# Melkior Resources Inc.

## Interim Financial Statements

Three-month period ended November 30, 2007

*The attached financial statements have been prepared by Management of Melkior Resources Inc. and have not been reviewed by an auditor.*

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# Melkior Resources Inc.
(an exploration company)
## Balance Sheets

| | November 30 2007 (Unaudited) | August 31 2007 (audited) |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 3,643,007 | 3,790,650 |
| Taxes and other receivable | 214,778 | 208,956 |
| Due from a partner | - | 246,355 |
| Taxes credits receivable | 306,511 | 285,455 |
| Prepaid expenses | 13,094 | 19,786 |
| | 4,177,390 | 4,551,202 |
| Equipments (Note 3) | 13,752 | 15,126 |
| Exploration funds | 800,291 | - |
| Mining assets (Note 4) | | |
| Mining properties | 1,027,298 | 936,092 |
| Deferred exploration expenses | 6,443,284 | 5,962,266 |
| | 12,462,015 | 11,464,686 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and expense payable | 143,456 | 376,210 |
| Due to a partner | 57,151 | - |
| | 200,607 | 376,210 |
| **Shareholders' Equity** | | |
| Share capital (Note 5) | 32,946,313 | 31,623,313 |
| Contributes surplus (Note 5d) | 527,318 | 454,977 |
| Deficit | (21,212,223) | (20,989,814) |
| | 12,261,408 | 11,088,476 |
| | 12,462,015 | 11,464,686 |

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

# Melkior Resources Inc.
(an exploration company)
## Statements of Operations, Comprehensive Income and Deficit
(Unaudited)

| | Three-month period ended November 30 | |
|---|---|---|
| | **2007** | **2006** |
| | **$** | **$** |
| **Expenses** | | |
| General and administrative | 20,161 | 18,025 |
| Travelling and promotion | 3,737 | 624 |
| Investors and shareholders relations | 12,113 | 19,980 |
| Professional and consulting fees | 32,965 | 11,385 |
| General exploration | - | 1,560 |
| Stock-based compensation | - | 32,000 |
| Fair value variation on financial instruments held for trading | 257 | - |
| Foreign exchange loss (gain) | - | 4,345 |
| | 69,233 | 87,919 |
| **Other income** | | |
| Interest income | 41,764 | 6,926 |
| Management fee | 7,089 | - |
| | 48,853 | 6,926 |
| **Net loss and comprehensive income** | (20,380) | (80,993) |
| Deficit, beginning | (20,989,814) | (20,005,007) |
| Share issue expenses | (202,029) | (5,500) |
| **Deficit, end** | (21,212,223) | (20,091,500) |
| **Basic and diluted net loss per share** | - | - |
| **Weighted average number of outstanding common shares** | 73,872,218 | 54,430,553 |

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

# Melkior Resources Inc.
(an exploration company)
Statement of Cash Flows
(Unaudited)

| | Three-month period ended November 30 | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| **Operating activities** | | |
| Net loss | (20,380) | (80,993) |
| Non-cash items: | | - |
| Stock-based compensation | - | 32,000 |
| Foreign exchange loss (gain) | - | 4,345 |
| | (20,380) | (44,648) |
| Changes in non-cash working capital items | | |
| Taxes and other receivable | (17,349) | 8,240 |
| Prepaid expenses | 6,692 | |
| Accounts payable and expense payable | 18,616 | (2,286) |
| | 7,959 | 5,954 |
| Cash flows from operating activities | (12,421) | (38,694) |
| **Investing activities** | | |
| Exploration funds | (800,291) | - |
| Additions to mining properties | (23,925) | (15,917) |
| Deferred exploration expenses | (404,735) | (6,098) |
| Cash flows from investing activities | (1,228,951) | (22,015) |
| **Financing activities** | | |
| Issuance of common shares | 1,220,000 | 30,000 |
| Share issue expenses | (126,271) | (5,500) |
| Cash flows from financing activities | 1,093,729 | 24,500 |
| Net changes in cash and cash equivalents | (147,643) | (36,209) |
| Cash and cash equivalents, beginning | 3,790,650 | 845,821 |
| Cash and cash equivalents, end | 3,643,007 | 809,612 |
| **Additional disclosure** | | |
| Interest cashed | 39,196 | 4,687 |
| Issuance of shares for acquisition of mining properties | 90,000 | - |
| Agent warrants granted for capital raising | 75,758 | - |
| Tax credits receivable applied against deferred exploration expenses | 21,056 | - |
| Additions of mining properties included in accounts payable and accrued liabilities | 955 | - |
| Additions of deferred exploration expenses included in accounts payable and accrued liabilities | 96,960 | - |
| Due to a partner included in deferred exploration expenses | 57,151 | - |
| Depreciation included in deferred exploration expense | 1,374 | - |
| Stock-based compensation included in deferred exploration expenses | 9,583 | - |
| Value of stock options exercised | 13,000 | - |

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

## 1. Basis of presentation

The financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial statements. The interim financial statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Corporation's audited financial statements for the year ended August 31, 2007. The accounting policies follow that of the most recently reported audited annual financial statements, except for the new accounting policies as disclosed in Note 2.

## 2. Accounting estimates and change in accounting policies

The preparation of interim financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Taking effect in Fiscal 2008, the CICA issued three 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 3865, "Hedges", provides guidance on the application of hedge accounting and related disclosures.
- 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.

The Company has evaluated that these new sections have no significant impact on the Financial Statements. Cash and cash equivalents will be 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, accounts receivable and others will be classified as loans and receivables, and accounts payable and expense payable will be classified as other liabilities.

## 3. Equipments

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| | $ | $ | $ |
| Equipments | 16,500 | 2,748 | 13,752 |

## 4. Mining assets

| Mining properties | August 31 2007 | Addition | November 30 2007 |
|---|---|---|---|
| | $ | $ | $ |
| **Quebec** | | | |
| Launay | 374,531 | - | 374,531 |
| Ungava | 201,800 | - | 201,800 |
| Otish | 201,176 | (4,417) | 196,759 |
| **Ontario** | | | |
| Timmins West | 131,837 | 94,400 | 226,237 |
| Eldorado | 23 630 | 1,223 | 24,853 |
| Henderson | 3,118 | - | 3,118 |
| | 936,092 | 91,206 | 1,027,298 |

| Deferred exploration expenses | August 31 2007 | Expendi-tures | Tax credits | November 30 2007 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Quebec** | | | | |
| Launay | 3,933,257 | 7,157 | (1,531) | 3,938,883 |
| Ungava | 1,134,915 | - | - | 1,134,915 |
| Otish | 522,268 | 46,230 | (19,525) | 548,973 |
| **Ontario** | | | | |
| Timmins West | 360,083 | 443,639 | - | 803,722 |
| Eldorado | 1,189 | 5,048 | - | 6,237 |
| Henderson | 10,554 | - | - | 10,554 |
| | 5,962,266 | 502,074 | (21,056) | 6,443,284 |

**Ontario**

*Timmins West - 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. The shares were issued on January 15, 2008 and were valued at $90,000 with the closing price of the stock exchange on November 2, 2007. The property is located in the Loveland Township in Ontario.

## 5. Share capital

**Authorized:**
The Company's authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at paid up capital.

**Issued and to be issued:**
Changes in the Company's common share capital were as follows:

| | Three-month period ended November 30, 2007 | |
|---|---|---|
| | **Number of shares** | **Amount** |
| **Issued** | | **$** |
| Balance at beginning of period | 72,693,598 | 31,623,313 |
| Flow-through private placements | 3,636,360 | 1,200,000 |
| Exercise of stock options | 100,000 | 20,000 |
| Value of stock options exercised | - | 13,000 |
| | 76,429,958 | 32,856,313 |
| **To be issued** | | |
| Acquisition of mining properties (Note 4) | 200,000 | 90,000 |
| Balance at end of period | 76,629,958 | 32,946,313 |

*a) Private Placements*

On November 1, 2007, the Company completed a 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 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 cost amount to $75,758 and this fair value was estimated using the Black-Scholes 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 raised $200,000 pursuant to a private placement of 606,060 flow-through shares.

**5. Share capital** (Cont'd)

*b) Stock option plan*

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

| | Three-month period ended November 30, 2007 | |
|---|---|---|
| | **Number of options** | **Weighted average exercise price** |
| | | **$** |
| Balance at beginning of period | 3,820,000 | 0.18 |
| Granted | 500,000 | 0.35 |
| Exercised | (100,000) | 0.20 |
| Balance at end of period | 4,220,000 | 0.20 |

On October 26, 2007, the Company has granted 500,000 stock options to consultants involved in the exploration work at a price of $0.35 per share, exercisable for 5 years. The options vest in over one year, 25% each quarter. Total stock-based compensation costs amount to $115,000 for an estimated fair value of $0.23 per option. As of November 30, 2007, the cost recorded over the vesting period and capitalized in the deferred exploration expenses was $9,583. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 114%, a risk-free interest rate of 4.25% and an expected life of options of 5 years.

The following table summarizes information about common share purchase options outstanding and exercisable as at November 30, 2007:

| **Number of options outstanding** | **Number of options exercisable** | **Exercise price** | **Expiry date** |
|---|---|---|---|
| | | **$** | |
| 150,000 | 150,000 | 0.10 | April 9, 2008 |
| 1,700,000 | 1,700,000 | 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 | - | 0.35 | October 26, 2012 |
| 4,220,000 | 3,720,000 | | |

**5. Share capital** (Cont'd)

*c) Warrants*

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

| | Three-month period ended November 30, 2007 | |
|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** |
| | | **$** |
| Balance at beginning of period | 7,641,500 | 0.44 |
| Issued | 303,030 | 0.33 |
| Balance at beginning and end of period | 7,944,530 | 0.43 |

Warrants outstanding as at November 30, 2007 are as follows:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| | $ | |
| 2,903,226 | 0.25 | June 18, 2008 |
| 435,645 | 0.155 | June 18, 2008 |
| 1,659,999 | 0.60 | September 13, 2008 |
| 590,000 | 0.60 | September 27, 2008 |
| 1,736,841 | 0.60 | November 8, 2008 |
| 315,789 | 0.475 | November 8, 2008 |
| 303,030 | 0.33 | November 1, 2009 |
| 7,944,530 | | |

*d) Contributed surplus*

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

| | Three-month period ended November 30, 2007 |
|---|---|
| | **$** |
| Balance at beginning of the period | 454,977 |
| Stock-based compensation in favour of consultants (Note 5b) | 9,583 |
| Exercise of stock options credited to share capital | (13,000) |
| Agent warrant (Note 5a) | 75,758 |
| Balance at end of period | 527,318 |

## 6. Related party transactions

*In the normal course of operations:*

a) During the period ended November 30, 2007 a company controlled by an officer charged professional fees amounting to $13,946 ($nil for the period ended November 30, 2006), management fees amounting to $27,938 ($10,500 for the period ended November 30, 2006) and administrative fees amounting to $9,000 ($nil for the period ended November 30, 2006);
b) During the period ended November 30, 2007, a company controlled by an officer charged professional fees of $17,438 ($11,386 for the period ended November 30, 2006);
c) As at November 30, 2007, the balance due to the related parties amounted to $8,186 (November 30, 2006 – $4,105).

*Not in the normal course of business:*

d) In November 2007, officers of the Company participated in private placements of flow-through shares (note 5a) for a total consideration of $44,900 ($nil for the period ended November 30, 2006).

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

## 7. 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.

## 8. Subsequent event

On December 17, 2007, the Company has granted 1,900,000 stock options to directors and officers at a price of $0.50 per share, exercisable for 5 years.

On December 18, 2007, the Company has signed a letter of intent for the sale of its Otish Basin uranium interests to Kakanda Resources Corp. Prior to the sale, Melkior is a 50-50 partner with Santoy Resources Ltd. Santoy will retain its interest and become operator of the project. The terms of the letter of intent are as follows:

- Kakanda will pay Melkior $500,000 cash;
- Kakanda will issue 4,000,000 of its common shares to Melkior;
- Melkior retains a 100% right to any kimberlite (for diamonds);
- Melkior retains a 1% Net Smelter Return (NSR) royalty on 968 claims owned by Melkior Santoy;
- Melkior retains a 0.25% NSR on the Marc André claims.

Melkior retains a 100% ownership of approximately 330 Otish area claims being explored for copper and molybdenum. The finalization of the sale is subject to approval by the regulatory authorities.