities which are converted at the historical rate. Gains and losses are included in the earnings for the year.

Basic or diluted net loss per share

Basic net loss per share is calculated over the weighted average number of shares outstanding during the year. The diluted net loss per share, which is calculated using the treasury method, is equal to the basic net loss per share due to the anti-dilution effect of stock options and share purchase warrants outstanding and described in Note 8.

Share Capital

Share Capital issued for non-monetary consideration is generally recorded at the fair market value on the date the shares were issued, or the date the agreement to issue the shares was entered into, as determined by the Board of Directors of the Company.

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting, considering EIC-146, income taxes related to the temporary differences are recorded on the date that the Company renounces the deductions to investors together with a corresponding charge in the statement of deficit as share issue expenses.

Share issue expenses

Expenses relating to the issue of shares are accounted for in the statement of deficit during the year they are incurred.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2008 and 2007

3. Accounting policies (Cont'd)

Stock-Based Compensation Plans

The Company has a stock option plan as described in Note 8. The Company uses the fair value method based on the Black-Scholes pricing model to record the compensation cost related to the issue of stock options to its employees, directors, officers and consultant. When the options are granted, the compensation charge is recorded in the statement of earnings or in deferred exploration expense and the counterpart is credited to contributed surplus. On exercise of stock options, any consideration paid and the contributed surplus related to these options are credited to capital stock.

Fair value of the warrants

Proceeds from unit placements are allocated between shares and warrants issued using the residual method to determine the fair value of warrants issued. Proceeds are first allocated to shares according to their market value at the time of issuance and any residual in the proceeds is allocated to warrants.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to difference between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

Financial assets and liabilities

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions. Subsequently, financial assets and liabilities are measured and recognized as follows:

- Held for trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest income and realized and unrealized gains or losses, and are presented under interest income and fair value variation on financial instruments held for trading. Cash and cash equivalents, short-term investments, listed shares as well as exploration funds are classified as held for trading;
- Loans and receivable are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. Other receivables and due from partners are classified as loans and receivable;
- Other financial liabilities are measured at amortized cost using the effective interest method. Interest calculated using the effective interest method is presented in general and administrative expenses. Accounts payable and accrued liabilities are classified as other financial liabilities.

4. Cash and cash equivalents and exploration funds

As of August 31, 2008, cash and cash equivalents and exploration funds include treasury bills of \$1,375,645 for which the nominal value is \$1,378,000 with effective interest rates between 2.11% and 2.23%, maturing between September 18 and October 16, 2008. As of August 31, 2007, the cash and cash equivalents include guaranteed investments certificates and banker acceptances from a Canadian financial institution bearing interest between 4.06% and 4.56%. The bankers acceptances had a nominal value of \$653,000. The exploration funds must be spent before December 31, 2008.

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(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

4. Cash and cash equivalents and exploration funds (Cont'd)

	<u>2008</u>	<u>2007</u>
	\$	\$
Cash	108,943	180,555
Treasury bills	1,375,645	-
Bankers acceptances	-	646,227
Term deposit	-	2,963,868
Less: Exploration funds	(373,930)	-
Cash and cash equivalents	<u>1,110,658</u>	<u>3,790,650</u>

5. Short term investments

As of August 31, 2008, short term investments include guaranteed investments certificates from a Canadian financial institution of which \$1,045,652 is cashable without penalties at maturity on November 3, 2008 bearing interest of 4.9%. Amounts totalling \$1,972,408 are cashable at any time without penalties, maturing on November 3, 2008, bearing interest rates between 4.55% and 4.8%.

6. Equipments

As of August 31, 2008	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Equipments	<u>16,500</u>	<u>6,870</u>	<u>9,630</u>

As of August 31, 2007	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Equipments	<u>16,500</u>	<u>1,374</u>	<u>15,126</u>

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

7. Mining assets

Mining properties	August 31 2007	Acquisitions	Disposals	August 31 2008
	\$	\$	\$	\$
Quebec				
Launay	374,531	450	-	374,981
Ungava	201,800	-	-	201,800
Otish	201,176	17,153	(179,174)	39,155
Ontario				
Timmins West	131,837	-	-	131,837
Eldorado	23,630	1,223	-	24,853
Henderson	3,118	-	-	3,118
Timmins - Loveland	-	94,400	-	94,400
Long Lac	-	19,824	-	19,824
Rim Nickel – McFaulds	-	865,782	-	865,782
	936,092	998,832	(179,174)	1,755,750

Mining properties	August 31 2006	Acquisitions	Disposals	August 31 2007
	\$	\$	\$	\$
Quebec				
Launay	242,211	132,320	-	374,531
Ungava	200,000	1,800	-	201,800
Otish	-	201,176	-	201,176
Others	-	11,422	(11,422)	-
Ontario				
Timmins West	100,104	31,733	-	131,837
Eldorado	-	23,630	-	23,630
Henderson	-	3,118	-	3,118
	542,315	405,199	(11,422)	936,092

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2008 and 2007

7. Mining assets (Cont'd)

<u>Deferred exploration expenses</u>	<u>August 31 2007</u>	<u>Expenditures</u>	<u>Tax credits</u>	<u>Disposals</u>	<u>August 31 2008</u>
	\$	\$	\$	\$	\$
Quebec					
Launay	3,933,257	304,094	(1,512)	-	4,235,839
Ungava	1,134,915	-	-	-	1,134,915
Otish	522,268	218,688	(21,953)	(571,385)	147,618
Ontario					
Timmins West	360,083	1,052,654	-	-	1,412,737
Eldorado	1,189	83,987	-	-	85,176
Henderson	10,554	700	-	-	11,254
Timmins - Loveland	-	1,175	-	-	1,175
Long Lac	-	73,281	-	-	73,281
Rim Nickel - McFaulds	-	394,111	-	-	394,111
	<u>5,962,266</u>	<u>2,128,690</u>	<u>(23,465)</u>	<u>(571,385)</u>	<u>7,496,106</u>

<u>Deferred exploration expenses</u>	<u>August 31 2006</u>	<u>Expenditures</u>	<u>Tax credits</u>	<u>Disposals</u>	<u>August 31 2007</u>
	\$	\$	\$	\$	\$
Quebec					
Launay	3,905,396	41,982	(14,121)	-	3,933,257
Ungava	1,133,819	1,650	(554)	-	1,134,915
Otish	-	784,485	(262,217)	-	522,268
Others	-	105	-	(105)	-
Ontario					
Timmins West	59,045	301,038	-	-	360,083
Eldorado	-	1,189	-	-	1,189
Henderson	-	10,554	-	-	10,554
	<u>5,098,260</u>	<u>1,141,003</u>	<u>(276,892)</u>	<u>(105)</u>	<u>5,962,266</u>

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Notes to financial statements

As at August 31, 2008 and 2007

7. Mining assets (Cont'd)

Quebec

a) *Launay and Launay-Trojan*

The Company holds claims located in the Launay township of Quebec of which certain claims are subject to a 1% royalty that can be repurchased for a \$1,000,000 cash payment.

On April 16, 2007, the Company agreed to acquire the Launay-Trojan group of claims in the Privat Township, 60 kilometres northeast of Rouyn-Noranda, Québec. The Company paid the stakers \$20,000 cash and issued 200,000 shares valued at \$110,000 based on the stock quotation of the day of the agreement. The stakers are entitled to a 2% Net Smelter Return royalty ("NSR") royalty of which half (1%) may be purchased by the Company for \$1,000,000.

b) *Ungava*

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec.

c) *Mont Otish*

i) *Otish East, West and Beaver Lake*

On January 9, 2007, the Company and Santoy Resources Ltd ("Santoy") have agreed to explore for Uranium and other metals in the Otish Mountains of Quebec. The Company has retained the right to explore for diamonds for its own account on these lands.

ii) *Otish Marc-André*

On January 15, 2007, the Company and Santoy acquired a 100% interest in 13 claims at Lac Laparre in the Otish Mountains of Quebec. Consideration to be paid to International Royalties Corp., a private company, by the partners for the property is \$10,000 cash, 200,000 shares of the Company and 40,000 shares of Santoy. The Company recorded the cash payment of \$5,000 and the 200,000 shares issuance valued at \$54,000. A 2% NSR, of which 1.5% may be purchased for \$1,000,000, has been reserved for the original vendor of the property, a director of the Company. As a current director of the Company, this original vendor is a non arm's-length party to the purchase agreement.

iii) *Otish Majescor*

On February 8, 2007, the Company and Santoy (50% each) have entered into an option agreement with Majescor Resources Inc. ("Majescor") to earn 66 2/3% interest in 317 claims in the Lac Laparre area in the Otish Mountains of Quebec. The terms of the option agreement call for an exploration work commitment of \$2,500,000 over five years (with a guaranteed minimum of \$300,000 in year one), a cash payment of \$50,000, the issuance of 200,000 shares of the Company over a two year period and 60,000 shares of Santoy, in tranches over a two year period, and the reservation of a 1.5% NSR, one half of which is purchasable for \$1,000,000. The option excludes diamonds rights. In 2007, the Company has fulfilled its share of the agreement which is a cash payment of \$25,000 and the 100,000 share issuance valued at \$35,000.

On February 8, 2008, Melkior issued 100,000 shares to Majescor valued at \$20,000, to comply with its obligation following the agreement signed February 8, 2007.

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Notes to financial statements

As at August 31, 2008 and 2007

7. Mining assets (Cont'd)

Quebec (Cont'd)

c) *Mont Otish (Cont'd)*

iv) *Otish MacCleod*

In April 2007, the Company acquired claims located 30 kilometres northwest from the Otish basin.

v) *Sale to Otish Energy inc.*

On December 18, 2007, the Company signed a letter of intent for the sale of its Otish Basin uranium interests to Kakanda Resources Corp (now called Otish Energy Inc.). Santoy will retain its interest and become operator of the project. The terms of the letter of intent are as follows:

- Otish Energy paid Melkior \$500,000 cash;
- Otish Energy issued 4,100,000 of its common shares to Melkior. These shares were valued at the market value on the date the letter of intent was signed which is \$1,312,000;
- Melkior retains a 100% right to any kimberlite (for diamonds);
- Melkior retains a 1% Net Smelter Return ("NSR") royalty on 968 claims;
- Melkior retains a 0.25% NSR on the 13 Marc-André claims.

A \$1,062,206 gain was realized during this transaction.

Melkior retains a 100% ownership on the claims of Otish MacCleod being explored for copper and molybdenum.

d) *Other properties in Québec*

The Company holds claims for the Vauquelin and Tiblemont properties for which the expiry dates go up to January 2009. The Vauquelin and Tiblemont properties and their deferred exploration expenses were written off as of August 31, 2005.

In March 2007, the Company staked claims in the Schefferville region and sold them in August 2007 for \$14,800. A \$3,273 gain was realized on this transaction.

Ontario

e) *Timmins West and Eldorado*

The Company holds a 100% interest in the Timmins West property, subject to a 1.5% NSR royalty in favour of the vendors.

In February 2007, the Company acquired for \$8,400 in cash a 100% interest in claims in the Carscallen Township, close to its West Timmins gold property at Timmins, Ontario. The property is subject to a 2% NSR of which the Company has the right to buy out half (1%) of the NSR for \$1,000,000.

On August 2, 2007, the Company acquired one claim internal to Timmins West for \$20,000 in cash and a 2% NSR of which the Company has the right to buy out half (1%) for \$1,000,000.

The Eldorado property was staked by the Company in 2006.

f) *Henderson*

On February 5, 2007, the Company acquired the Henderson property by staking claims in the Bancroft district. The claims are part of the agreement with Santoy.

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Notes to financial statements

As at August 31, 2008 and 2007

7. Mining assets (Cont'd)

Ontario (Cont'd)

g) *Timmins - Loveland*

On November 2, 2007, the Company signed a letter of intent to acquire 100% interest in the Loveland property in consideration of \$4,400 cash and 200,000 common shares of the Company, valued at \$90,000. The property is located in the Loveland Township in Ontario.

h) *Long Lac*

The company acquired the Long Lac property through staking in Beardmore-Geraldton Ontario

i) *Rim Nickel - McFaulds*

i) Rive Nickel East and West

Following an agreement signed on April 9, 2008 and amended on June 2, 2008, the Company acquired 100% of the East Rim Nickel property and a 100% interest in an agreement concluded by the vendors and Bold Ventures Inc. with regards to the West Rim Nickel property in consideration for \$306,000 in cash and the issuance of 2,500,000, valued \$550,000. A director and the President of the Company, who is also a director, will receive \$110,000 in cash which represents the reimbursement of their staking costs incurred in this property (paid September 22, 3008). The East Rim Nickel property is subject to a 2% NSR royalty, of which half (1%) can be repurchased by the Company for \$2,000,000. The West Rim Nickel property is subject to a 1% NSR royalty, of which half (0.5%) can be repurchased by the Company for \$1,000,000.

The claims are located in the McFaulds Lake area in Ontario. The Company will be the initial operator.

Bold Ventures Inc. ("Bold") has acquired 50% of the West Rim Nickel property, following the completing of \$125,000 in exploration work.

ii) *Riverside*

Adjoining the East Rim Nickel, Melkior staked in June 2008, jointly with MacDonald Mines Exploration Ltd ("MacDonald"), the Riverside property. Melkior owns a 50% interest and MacDonald the other 50%.

8. Share capital

Authorized:

The Company's authorized share capital consists of:

- a) an unlimited number of common shares of no par value, voting and participating
- b) an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the request of the Company at paid up capital.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

8. Share capital (Cont'd)

Issued:

Changes in the Company's common share capital were as follows:

	2008		2007	
	Number	Amount \$	Number	Amount \$
Balance at beginning of year	72,693,598	31,623,313	54,404,252	26,311,438
Private placements	5,000,000	1,000,000	7,657,894	3,480,000
Flow-through private placements	3,636,360	1,200,000	5,806,452	900,000
Exercise of warrants	435,645	67,525	3,295,000	486,225
Value of warrants exercised	-	26,139	-	36,700
Exercise of options	750,000	85,000	1,030,000	141,250
Value of option exercised	-	23,000	-	68,700
Acquisition of mining properties (Note 7)	300,000	110,000	500,000	199,000
	<u>82,815,603</u>	<u>34,134,977</u>	<u>72,693,598</u>	<u>31,623,313</u>
To be issued:				
Mining properties (issued September 22, 2008)	2,500,000	550,000	-	-
Balance at end of year	<u>85,315,603</u>	<u>34,684,977</u>	<u>72,693,598</u>	<u>31,623,313</u>

a) *Private placements*

On November 1, 2007, the Company completed a first brokered private placement of 3,030,300 flow-through common shares at a price of \$0.33 per flow-through share for gross proceeds of \$1,000,000. In consideration for its services, the agent received a cash commission of \$80,000 representing 8% of the gross proceeds and 303,030 broker warrants equal to 10% of the number of flow-through shares sold under the private placement. Each broker warrant shall entitle the agent to purchase one additional common share of the Company at a price of \$0.33 for a period of 24 months from the closing date. The total agent warrant fair value amount to \$75,758 and this fair value was estimated using the Black-Scholes pricing model with no expected dividend yield, an expected volatility of 92%, a risk-free interest rate of 4.25% and an expected life of options of 2 years. The Company has also completed a second private placement for \$200,000 of 606,060 flow-through shares.

On June 9, 2008, the Company closed a private placement with Sprott Asset Management Inc. of 5,000,000 units at a price of \$0.20 per unit for gross proceeds of \$1,000,000. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant shall entitle the holder thereof to purchase one additional common share at a price of \$0.35 per common share for a period of 24 months following the closing date. No value was attributed to the warrants.

On December 18, 2006, the Company completed a brokered private placement for 5,806,452 units at a price of \$0.155 per unit for a total gross proceeds of \$900,000. Each unit consists of one flow-through common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.25 for a period of 18 months. The Company paid the agent a corporate finance fee of \$5,000 and a cash commission of \$63,000. The agent also received an option to acquire 580,645 common shares, exercisable at a price of \$0.155 per common share for a period of 18 months. The total agent warrant fair value amount to \$34,839 and this fair value was estimated using the Black-Scholes pricing model with no expected dividend yield, an expected volatility of 121%, a risk-free interest rate of 4.25% and an expected life of agent warrants of 18 months. No value was attributed to the warrants.

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(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

8. Share capital (Cont'd)

a) *Private placements (Cont'd)*

On March 13, 2007, the Company closed the first tranche of a private placement consisting of 3,320,000 units at a price of \$0.44 per unit for total gross proceeds of \$1,460,800. Each unit consists of one common share and one-half of a common share purchase warrants. Each full purchase warrant entitles its holder thereof to purchase one additional common share at a price of \$0.60 for a period of 18 months. The purchase warrants will be subjected to an accelerated expiry if the volume weighted average price of the common shares on the TSX Venture Exchange is at least \$0.80 for any period of 20 consecutive trading days. The Company may then, within five business days of such 20 trading day period, provide notice by press release to the holders of purchases warrants (the "Accelerated Expiry Notice") that the purchases warrants shall terminate on the earlier of the date that is 25 days following the date of the Accelerated Expiry Notice or the purchase warrants expiry date. The Company paid a finder's fee of \$75,600. On March 27, 2007, the Company closed the second tranche of its private placement consisting of 1,180,000 units at a price of \$0.44 per unit for gross proceeds of \$519,200. The total private placement, consisting of two tranches, raised a total of \$1,980,000 by the issuance of 4,500,000 units. No value was attributed to the warrants.

On May 8, 2007, the Company completed a brokered private placement for 3,157,894 units at a price of \$0.475 per unit for total gross proceeds of \$1,500,000. Each unit will consist of one common share and one-half of a common share purchase warrant. Each warrant entitles its holder thereof to purchase one additional common share at a price of \$0.60 per common share for a period of 18 months. The agent received a cash commission of \$120,000. In addition, the agent received options equal to 10% of the number of units sold under the offering. Each option entitles the agent to purchase one unit of the Company at a price of \$0.475 for a period of 18 months. The total agent option value amount to \$120,000 and this fair value was estimated using the Black-Scholes pricing model with no expected dividend yield, an expected volatility of 119%, a risk-free interest rate of 4.25% and an expected life of agent option of 18 months. No value was attributed to the warrants.

b) *Stock option plan*

As of January 15, 2007, the Company's Board of directors has approved the 2007 Stock Option Plan replacing the existing plan. The aggregate number of optioned shares to be delivered upon the exercise of all options granted under the plan shall not exceed 10% of the number of issued and outstanding common shares at the time of the option grant. If any option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased optioned shares subject thereto shall again be available for the purposes of the plan.

The purchase price of the Common Shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors upon grant of each such option, but such price shall not be less than the market price at closing of transactions the day prior to the grant. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination and in any event, not later than upon the fifth anniversary of the grant of the option. Options are vested at the time of the grant, unless the Board of directors determines other conditions.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

8. Share capital (Cont'd)

b) Stock option plan (Cont'd)

The total number of options granted to any one individual in any 12 month period, will not exceed 5% of the issued common shares. The total number of options granted to any one person providing ongoing services to the Company, in any 12 month period, will not exceed 2% of the issued common shares at the time of grant. The total number of options granted to persons employed in investor relations activities, in any 12 month period, will not exceed 2% of the common shares issued to persons employed in investor relations activities at the time of grant.

Options issued to consultant performing investor relations activities must vest in stages over 12 months with no more than 25% of the options vesting in any three month period; provided, however, that if the number of common shares taken up under the option during any such three month period is less than 25% of the common shares originally covered by the option, the optionee shall have the right, at any time during the remainder of the option period, to purchase such number of common shares subject to the option that were purchasable, but not purchased by the optionee, during such three month period.

A summary of changes of the Company's common share purchase options is presented below:

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of year	3,820,000	0.18	3,950,000	0.12
Granted	2,800,000	0.44	1,400,000	0.30
Exercised	(750,000)	0.11	(1,030,000)	0.14
Expired	-	-	(500,000)	0.10
Balance at end	<u>5,870,000</u>	0.31	<u>3,820,000</u>	0.18
Exercisable at the end of year	<u>5,745,000</u>	0.31	<u>3,820,000</u>	0.18

Stock compensation cost fair value was calculated on options based on the following assumptions:

Grant date	January 15, 2007	October 26, 2007	December 17, 2007	February 25, 2008
Optionee	Directors and officers	Consultants	Directors and officers	Consultant and officer
Number of options	1 400 000	500,000	1,900,000	400,000
Exercise price	\$0.30	\$0.35	\$0.50	\$0.25
Risk free interest	4.25%	4.25%	4.26%	3.60%
Average expected volatility	105%	114%	112%	99%
Expected dividend	-	-	-	-
Expected life (years)	5	5	5	5
Vesting	Immediate	Over 4 quarters	Immediate	Immediate
Estimated fair value per option	\$0.12	\$0.23	\$0.32	\$0.16
Estimated fair value	\$168,000	\$115,000	\$608,000	\$64,000

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

8. Share capital (Cont'd)

b) Stock option plan (Cont'd)

Concerning the October 26, 2007 grant, the stock options were granted to consultants involved in the exploration work and the cost was capitalized in the deferred exploration expenses. As of August 31, 2008, \$95,833 was capitalized based on the vesting period.

For fiscal year 2008, a total of 2,800,000 options were granted. These options were granted at the closing market value of the shares the previous day of the grant. The total fair value of these options amount to \$787,000 of which \$672,000 are accounted for in stock-based compensation, \$95,833 were capitalized in the deferred exploration expenses and \$19,167 will be capitalized in the deferred exploration expenses in fiscal year 2009. The hypotheses used include an average interest rate without risk of 4.16%, an average expected life of the options of 5 years, an expected dividend yield of nil, an estimated average volatility of 111% and a weighted average fair value per option of \$0.29.

For fiscal year 2007, 1,400,000 options were granted. These options are accounted for in stock-based compensation for a total of \$168,000. The hypotheses used include an interest rate without risk of 4.25%, an expected life of the options of 5 years, an expected dividend yield of nil and an estimated volatility of 105%.

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2008:

Number of options outstanding	Number of options exercisable	Exercise price \$	Expiry date
1,200,000	1,200,000	0.10	November 11, 2010
270,000	270,000	0.125	February 9, 2011
200,000	200,000	0.20	May 8, 2011
1,400,000	1,400,000	0.30	January 15, 2012
500,000	375,000	0.35	October 26, 2012
1,900,000	1,900,000	0.50	December 17, 2012
400,000	400,000	0.25	February 25, 2013
<u>5,870,000</u>	<u>5,745,000</u>		

c) Warrants

A summary of changes of the Company's warrants is presented below:

	2008		2007	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance at beginning	7,641,500	0.44	3,150,000	0.15
Issued	5,303,030	0.35	7,786,500	0.43
Exercised	<u>(435,645)</u>	0.155	<u>(3,295,000)</u>	0.15
Balance at end	<u>12,508,885</u>	0.41	<u>7,641,500</u>	0.44

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

8. Share capital (Cont'd)

c) Warrants (Cont'd)

Warrants outstanding as at August 31, 2008 are as follows:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
	\$	
2,903,226	0.25	December 18, 2008 ¹⁾
315,789	0.475	November 8, 2008
157,894	0.60	November 8, 2008
1,659,999	0.60	March 13, 2009 ²⁾
590,000	0.60	March 27, 2009 ³⁾
1,578,947	0.60	May 8, 2009 ⁴⁾
303,030	0.33	November 1, 2009
<u>5,000,000</u>	<u>0.35</u>	<u>June 9, 2010</u>
<u>12,508,885</u>		

1) The expiry date was extended from June 18, 2008 to December 18, 2008.

2) The expiry date was extended from September 13, 2008 to March 13, 2009.

3) The expiry date was extended from September 27, 2008 to March 27, 2009.

4) The expiry date was extended from November 8, 2008 to May 8, 2009.

d) Contributed surplus

A summary of changes of the Company's contributed surplus is presented below:

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance at beginning	454,977	134,538
Agent warrants (Note 8a)	75,758	154,839
Exercise of agent warrants cost credited to share capital	(26,139)	(36,700)
Stock-based compensation in favour of directors and officers (Note 8b)	640,000	205,088
Stock-based compensation in favour of consultants (Note 8b)	127,833	65,912
Exercise of stock options credited to share capital	(23,000)	(68,700)
Balance at end	<u>1,249,429</u>	<u>454,977</u>

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

9. Income taxes

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

	<u>2008</u>	<u>2007</u>
	\$	\$
Loss before income taxes	(590,034)	(432,036)
Income taxes at the combined federal and provincial tax rate of 31% (32% in 2007)	(184,500)	(138,300)
Share issue expenses deductible	(41,500)	(34,500)
Stock-based compensation	210,100	86,800
Fair value variation on financial instruments held for trading	213,700	-
Non taxable gain on disposal of mining assets	(291,400)	-
Change in enacted rates	137,400	-
Other items non deductible	1,900	14,700
Unrecognized tax benefit	(368,700)	(205,700)
Income taxes	<u>(323,000)</u>	<u>(277,000)</u>

Future income tax assets and liabilities result from the differences between the carrying amount and the tax basis of the following:

	<u>2008</u>	<u>2007</u>
	\$	\$
Future income tax assets		
Share issue expenses deductible	106,000	120,000
Operating losses carried forward	433,000	432,000
Listed shares held for trading	126,000	-
Equipments	6,000	5,000
Mining assets	9,000	642,000
	<u>680,000</u>	<u>1,199,000</u>
Less valuation allowance	<u>(680,000)</u>	<u>(1,199,000)</u>
Future income tax liabilities	<u>-</u>	<u>-</u>

The future income tax asset resulting from operating losses carried forward is not recorded. Operating losses available to reduce income taxes in future years are detailed as follows:

2009	\$ 117,000
2010	135,000
2014	387,000
2015	226,000
2026	222,000
2027	230,000
2028	292,000
	<u>\$ 1,609,000</u>

The Company will also be able to deduct in the future share issue expenses for which the future income tax asset is not recorded. These expenses total \$392,342.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

10. Royalties

The Company has the possibility to receive a 13.5% interest in a royalty of 2% of the gross revenue from ore sales following the sale of its interest in the Souart property. The Company has the right to receive a 1% net smelter return royalty as per a former agreement for the sale of its interest in 17 mining claims being part of the Joubi property, Dubuisson Township.

11. Related party transactions

In the normal course of operations:

- a) For fiscal year 2008, companies controlled by an officer charged:
 - i) Professional fees relating to geology amounting to \$69,239 (\$112,338 for fiscal year 2007) capitalised in deferred exploration expenses;
 - ii) Management fees amounting to \$37,350 (\$25,451 for fiscal year 2007) expensed in professional and consulting fees;
 - iii) Rent totalling \$36,360 (\$31,117 for Fiscal year 2007) expensed in general and administrative.
- b) For fiscal 2008, a company controlled by an officer charged professional fees of \$51,563 (\$62,600 for fiscal year 2007) of which \$47,938 (\$58,919 in Fiscal year 2007) was expenses and \$3,625 (\$3,681 in Fiscal year 2007) was recorded as share issue expenses;
- c) From February 14, 2008 (date of the officer's nomination) to August 31, 2008, a firm in which an officer is a partner charged professional fees amounting to \$48,373 of which \$3,900 was recorded as share issue expenses (nil in 2007).
- d) As at August 31, 2008, the balance due to the related parties amounted to \$16,592 (August 31, 2007 – \$1,736) and was recorded in accounts payable and accrued liabilities. This amount is subject to the same conditions as those of non related parties.

Not in the normal course of business:

- e) In November 2007, officers of the Company participated in private placements of flow-through shares (Note 8a) for a total consideration of \$44,900 (\$47,600 for fiscal year 2007).
- f) As part of the acquisition of the Rim Nickel property, a director and the president of the Company will receive \$110,000 cash (paid September 22, 2008) which represent the reimbursement of their costs incurred in this transaction for the staking. As of August 31, 2008, this amount is recorded in accounts payable and accrued liabilities and is subject to the same conditions as those of non related parties.

These related party transactions were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

12. Contingencies

Flow through share financing

The Company is partly financed by issuance of flow-through common shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian explorations expenses, even if the Company has taken all the necessary measures for this purpose. The refusal of some expenses by the fiscal authorities would have a negative fiscal impact on investors.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

13. Additional information to the statement of cash flows

	<u>2008</u>	<u>2007</u>
	\$	\$
Interest cashed	80 656	80 951
Issuance of shares for acquisition of mining properties	660 000	199 000
Agent warrants granted for raising capital	75 758	154 839
Future income taxes accounted for in share issue expenses	323 000	277 000
Tax credits receivable applied against deferred exploration expenses	27 848	276 892
Exercise of options credited to share capital on exercise	23 000	-
Exercise of broker warrants credited to share capital on exercise	26 139	-
Additions of mining properties included in accounts payable and accrued liabilities	306 000	29 829
Additions of deferred exploration expenses included in accounts payable and accrued liabilities	145 870	319 496
Due from partners included in deferred exploration expenses	75 726	246 355
Proceed of disposal of a mining asset included in taxes and other receivables	-	14 800
Amortization included in deferred exploration expenses	2 748	1 374
Listed shares received on disposal of mining assets	1 312 000	-
Stock-based compensation included in deferred exploration expenses	95 833	-

14. Financial instruments

Financial risk management

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management monitors financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

The Company's main financial risk exposure and its financial risk management policies are as follows:

Interest rate risk

The short term investments and part of the cash and cash equivalents bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

Credit Risk

The Company is subject to concentrations of credit risk through cash and cash equivalents, short-term investments and exploration funds. The Company maintains substantially all of its cash and cash equivalents, short term investments and exploration funds in financial instruments guaranteed by either a major Canadian financial institution or by the Canadian Government. The maximum credit risk is equivalent to the carrying value.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2008 and 2007

14. Financial instruments (Cont'd)

Liquidity risk

Management serves to maintain a sufficient amount of cash and cash equivalents, and to ensure that the Company has at his disposal sufficient sources of financing such as private placements. The Company establishes cash budgets to ensure it has the necessary funds to fulfill its obligations. Being able to obtain new funds allows the Company to pursue its activities and even though the Company was successful in the past, there is no guarantee that it will succeed in the future.

Market risk

The listed shares held by the Company are exclusively shares from a Venture issuer whose activities are in the mineral exploration field.

Fair Value

The fair value of the listed shares held for trading is based on the closing price on the stock market.

15. Subsequent events

- a) On October 20, 2008, the Company signed an agreement whereby it has the option to earn a 50% interest in some Troilus properties in Quebec from Beaufield Resources Inc. ("Beaufield") by spending \$500,000 on exploration over a three year period. Of the above amount, \$250,000 must be spent before June 30, 2009. Beaufield will be the operator. The President of the Company is also the President of Beaufield. The Boards of Directors of both companies have approved this transaction.
- b) On November 7, 2008, the Company granted 300,000 stock options and their fair value was calculated with the following assumptions:

Grant date	November 7, 2008
Optionee	Director
Number of options	300,000
Exercise price	0.10 \$
Risk free interest	3.82%
Average expected volatility	98%
Expected dividend	-
Expected life (years)	5
Vesting	Immediate
Estimated fair value per option	0.08 \$
Estimated fair value	24,000 \$