Melkior Resources Inc.

(an exploration company)

Annual Report

2009

Melkior Resources Inc.
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Table of Contents

For the year ended August 31, 2009

Management has prepared the following discussion and analysis (MD&A) which constitutes management's review of financial and operating factors affecting Melkior Resources Inc. ("Melkior" or the "Company") for the year ended August 31, 2009.

This MD&A should be read in conjunction with the Company's financial statements and related notes as at August 31, 2009. All figures are in Canadian dollars unless otherwise noted. The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

Nature of activities

Melkior is an exploration stage company engaged in the acquisition and exploration of mining properties located in Québec and Ontario.

Overall performance

Melkior has a $3,497,210 working capital as of August 31, 2009 ($4,448,898 as of August 31, 2008) which will allow the Company to undertake its exploration program for at least the next two years.

In Fiscal 2009, Melkior raised $999,375 ($2,200,000 in 2008) by private placements and $152,525 in 2008 via the exercise of warrants and options.

Exploration for Fiscal 2009 totalled $1,532,602 versus $2,328,604 in Fiscal 2008. The main exploration expenditures in Fiscal 2009 were on Timmins West, Troilus and Rim Nickel. Mining properties at a total cost of $106,480 were acquired in Fiscal 2009 versus $998,832 in Fiscal 2008 (mainly McFaulds Rim Nickel).

Selected annual information

	Fiscal year ended August 31		
	2009	**2008**	**2007**
	$	**$**	**$**
Income	113,966	1,267,908	180,732
Net loss	(6,309,850)	(267,034)	(155,036)
Net Loss per share, basic and diluted	(0.07)	-	-

	As at August 31		
	2009	**2008**	**2007**
	$	**$**	**$**
Total assets	9,107,526	14,671,491	11,464,686

Results of operations

Total expenses are $6,423,816 in Fiscal 2009 versus $1,857,942 in Fiscal 2008, due to the following:

- Write-offs for $5,346,461 in Fiscal 2009 (nil in Fiscal 2008) of mining assets relating to Ungava, Monts Otish and Launay (see investing activities).
- A $129,000 stock-based compensation expense was recorded in Fiscal 2009 following the grant of 700,000 options while in Fiscal 2008 the stock-based compensation expenses was $672,000 following the grant of 2 800,000 options.
- A $533,000 fair value loss was recorded in Fiscal 2009 ($697,000 in Fiscal 2008) on the 4,100,000 shares received from Otish Energy Inc. following the sale of the properties in the Mont Otish.
- Professional and consulting fees decreased in Fiscal 2009 due to less activities operated by the Company and legal fees relating to the Otish sale and Rim Nickel purchase that occurred in Fiscal 2008.

	2009	2008
	$	**$**
Legal	10,037	74,731
Accounting	90,438	72,333
Audit	32,000	32,875
Consulting	16,135	-
Management	45,160	47,700
Professional and consulting fees	**193,770**	**227,639**

- General and administrative increased to $154,316 in Fiscal 2009 ($123,700 in Fiscal 2008) due to:
  - Increased directors' fees due to more board meetings.
  - Increased share of the Ottawa office expenses.
- Melkior now reimburses its share of medical insurance for consultants hired by the Company.
- During Fiscal 2009, Melkior reduced investors relation activities and incurred a cost of $71,940 in investors and shareholders relations compared to $126,610 in Fiscal 2008. Melkior signed an agreement in October 2009 with the investor relations firm Agoracom whereby Melkior will disburse a monthly fee of $3,000 and has granted 225,000 stock options exercisable at $0.30 $ until November 1, 2011.

Interest income was $61,685 in Fiscal 2009 versus $181,471 in Fiscal 2008 due to less cash and cash equivalents, term deposits and exploration funds on deposit and also lower interest rates available.

The management fees income decreased to $2,710 in Fiscal 2009 ($24,231 in Fiscal 2008) since these fees were mainly earned as the operator of Rim Nickel West property which was less active in Fiscal 2009.

Melkior recorded a $323,000 recovery of future income taxes in Fiscal 2009 (nil in Fiscal 2009) representing the tax impact of the flow-through shares issued.

Finally, during Fiscal 2008, Melkior sold to Otish Energy Inc. its 50% interest in certain Monts Otish projects and realized a gain of $1,062,206. In Fiscal 2009, Melkior sold a 50% interest to Big Red Diamond Corporation and realized a gain of $49,571.

Investing activities

The main mining assets of the Company are Carscallen Timmins West, Rim Nickel – McFaulds and Ungava. The total exploration budget for Fiscal 2010 is $1,685,000.

Investing activities (Cont'd)

Deferred exploration expenses 2009	**Ungava**	**Launay**	**Otish**	**Troilus**	**Timmins**	**Eldora-do**	**Rim Nickel McFaulds**	**Others**	**Total**
	$	**$**	**$**		**$**		**$**	**$**	**$**
Balance beginning	1,134,915	4,235,839	147,618	-	1,412,737	85,176	394,111	85,710	7,496,106
Additions									
Drilling	-	5,085	-	291,909	327,522	-	-	-	624,516
Geology – prospecting	14,910	48,018	15,291	43,524	59,984	4,395	29,266	33,357	248,745
Geophysics geochemistry	1,800	700	21,578	53,186	94,714	81,289	220,942	39,629	513,838
Line cutting	-	-	-	11,422	74,075	-	-	-	85,497
Management fees	-	-	-	60,006	-	-	-	-	60,006
	16,710	53,803	36,869	460,047	556,295	85,684	250,208	72,986	1,532,602
Options	1,500	5,110	-	1,500	7,528	7,029	5,500	-	28,167
Recharge	-	-	-	-	-	-	(26,904)	-	(26,904)
	18,210	58,913	36,869	461,547	563,823	92,713	228,804	72,986	1,533,865
Deductions									
Tax credits	(7,092)	(17,132)	-	(67,206)	-	-	-	-	(91,430)
Disposal	-	-	-	-	(10,049)	-	-	-	(10,049)
Write-off	(1,146,033)	(3,872,631)	(106,419)	-	-	-	-	-	(5,125,083)
Balance, end	-	404,989	78,068	394,341	1,966,511	177,889	622,915	158,696	3,803,409

Deferred exploration expenses 2008	**Ungava**	**Launay**	**Otish**	**Timmins**	**Eldora-do**	**Rim Nickel McFaulds**	**Others**	**Total**
	$	**$**	**$**	**$**		**$**	**$**	**$**
Balance beginning	1,134,915	3,933,257	522,268	360,083	1,189	-	10,554	5,962,266
Additions								
Drilling	-	259,378	-	835,048	-	-	-	1,094,426
Geology – prospecting	-	13,375	(3,432)	73,536	2,910	5,070	895	92,354
Geophysics geochemistry	-	5,311	306,280	28,661	14,749	589,767	71,016	1,015,784
Analysis	-	-	8,504	26,521	-	-	-	35,025
Line cutting	-	-	-	14,754	30,463	-	-	45,217
Logistics	-	30	1,370	5,457	-	-	-	6,857
Travelling	-	446	987	33,537	726	-	3,245	38,941
	-	278,540	313,709	1,017,514	48,848	594,837	75,156	2,328,604
Options		25,554	-	35,140	35,139	-	-	95,833
Amortization		-	2,748	-	-	-	-	2,748
Recharge	-	-	(97,769)	-	-	(200,726)	-	(298,495)
	-	304,094	218,688	1,052,654	83,987	394,111	75,156	2,128,690
Deductions								
Tax credits	-	(1,512)	(21,953)	-	-	-	-	(23,465)
Disposal	-	-	(571,385)	-	-	-	-	(571,385)
Balance, end	1,134,915	4,235,839	147,618	1,412,737	85,176	394,111	85,710	7,496,106

Investing activities (Cont'd)

Jens E. Hansen, P. Eng. and President and Director of Melkior, qualified person under NI 43-101, has reviewed the following technical disclosure.

Rim Nickel - McFaulds
(East Rim 100% - Nickel, West Rim 50%)

East Rim
Melkior owns the 23,872 hectare East Rim Property in the "Ring of Fire" discovery area of North Central Ontario, which covers a large, significant regional gravity feature. The property is possibly underlain by large volumes of dense mafic or ultramafic rocks of the type that can host significant nickel copper massive sulphide occurrences as demonstrated by the work of Noront Resources Ltd. ("Noront"). East Rim is located approximately 25 kilometres from the chromite discoveries by Noront and Freewest Resources Canada Inc., and 30 kilometres from the nickel discovery by Noront. The property is 238 square kilometers in size.

To identify massive sulphides on the property, Melkior undertook a 1738 line kilometre MEGATEM airborne survey. The survey and its interpretation were carried out by Fugro Airborne Surveys. Ten conductors were identified as first priority massive sulphide bedrock prospects and 8 as second priority. In addition one first priority target occurs on ground owned 50-50 by Melkior and MacDonald Mines Exploration Ltd.

An exposure of highly altered dioritic to gabbroic intrusive rocks measuring approximately 300 by 600 metres was identified by Melkior's consulting geologist in the south eastern portion of the East Rim claims. This confirms Melkior's interpretation that highly prospective mafic rocks are present.

Melkior has completed MEGATEM and VTEM airborne surveys. A series of potential massive sulphide targets have been located. These are essentially drill ready. At present however, Melkior plans to concentrate its drilling on the Carscallen Gold Project in the Timmins area.

West Rim
Melkior holds the West Rim property 50%-50% with Bold Venture Inc The property covers 935 claims or 14960 hectares. It is located approximately 20 kilometres north of the important Eagle Nest nickel discoveries and 20 kilometres southeast of the Metalex Venture Ltd -WSR massive sulphide discovery. The West Rim property covers the majority of an important gravity anomaly located at the approximate centre of the "Ring of Fire". The ROF wraps around the Melkior-Bold gravity feature.

The exploration budget for Fiscal 2010 is in the planning stages and not yet defined.

Timmins West (Carscallen Gold)
(100% owned – gold)

The Melkior property is located 5km west of the Lake Shore Gold Corp. developing West Timmins gold mine. In the summer 2009, Melkior staked 18 additional unit claims over 288 hectares. This enlarges the Carscallen property to 102 claim units and 1603 hectares. On November 4, 2009, the business combination of Lake Shore Gold Corp. and West Timmins Mining Inc. was approved by the shareholders of those companies.

The exploration results to date have identified structures containing gold over a length of approximately 1 kilometre. The length of the gold zone is considered very significant. Surface work and drilling have confirmed the continuity of the veins. Drilling has intersected significant gold including 60.27 g/t over 1.8 metres and 19.8 g/t over 3.3 metres (Melkior's news release on Jan 14, 2009). The next exploration phase will focus on exploring at depth and on strike.

Investing activities (Cont'd)

On July 7, 2009, the Company started a drilling program which consisted of 2152 metres. The objective of the drill program is to test a new 700 metre long East-West Induced Polarization (IP) anomaly immediately north of the previously drilled Zam-Zam and 3 other zones where gold values in drilling that include 60.27 g/t over 1.8 metres and 19.8 g/t over 3.3 metres were obtained and surface sampling in narrow quartz-pyrite veins graded up to 843.7 g/t gold. It will be drilled to depths of 100 to 200 metres. To date the majority of the holes drilled have intersected gold are consistently associated with pyrite that is detectable by IP. Previous drilling has concentrated on north-south structures which have intersected gold bearing structures in four zones over a total strike length of 950 metres. These zones remain open along strike to the north and the south and to depth.

On September 21, 2009, Melkior published an update on the exploration programs. Results received from the 2152 metre July 2009 drill program continue to extend the mineralization both north and south. One deeper hole drilled CAR-18-2009 intersected two gold systems at a depth of almost 200 metres. Following are the highlights:

- Hole No. CAR-16-2009 intersected 56.0g/t over 0.9 metres and extends mineralization 180 metres south of previous drilling. Three distinct mineralized intersections were encountered at depths of less than 100 metres.
- Hole No. CAR-18-2009 intersected 25.3g/t over 0.6 metres and 15.65g/t over 0.6 metres. These are the first intersections encountered in the volcanics under the granite indicating that the volcanics can be mineralized.
- Hole No. CAR-19-2009 intersected 48g/t over 0.7 metres at a depth of 92 metres.
- Hole No. CAR-20-2009 intersected 3.16g/t over 3.70 metres including 10.15g/t over 1.0 metres.
- Hole No. CAR-1-2009 intersected 13.0g/t over 0.7 metres and intersected gold on a newly defined East-West structure.
- Hole No. CAR-17-2009 intersected 9.42g/t over 0.85 metres at a vertical depth of approximately 120 metres. It should be noted that silver values of up to 6.5g/t were associated with the gold intersections.

On November 17, 2009, Melkior announced that a diamond drill program totalling approximately 4000 metres had begun. The current program represents continued drilling on the 1010, ZamZam and Shenkman gold zones already traced for over 1000 metres and systematically drilled to a depth of approximately 100 metres. The new programs are planned to drill these zones to depths of approximately 300 metres. The data acquired will be entered into a 3 dimensional compilation currently underway. This will enable Melkior to interpret new data and advance the program as deeper drilling progresses. An Induced Polarization survey of the southern portion of the Carscallen property is underway. The objective of this work is to map possible southward extensions of the 1010 and ZamZam-Shenkman structures. Some shallow drilling could be allocated to evaluate any newly identified extensions. An orientation geochemical survey was completed in October 2009 and results are pending.

The exploration budget for Fiscal 2010 is $800,000. This budget could be increased following the results of the drilling program underway.

Timmins Loveland
(100% owned - or copper nickel)

An airborne magnetic-electromagnetic VTEM survey has been completed on this property located in Loveland Township, approximately 35 kilometres northwest of Timmins. Five targets meriting follow-up for gold and copper-zinc have been identified by the airborne survey. The property adjoins Amador Gold Corp. which has a copper-zinc discovery a short distance from the Melkior boundary. Drilling is warranted on at least two airborne anomalies.

The exploration budget for Fiscal 2010 is $200,000.

Investing activities (Cont'd)

Timmins Eldorado
(100% owned - nickel)

A 530 line kilometre VTEM airborne electromagnetic and magnetic survey has been completed on the Eldorado property which is located 20 kilometres southeast of Timmins. The property adjoins Liberty Mines Inc and is located 10 kilometres northwest of the Golden Chalice Resources Inc Langmuir Nickel discovery.

Several massive sulphide type conductors potentially caused by base metal sulphides have been identified by the airborne survey. These represent high priority targets for follow up by geophysics and drilling. The groundwork is scheduled to be undertaken this winter to be followed by drilling.

The exploration budget for Fiscal 2010 is $300,000.

Shaw Gold
(100% - gold)

A three day reconnaissance program was undertaken on the newly staked Shaw property The property consists of 78 unpatented claims covering 12.5 km^2, located in the Timmins district of Ontario, approximately 13 kilometers south-east of the city of Timmins, in an area actively being explored by others.

The objectives of the field work were to determine the best access to the property and to sample known outcrops in the northern part. Three old exploration pits and a number of old trenches were located and sampled. 40 samples were collected. The best assay obtained, was from material hosted in an ankeritized magnetic basalt and graded 2.7 g/t Silver. A second sample returned assays of 1.3% Zinc and 0.6% Lead 236 ppb Au in a pyrite rich basalt.

Outcrop is very limited representing only about one percent of the property.

The exploration budget for Fiscal 2010 is $50,000.

Big Marsh
(100% owned – base metals)

The Big Marsh property is located in Carscallen Township two kilometres north of the Melkior Timmins gold property. A program of line cutting and geophysics is underway. These claims adjoin a property being actively explored for base metals by San Gold Corp.

On December 15, 2008, the Company acquired claims in the Carscallen Township near Timmins, Ontario for $5,000. These claims adjoin the Big Marsh property and will be referred to as Big Marsh, being contiguous with the original property. A portion of the property was covered by cut lines and a magnetometer survey. One line was surveyed by Induced Polarisation. Two holes were drilled on this property with anomalous but low, gold values being reported. Base metals were not present.

Fripp
(100% owned – gold)

The Fripp property is located 25 kilometres south southwest of the City of Timmins. A ground magnetometer survey has recently been completed over the property and has identified one target which will be followed up by prospecting.

The exploration budget for Fiscal 2010 is $15,000.

Investing activities (Cont'd)

Bristol
(100% owned - gold)

August 26, 2009, Melkior announced the signature of a letter of intent with Big Red Diamond Corporation ("Big Red") whereby Bid Red can acquire a 50% interest in Melkior's 100% owned 12 claim units in Bristol Township, West Timmins. Big Red will issue 1,000,000 of its common share to Melkior on regulatory approval and undertake $400,000 of exploration work over a period of 48 months on the claims to earn the 50% interest. Melkior will be the operator.

The Melkior claims are located between two Big Red claim groups in Bristol Township. Regional airborne geophysics suggests exploration targets that extend from the Melkior claims onto the Big Red properties. The Bristol claims are 5 kilometres north of the Lake Shore Gold West Timmins gold deposit.

The exploration budget will be paid by Big Red, the option holder.

Long Lac -Geraldton
(100% owned – gold copper)

The Beardmore property is located in northern Ontario, approximately 20 km east of the town of Longlac. It consists of 203 unpatented claims, covering 32.5 km^2. In early 2008 an airborne AeroTEM survey was flown and in the summer of 2008 a small program of prospecting over selected anomalies was undertaken.

In August 2009, a 10 day mapping and prospecting campaign was carried out over the anomalous sector identified in 2008. 134 rock samples were collected, highlighting two interesting areas. The first area, followed for 20 meters, returned gold values of 3.43 g/t and 2.37 g/t. The gold is hosted in a silicified amphibolite and is associated with high values of arsenic. The second area returned values of 1.47 g/t; 1.15 g/t gold and 4.09 g/t silver in a gold bearing iron formation injected with quartz veins.

All gold deposits, in the Beardmore-Geraldton gold camp, are associated with high contents of arsenopyrite (H.S. Armstrong, 1943). More prospecting and sampling, in association with ground geophysics will permit a better understanding of the economic potential of the discoveries.

The exploration budget for Fiscal 2010 is $50,000.

Launay
(100% owned - gold)

Melkior added to its land position in February 2009 (See press release February 26th, 2009) and now holds 169 claims or 75.6 square kilometres. The property is located 80 kilometres north west of Val-D'Or, Quebec. Previous work has identified two gold zones with large tonnage low grade potential. Historical assays from drill holes include 6.92g/t gold over 12.8 metres and 9.10g/t gold over 7.0 metres.

The 2009 program was designed to verify gold at the Zone 75, follow the geological trend onto the new claims and sample the trend.

Grab samples taken on Zone 75 yielded 13.75g/t, 5.06g/t and 3.08g/t gold thereby supporting earlier drill results. On the new claims, which are approximately 4 kilometres to the north of Zone 75, several anomalous gold in grab samples including 1.415g/t and 1.28g/t with anomalous silver values of up to 19.15g/t were discovered.

During the year, the Company reviewed the exploration expenses and wrote-off the exploration expenses incurred more than three years ago for $3,872,631.

Melkior is discussing the possibility of joint venturing the property to others.

Investing activities (Cont'd)

Troilus
(50% earn-in - copper zinc gold)

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.

Drilling started on December 4, 2008 and was completed on January 20, 2009. The current grassroots program consisted of drilling 6 holes for 933 metres. The holes targeted specific airborne geophysical anomalies with coincident electromagnetics and magnetics. Prior to drilling these targets they have been confirmed by ground geophysics. The geophysical anomalies drilled are indicative of those typically caused by massive sulphides which in this environment can host copper-zinc sulphides with accompanying gold and silver. Sulphides were intersected in 3 of the 6 holes. Significant base metals were not observed in the core.

As of August 31, 2009, $461,547 has been spent on Troilus.

The exploration budget for Fiscal 2010 is $40,000.

Delta-Kenty Ungava Quebec
(49% owned copper-nickel-platinum group)

Melkior owns 49% of this project with Xstrata Nickel (formally Falconbridge Ltd) holding 51%. In 1999, Falconbridge Ltd reported a resource of 817,000 tonnes 3.05% nickel, 1.26% copper and 2.65g/t platinum-palladium. This is non NI 43-101 compliant and has not been verified by a qualified person. A 2004 drill hole on a new target intersected 99.77 metres 0.64% nickel and 0.26% copper. This has not been followed up.

Melkior has engaged a geologist experienced with Ungava nickel deposits to evaluate two recent airborne surveys and the previous drilling.

Following receipt of the consultants report, if positive, Melkior plans to present a new exploration program to Xstrata Nickel.

Considering the market conditions that prevailed in fiscal 2009 where it was difficult to finance an exploration program for the Ungava project located in the far north, the Company doesn't expect to do extensive work on the property in the near future and consequently wrote-off the mining property costs and deferred exploration expenses for $1,347,833.

The exploration budget for Fiscal 2010 is $30,000 subject to data review.

Otish
(100% Molybdenum – Diamond exploration rights)

Following the airborne survey completed in the fall 2008 on the McLeod molybdenum property in the Otish Mountains, the Company decided to drop half of the claims and consequently wrote off half of the mining property costs and deferred exploration expenses for $97,645. In addition, the Company wrote off the deferred exploration expenses relating to the exploration rights on diamonds in the Otish Mountains for $28,352.

Investing activities (Cont'd)

Henderson
(100% – Uranium, nickel)

On February 5, 2007, the Company acquired the Henderson property by staking claims in the Raglan Township in south-eastern Ontario. The claims were part of the agreement with Santoy Resources Ltd ("Santoy') but Santoy opted out of the agreement in 2009 (Santoy is now called Virginia Energy Resources Inc).

On August 4, 2009, the Company signed an agreement with First Nickel Inc., ("FNI") whereby FNI has the right to earn up to 80% on the Henderson property. FNI can earn 50% by spending $60,000 on exploration in the first year. At the 50-50 point the Company will decide whether or not to participate. If the Company doesn't participate FNI can earn up to 80% by spending an additional $100,000 in the second year. At the 80% point the Company will participate or dilute to a 1.5% NSR Royalty.
The Company can continue to explore for uranium independently from the FNI agreement.

Other properties in Quebec
The Company owns 35 claims in Vauquelin Township and 30 claims in Tiblemont Township located approximately 50km east of Val-d'Or, Quebec. The properties and their deferred exploration expenses were written off in Fiscal 2005 since the exploration work for gold was not successful. Nevertheless, there is activity by others in the area hence the properties will be maintained in good standing. Together the Vauquelin and Tiblemont properties have approximately $770,000 in excess work credits.

Project generation
Melkior is examining other grass roots opportunities which could be assigned budgets if these projects are undertaken. Melkior will reserve a $200,000 contingency budget for Fiscal 2010.

Financing activities

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.

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 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 Company has also raised $200,000 pursuant to a private placement of 606,060 flow-through shares.

On June 30, 2009, the Company closed a private placement of 4,758,928 units at a price of $0.21 per unit for gross proceeds of $999,375. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant will entitle its holder 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. The Company paid a cash finder's fee to PI Financial Corp. ("PI") equivalent to 7 % of the gross proceeds raised by the finder, in the amount of $22,050 plus 10% in finder's warrants, in the amount of 150,000 warrants. Each finder's warrant entitles PI to purchase one additional common share of the Company at a price of $0.25 per common share for a period of 24 months following the closing date.

In Fiscal 2008, 435,645 warrants were exercised for a net proceed of $67,525. Finally in Fiscal 2008, 750,000 options were exercised for a consideration of $85,000.

Working capital

The Company has a working capital of $3,497,210 of at August 31, 2009 as compared to $4,448,898 as of August 31, 2008. Management is of the opinion that, subject to continuing to be able to raise equity financing in the future, it will be able to maintain the status of its current exploration obligations and to keep its properties in good standing. Advanced exploration of some of the mineral properties would require substantially more financial resources. In the past, the Company has been able to rely on its ability to raise financing in public or privately negotiated equity offerings. There is no assurance that such financing will be available when required, or under terms that are favourable to the Company. The Company may also elect to advance the exploration and development of mineral properties through joint-venture participation.

Summary of quarterly results

For the eight most recent quarters

	August 31 2009	May 31 2009	February 28 2009	November 30 2008
	$	$	$	$
Income	58,027	9,574	12,318	34,047
Net profit (loss) for the period	(4,025,831)	(73,612)	(1,582,614)	(627,793)
Net loss per share	(0.05)	-	(0.02)	(0.01)
Total assets	9,107,526	13,579,031	13,085,953	12,462,015

	August 31 2008	May 31 2008	February 28 2008	November 30 2007
	$	$	$	$
Income	41,152	44,262	1,133,641	48,853
Net profit (loss) for the period	(74,627)	(484,412)	312,385	(20,380)
Net loss per share	-	(0.01)	-	-
Total assets	14,671,491	13,579,031	13,085,953	12,462,015

Fourth quarter

The Company reported a net loss of $4,025,831 for the quarter ended August 31, 2009 (“Q4 2009”) compared to $74,627 for the quarter ended August 31, 2008 (‘Q4 2008’).

Interest income totalled $8,456 in Q4 2009 and was slightly higher than the $47,067 in Q4 2008 due to less cash invested and lower interest rates available. In Fiscal 2009, Melkior sold a 50% interest to Big Red Diamond Corporation and realized a gain of $49,571.

Total expenses were higher in Q4 2009 at $4,083,858 compared to $115,779 in Q4 2008 mainly due to following:

- The write-down of the exploration expenses on Launay older than three years for $3,872,631.
- Reduced activities in investors and shareholders relations ($38,706 in Q4 2008 versus $14,832 in Q4 2009).

The Company expensed $402,770 in exploration in Q4 2009 ($873,381 in Q4 2008) mostly on Timmins West.

Related party transactions

In the normal course of operations for Fiscal 2009:

a) Companies controlled by Jens E. Hansen (President and Director) charged:
   i) Professional fees relating to geology amounting to $49,950 ($69,239 for fiscal 2008) capitalised in deferred exploration expenses;
   ii) Management fees amounting to $45,160 ($37,350 for fiscal 2008) expensed in professional and consulting fees;
   iii) Rent totalling $36,000 ($36,360 for Fiscal 2008) expensed in general and administrative.
b) A company controlled by Ingrid Martin (Chief Financial Officer) charged accounting fees of $75,469 ($66,938 for fiscal 2008) of which $75,469 ($63,313 in Fiscal 2008) was expenses and $nil ($3,625 in Fiscal 2008) was recorded as share issue expenses.
c) Nathalie Hansen (director) nominated November 7, 2008 charged:
   i) Professional fees relating to geophysics or geology of $33,975 capitalised in deferred exploration expenses or mining properties;
   ii) Consulting fees of $11,500 expensed in investors and shareholders relations or professional and consulting fees.
d) From February 14, 2008 (date of his nomination) to August 31, 2008, a firm in which Michel Blouin (Secretary) is a partner charged legal fees amounting to $48,373 of which $3,900 was recorded as share issue expenses.
d) As at August 31, 2009, the balance due to the related parties amounted to $33,358 (August 31, 2008 – $16,592) 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 for a total consideration of $44,900.
f) As part of the acquisition of the Rim Nickel property, Norman Farrell (director) and Jens E. Hansen received $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.

Subsequent events

In October 2009, the Company granted 225,000 options exercisable at $0,30 until November 1, 2011 were granted to an investor relation company. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. The fair value of these options amount to $33,750 accounted for in stock-based compensation. The hypotheses used include an interest rate without risk of 1.51%, an expected life of the options of 2 years, an expected dividend yield of nil, an estimated volatility of 109% and a fair value per option of $0.15.

Outstanding share data

	As of November 24, 2009
	Number
Common shares	90,124,531
Options	6,645,000
Warrants	16,641,100
	113,410,631

Stock option plan

The purpose of the Plan is to serve as an incentive for the directors, officers and service providers who will be motivated by the Company's success as well as to promote ownership of common shares of the Company by these people. There is no objective attached to the plan and no relationship to manage the Company's risks.

Off-balance sheet arrangements

During Fiscal 2009, the Company did not set up any off-balance sheet arrangements.

Critical accounting estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with generally accepted accounting principles. A description of the Company's significant accounting policies can be found in Note 3 of the Company's financial statements. Key accounting estimates made by management relates to mining assets and stock-based compensation.

Accounting changes

Ac*counting changes adopted recently*

Taking effect September 1, 2008, according to the transition dispositions, the Company adopted the following new accounting policies published by the Canadian Institute of Chartered Accountants ("CICA"):

a) 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. Disclosure and presentation requirements pertaining to this section are contained in Note 8e) and have no impact on the Company's financial results.

b) 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 have no impact on the Company's financial results.

c) 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. Disclosure and presentation requirements pertaining to this section are contained in Note 14 and have no impact on the Company's financial results.

d) The Emerging issues committee published the EIC 174: "Mining exploration costs" on March 27, 2009. The EIC 174 provides additional guidance for mining exploration enterprises on the exploration expenses that can be capitalized as asset and on when an impairment test is required. This abstract was applied during the current year. The adoption of this standard did not have an impact on the Company's method of accounting of mining exploration costs.

e) Other new standards were issued, but are not expected to have a material impact on the Company's financial requirements.

Accounting changes (Cont'd)

Future accounting changes
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.

IFRS Convergence

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRS"). The changeover date for Melkior will be September 1, 2011, to be in line with its August year end.

Team:
Due to the size of the Company, the CFO, who is a Chartered Accountant, will be performing the IFRS convergence and will report to the president and to the Audit Committee on the progress accomplished.

Training:
In the fall 2008, the CFO participated in a 3 days training session given by the IFRS Task Force of RCGT, the auditor of Melkior. The objective of that training was to compare Canadian GAAP to IFRS. In the spring 2009, the CFO participated in 3 other days of training given by the order of chartered accountant on specific subjects: fixed assets, grouping of companies, financial instruments and provisions and contingent liabilities. In the fall 2009, another day training session was attended on the IFRS specific to the mining industry given by the RCGT Task Force. As IFRS is expected to change prior to 2011, any changes impacting the Company will have to be monitored.

Accounting Policies impacted:
The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed throughout 2009 and 2010. Overall, a lot of effort will be put in the financial statements presentation as IFRS requires more disclosure. Based on the analysis of expected accounting differences conducted so far, following is a non-exhaustive list of the IFRS accounting policies that could have a potential impact on the financial statements of the Company:

First Time adoption (IFRS 1)
IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, to ensure financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

Impairment (IAS 36, IAS36)
IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss).
IFRS requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under Canadian GAAP.

IFRS Convergence (Cont'd)

Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU").

Share-based payments (IFRS 2)
Per IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Company at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur.
For graded-vesting features, IFRS requires each instalment to be treated as a separate share option grant, because each instalment has a different vesting period and hence the fair value of each instalment will differ.

Mineral property interests, exploration and evaluation costs (IFRS 6)
Under IFRS, the Company would be required to develop an accounting policy to specifically and consistently identify which expenditures on exploration and evaluation activities will be recorded as assets. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment.

Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

Information systems:
The accounting processes of the Company are simple since it is still at the exploration stage and no major challenges are expect at this point to operate the accounting system under the IFRS. Nevertheless, some excel spreadsheets will probably have to be adapted to support the change made in accounting policies.

The Company has yet to establish if historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1.

As the Company will perform its accounting under Canadian GAAP from September 2010 to August 2011, it has yet to determine how it will generate in parallel the accounting under IFRS so that in 2011-12 it has the comparative available. Once the extent of the adjustments needed to convert to IFRS will be established, processes will be put in place effective September 2010 to generate the dual accounting.

Internal Controls:
Since Melkior is a TSX Venture issuer, management does not make representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National 52-109.

Management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support their certification of the financial statements and MD&A, more specifically assessing that the SEDAR filings are presenting fairly the results of the Company. Management will make sure that once the convergence process is completed, it can still certify its fillings.

Impact on the business:
The business processes of the Company are simple and no major challenges are expected at this point to operate under IFRS. The Company has no foreign currency transactions, no hedging activities, no debt and no capital obligations. The Company doesn't expect that IFRS will have an impact on the requirements or business processes when it enters in flow-through financing. The Company has no compensation arrangements that will be affected by the IFRS implementation. The Company's Stock Option Plan is not affected by ratios or financial targets.

Business process will be monitored through 2009 and 2010 to detect unsuspected impact.

Financial instruments

Description
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 exclude interest income and are presented under 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. Du from partners is 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.

Impact on the statement of earnings
Melkior recorded a fair value variation for financial instruments held for trading as follows:

Fair Value variation on:	**2009**	**2008**
	$	$
Listed shares	(533,000)	(697,000)
Treasury bills	269	(269)
Guaranteed investment certificates	(9,760)	14 020
	(542,491)	(683,249)

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, exploration funds and 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. Interest rates 1% higher would have decreased the fair value of these by $12,690 as of August 31, 2009. Since the interest rates are lower that 1%, a decrease of interest down to 0% would increase de fair value of these by $4,986 as of August 31, 2009. 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. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from partners.

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 tough the Company was successful in the past, there is no guarantee that it will succeed in the future.

Market risk
Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its listed shares and unfavourable market conditions could result in the disposal of its listed shares at less than favourable prices.

The listed shares held by the Company are exclusively shares from a Venture issuer who's activities are in the mineral exploration field. Those shares were obtained following the sale of mining assets in the Otish Basin in December 2007 and the original value based on the closing price on the stock market was $1,312,000. As of August 31, 2009, the value of these listed shares is $82,000.

As of August 31, 2009, a 10% decrease (increase) in the closing price on the stock market would result in an estimated increase (decrease) in net after-tax loss of approximately $8,200.

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

The fair value of financial instruments is summarized as follows:

	2009		2008	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial assets				
Held for trading				
Cash and cash equivalents	585,654	585,654	1,110,658	1,110,658
Short-term investments	2,781,533	2,781,533	3,018,060	3,018,060
Listed share	82,000	82,000	615,000	615,000
Exploration funds	-	-	373,930	373,930
Loans and receivables				
Due from partners	60,000	60,000	90,568	90,568
Financial liabilities				
Other liabilities				
Accounts payable and accrued liabilities	159,705	159,705	524,487	524,487
Due to a partner	2,596	2,596	-	-

Risk factors

The following discussion reviews a number of important risks which management believes could impact the Company's business. There are other risks, not identified below, which currently, or may in the future exist in the Company's operating environment.

Exploration and Mining Risks
The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, there are no known bodies of commercial ore on the mineral properties of which the Company intends to acquire an interest and the proposed exploration program is an exploratory search for ore. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration programs. The Company from time to time augments its internal exploration and operating expertise with due advice from consultants and others as required. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variation of the grade of ore mined and fluctuations in the price of any minerals produced. There are no underground or surface plants or equipment on the Company's mineral properties, or any known body of commercial ore.

Titles to Property
While the Company has diligently investigated title to the various properties in which it has interest, and to the best of its knowledge, title to those properties are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfer, or native or government land claims, and title may be affected by undetected defects.

Permits and Licenses
The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Metal Prices
Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect marketability of any minerals discovered. Metals prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Competition
The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employee. The current markets put additional pressure on the availability of contract suppliers, equipment and personnel.

Environmental Regulations
The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner, which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

Risk factors (Cont'd)

Conflicts of Interest
Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Stage of Development
The Company's properties are in the exploration stage and to date none of them have a proven ore body. The Company does not have a history of earnings or the provision of return on investment, and in future there is no assurance that it will produce revenue, operate profitably or provide a return on investment.

Industry Conditions
Mining and milling operations are subject to government regulations. Operations may be affected in varying degrees by government regulations such as restrictions on production, price controls, tax increase, expropriation of property, pollution controls or changes in conditions under which minerals may be mined. Milled or marketed. The marketability of minerals may be affected by numerous factors beyond the control of the Company, such as government regulations. The Company undertakes exploration in areas that are or could be the subject of native land claims. Such claims could delay work or increase exploration costs. The effect of these factors cannot be accurately determined.

Uninsured Hazards
Hazards such as unusual geological conditions are involved in exploring for and developing mineral deposits, The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

Future Financing
Completion of future programs may require additional financing, which may dilute the interests of existing shareholders. In 2008, an unforeseen financial disruption has occurred. While Management does not foresee an immediate problem, this could have a longer term negative effect.

Key Employees
Management of the Company rests on a few key officers, the loss of any of whom could have a detrimental effect on its operations.

Canada Revenue Agency and provincial agencies
No assurance can be made that Canada Revenue Agency or provincial agencies will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expense or the eligibility of such expenses as Canadian exploration expense under the Income Tax Act (Canada) or any provincial equivalent.

Forward looking information

This management's discussion and analysis contains forward looking statements reflecting Melkior's objectives, estimates and expectations. These statements are identified by the use of verbs such as ''believe'', ''anticipate'', ''estimate'', and ''expect''. As well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

November 24, 2009

(s) Jens E. Hansen
Jens E. Hansen
President

(s) Ingrid Martin
Ingrid Martin
CFO

Raymond Chabot Grant Thornton LLP
Place du Québec
888 3rd Avenue
Val-d'Or, Québec J9P 5E6

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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, 2009 and 2008 and the statements of earnings and 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, 2009 and 2008 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 [1]

Val-d'Or, October 23, 2009

1 Chartered accountant auditor permit no. 13953

Melkior Resources Inc.
(an exploration company)
Balance Sheets

	August 31	
	2009	2008
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	585,654	1,110,658
Short-term investments (Note 5)	2,781,533	3,018,060
Sales tax receivable	31,122	47,126
Due from partners, without interest, on demand	60,000	90,568
Taxes credits receivable	94,229	71,995
Prepaid expenses	24,973	19,978
Listed shares held for trading	82,000	615,000
	3,659,511	4,973,385
Prepaid exploration expenses	-	62,690
Exploration funds (Note 4)	-	373,930
Equipment (Note 6)	4,134	9,630
Mining assets (Note 7)		
Mining properties	1,640,472	1,755,750
Deferred exploration expenses	3,803,409	7,496,106
	9,107,526	14,671,491
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	159,705	524,487
Due to a partner, without interest, on demand	2,596	-
	162,301	524,487
Shareholders' Equity		
Share capital (Note 8)	35,684,352	34,684,977
Contributes surplus (Note 8d)	1,435,096	1,249,429
Deficit	(28,174,223)	(21,787,402)
	8,945,225	14,147,004
	9,107,526	14,671,491

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 and Comprehensive Loss and Deficit

	Year ended August 31	
	2009	2008
	$	$
Expenses		
General and administrative	154,316	123,700
Travelling and promotion	6,788	20,771
Investors and shareholders relations	71,940	126,610
Professional and consulting fees	193,770	227,639
General exploration	5,406	1,225
Stock-based compensation	129,000	672,000
Amortization	5,496	2,748
Fair value variation on financial instruments held for trading	542,491	683,249
Write-off of mining assets	5,346,461	-
Taxes credits related to a mining asset disposed previously	(31,852)	-
	6,423,816	1,857,942
Income		
Interest income	61,685	181,471
Management fees	2,710	24,231
Gain on disposal of mining assets	49,571	1,062,206
	113,966	1,267,908
Loss before income taxes	(6,309,850)	(590,034)
Future income taxes (Note 9)	-	323,000
Net loss and comprehensive loss	(6,309,850)	(267,034)
Basic and diluted net loss per share	(0.07)	-
Weighted average number of outstanding common shares	85,973,284	77,420,830
Deficit, beginning of year	(21,787,402)	(20,989,814)
Net loss	(6,309,850)	(267,034)
Future income taxes related to flow-through shares	-	(323,000)
Share issue expenses	(76,971)	(207,554)
Deficit, end of year	(28,174,223)	(21,787,402)

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	
	2009	2008
	$	$
Operating activities		
Net loss	(6,309,850)	(267,034)
Non-cash items:		
Stock-based compensation	129,000	672,000
Amortization	5,496	2,748
Fair value variation on financial instruments held for trading	542,760	682,980
Interest accrued on interest income	89,767	(114,040)
Gain on disposal of mining assets	(49,571)	(1,062,206)
Write-off off mining assets	5,346,461	-
Future income taxes	-	(323,000)
	(245,937)	(408,552)
Changes in non-cash working capital items		
Sales tax receivable	16,004	150,303
Due from partners	14,842	(14,842)
Prepaid expenses	57,695	(192)
Accounts payable and accrued liabilities	(12,575)	45,732
Due to a partner	296	-
	76,262	181,001
Cash flows from operating activities	(169,675)	(227,551)
Investing activities		
Purchase of short-term investments	(3,488,000)	(3,340,000)
Disposal of short-term investments	3,625,000	450,000
Exploration funds	373,930	(373,930)
Prepaid exploration expenses	-	(62,690)
Additions to mining properties	(410,946)	(50,368)
Disposal of mining properties	-	500,000
Deferred exploration expenses	(1,500,641)	(2,335,985)
Payments received from partners for exploration costs	26,904	298,495
Taxes credits cashed	67,520	241,308
Cash flows from investing activities	(1,306,233)	(4,673,170)
Financing activities		
Issuance of shares	999,375	2,352,525
Share issue expenses	(48,471)	(131,796)
Cash flows from financing activities	950,904	2,220,729
Net changes in cash and cash equivalents	(525,004)	(2,679,992)
Cash and cash equivalents, beginning of year	1,110,658	3,790,650
Cash and cash equivalents, end of year (Note 4)	585,654	1,110,658

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

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

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

Accounting changes adopted recently

Taking effect September 1, 2008, according to the transition dispositions, the Company adopted the following new accounting policies published by the Canadian Institute of Chartered Accountants ("CICA")*:*

a) 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. Disclosure and presentation requirements pertaining to this section are contained in Note 8e) and have no impact on the Company's financial results.

b) 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 have no impact on the Company's financial results.

c) 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. Disclosure and presentation requirements pertaining to this section are contained in Note 14 and have no impact on the Company's financial results.

d) The Emerging issues committee published the EIC 174: "Mining exploration costs" on March 27, 2009. The EIC 174 provides additional guidance for mining exploration enterprises on the exploration expenses that can be capitalized as asset and on when an impairment test is required. This abstract was applied during the current year. The adoption of this standard did not have an impact on the Company's method of accounting of mining exploration costs.

e) Other new standards were issued, but are not expected to have a material impact on the Company's financial requirements.

2. Accounting changes (Cont'd)

Future accounting changes
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 in cash and cash equivalents.

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

Equipment
Equipment is amortized over its estimated useful life 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.

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.

3. Accounting policies (Cont'd)

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.

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

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.

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. The expense is recorded over the vesting period for employees and over the performance period for consultants. 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 be 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 exclude interest income and are presented under 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. Due from partners is classified as loans and receivable;

3. Accounting policies (Cont'd)

- 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 and due to a partner are classified as other financial liabilities.

4. Cash and cash equivalents and exploration funds

	2009	2008
	$	$
Cash	585,654	108,943
Treasury bills	-	1,375,645
Less: Exploration funds	-	(373,930)
Cash and cash equivalents	585,654	1,110,658

As of August 31, 2008, cash and cash equivalents and exploration funds included treasury bills of $1,375,645 for which the nominal value was $1,378,000 with effective interest rates between 2.11% and 2.23%, maturing between September 18 and October 16, 2008. The exploration funds were spent before December 31, 2008.

5. Short term investments

As of August 31, 2009, short term investments include guaranteed investments from a Canadian financial institution totalling $2,781,533 cashable at any time without penalties, maturing between November 4, 2009 and May 31, 2010 and bearing interest rates between 0.40% and 2.05%.

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

6. Equipment

As of August 31, 2009	**Cost**	**Accumulated depreciation**	**Net book value**
	$	$	$
Equipment	16,500	12,366	4,134

As of August 31, 2008	**Cost**	**Accumulated depreciation**	**Net book value**
	$	$	$
Equipment	16,500	6,870	9,630

7. Mining assets

Mining properties	August 31 2008	Acquisitions	Disposals	Write-offs	August 31 2009
	$	$	$		$
Quebec					
Launay	374,981	14,150	-	-	389,131
Ungava	201,800	-	-	(201,800)	-
Mont Otish	39,155	12,758	-	(19,578)	32,335
Ontario					
Timmins	251,090	22,119	(380)	-	272,829
Henderson	3,118	2,257	-	-	5,375
Long Lac	19,824	-	-	-	19,824
Rim Nickel – McFaulds	865,782	55,196	-	-	920,978
	1,755,750	106,480	(380)	(221,378)	1,640,472

Mining properties	August 31 2007	Acquisitions	Disposals	August 31 2008
	$	$	$	$
Quebec				
Launay	374,531	450	-	374,981
Ungava	201,800	-	-	201,800
Mont Otish	201,176	17,153	(179,174)	39,155
Ontario				
Timmins	155,467	95,623	-	251,090
Henderson	3,118	-	-	3,118
Long Lac	-	19,824	-	19,824
Rim Nickel – McFaulds	-	865,782	-	865,782
	936,092	998,832	(179,174)	1,755,750

Deferred exploration expenses	August 31 2008	Expendi-tures	Tax credits	Dispo-sals	Write-offs	August 31 2009
	$	$	$	$		$
Quebec						
Launay	4,235,839	58,913	(17,132)	-	(3,872,631)	404,989
Ungava	1,134,915	18,210	(7,092)	-	(1,146,033)	-
Mont Otish	147,618	36,869	-	-	(106,419)	78,068
Troilus		461,547	(67,206)	-	-	394,341
Ontario						
Timmins	1,499,088	696,665	-	(10,049)	-	2,185,704
Henderson	11,254	3,677	-	-	-	14,931
Long Lac	73,281	29,180	-	-	-	102,461
Rim Nickel - McFaulds	394,111	228,804	-	-	-	622,915
	7,496,106	1,533,865	(91,430)	(10,049)	(5 125 083)	3,803,409

7. Mining assets (Cont'd)

Deferred exploration expenses	**August 31 2007**	**Expenditures**	**Tax credits**	**Disposals**	**August 31 2008**
	$	**$**	**$**	**$**	**$**
Quebec					
Launay	3,933,257	304,094	(1,512)	-	4,235,839
Ungava	1,134,915	-	-	-	1,134,915
Mont Otish	522,268	218,688	(21,953)	(571,385)	147,618
Ontario					
Timmins	361,272	1,137,816	-	-	1,499,088
Henderson	10,554	700	-	-	11,254
Long Lac	-	73,281	-	-	73,281
Rim Nickel - McFaulds	-	394,111	-	-	394,111
	5,962,266	2,128,690	(23,465)	(571,385)	7,496,106

Quebec

a) *Launay and Launay-Trojan*
The Company holds claims located in the Launay township of Quebec. Certain claims are subject to a 1% Net Smelter Return royalty ("NSR") royalty that can be repurchased for a $1,000,000 cash payment while other claims are subject to a 2% NSR royalty of which half (1%) may be repurchased for $1,000,000. During the year, the Company reviewed the exploration expenses and wrote-off the exploration expenses incurred more than three years ago.

b) *Ungava*
The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec.
Considering the market conditions that prevailed in fiscal 2009 where it was difficult to finance an exploration program for the Ungava project located in the far north, the Company doesn't expect to do extensive work on the property in the near future and consequently wrote-off the mining property costs and deferred exploration expenses for $1,347,833.

c) *Mont Otish*
i) Mont Otish
On January 9, 2007, the Company and Santoy Resources Ltd ("Santoy") had 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 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. 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.

iii) 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:

7. Mining assets (Cont'd)

- 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.

iv) Otish MacCleod
In April 2007, the Company acquired claims located 30 kilometres northwest from the Otish basin. This copper and molybdenum property was not sold to Otish Energy.

Following the airborne survey completed in the fall 2008 on the McLeod molybdenum property in the Otish Mountains, the Company decided to drop half of the claims and consequently wrote off half of the mining property costs and deferred exploration expenses for $97,645. In addition, the Company wrote-off the deferred exploration expenses relating to the exploration rights on diamonds in the Otish Mountains for $28,352.

d) Troilus
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 had to be spent before June 30, 2009. The President of the Company is also the President of Beaufield. The Boards of Directors of both companies have approved this transaction.

Beaufield is the operator and the Company spent an amount of $461,547 for exploration cost as at August 31, 2009. An amount of $2,596 due to the partner as at August 31, 2009 was paid to Beaufield in October 2009.

e) Other properties in Québec
The Company holds claims for the Vauquelin and Tiblemont properties. The Vauquelin and Tiblemont properties and their deferred exploration expenses were written off as of August 31, 2005.

Ontario

f) Timmins
i) Carscallen
The Company holds a 100% interest in the Timmins West property. Some of the claims are subject to a 1.5% NSR royalty while 2 other groups of claims are subject to a 2% NSR of which the Company has the right to buy out half (1%) of the NSR for $1,000,000 for each group.
ii)Eldorado
The Eldorado property was staked by the Company in 2006.
iii) 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.

7. Mining assets (Cont'd)

iv) Bristol

In 2009, the Company staked the claims in the Bristol Township, West Timmins. On August 19, 2009, the Company signed a letter of intent with Big Red Diamond Corporation ("Big Red") whereby Bid Red can acquire a 50% interest in the Bristol property. Big Red will issue 1,000,000 of its common share to the Company (valued at $60,000 as per the value on the stock exchange of Big Red on August 19, 2009) on regulatory approval and undertake $400,000 of exploration work over a period of 48 months on the claims to earn the 50% interest. Melkior will be the operator.

v) Big Marsh

On December 15, 2008, the Company acquired claims in the Carscallen Township near Timmins, Ontario for $5,000. The vendors retain a 2% Net Smelter Return royalty of which 1% can be repurchased for $1,000,000.

vi) Shaw

The property is located approximately 13 kilometres south-east of the City of Timmins and was staked in 2009.

vii) Fripp

The property is located 25 kilometres south-west of the City of Timmins and was staked in 2009.

g) Henderson

On February 5, 2007, the Company acquired the Henderson property by staking claims in the Raglan Township in south-eastern Ontario. The claims are part of the agreement with Santoy but Santoy opted out of the agreement in 2009.

On August 4, 2009, the Company signed an agreement with First Nickel Inc., ("FNI") whereby FNI has the right to earn up to 80% on the Henderson property. FNI can earn 50% by spending $60,000 on exploration in the first year. At the 50-50 point the Company will decide whether or not to participate. If the Company doesn't participate FNI can earn up to 80% by spending an additional $100,000 in the second year. At the 80% point the Company will participate or dilute to a 1.5% NSR Royalty.

The Company can continue to explore for uranium independently from the FNI agreement.

h) Long Lac

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

7. Mining assets (Cont'd)

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 shares, 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. 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 is 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.

Issued:

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

	2009		2008	
	Number	Amount	Number	Amount
		$		$
Balance at beginning of year	82,815,603	34,134,977	72,693,598	31,623,313
Private placements	4,758,928	999,375	5,000,000	1,000,000
Flow-through private placements	-	-	3,636,360	1,200,000
Exercise of warrants	-	-	435,645	67,525
Value of warrants exercised	-	-	-	26,139
Exercise of options	-	-	750,000	85,000
Value of option exercised	-	-	-	23,000
Acquisition of mining properties (Note 7)	2,500,000	550,000	300,000	110,000
	90,074,531	35,684,352	82,815,603	34,134,977
To be issued:				
Acquisition of mining properties	-	-	2,500,000	550,000
Balance at end of year	90,074,531	35,684,352	85,315,603	34,684,977

8. Share capital (Cont'd)

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.

On June 30, 2009, the Company closed a private placement of 4,758,928 units at a price of $0.21 per unit for gross proceeds of $999,375. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant will entitle its holder 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. The Company paid a cash finder's fee to PI Financial Corp. ("PI") equivalent to 7 % of the gross proceeds raised by the finder, in the amount of $22,050 plus 10% in finder's warrants, in the amount of 150,000 warrants. Each finder's warrant entitles PI to purchase one additional common share of the Company at a price of $0.25 per common share for a period of 24 months following the closing date. The total finder's warrant cost amount to $28,500 and this fair value was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 112%, a risk-free interest rate of 1.76% and an expected life of options of 2 years.

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 Stock Option Plan was renewed by the shareholders on February 11, 2009. 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.

8. Share capital (Cont'd)

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.

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:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of year	5,870,000	0.31	3,820,000	0.18
Granted	700,000	0.27	2,800,000	0.44
Exercised	-	-	(750,000)	0.11
Expired	(100,000)	0.35	-	-
Balance at end	6,470,000	0.31	5,870,000	0.31
Exercisable at the end of year	6,470,000	0.31	5,745,000	0.31

8. Share capital (Cont'd)

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

Fiscal 2009 **Grant date**	**November 7** **2008**	**August 7** **2009**
Optionee	Director	Director
Number of options	300,000	400,000
Exercise price	$0.10	$0.40
Risk free interest	3.82%	2.62%
Average expected volatility	98%	107%
Expected dividend	-	-
Expected life (years)	5	5
Vesting	Immediate	Immediate
Estimated fair value per option	$0.06	$0.30 $
Estimated fair value	$18,000	$120,000

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

For fiscal year 2009, a total of 700,000 options were granted. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. The total fair value of these options amount to $138,000 of which $129,000 is accounted for in stock-based compensation and the remaining $9,000 was capitalized in the deferred exploration expenses. The hypotheses used include an average interest rate without risk of 3.13%, an average expected life of the options of 5 years, an expected dividend yield of nil, an estimated average volatility of 103% and a weighted average fair value per option of $0.20.

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 in 2008 and $19,167 ($95,833 in 2008) were capitalized in the deferred exploration expenses in 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.

8. Share capital (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.

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2009:

Number of options outstanding	Exercise price	Expiry date
	$	
1,200,000	0.10	November 11, 2010
270,000	0.125	February 9, 2011
200,000	0.20	May 8, 2011
1,400,000	0.30	January 15, 2012
400,000	0.35	October 26, 2012
1,900,000	0.50	December 17, 2012
400,000	0.25	February 25, 2013
300,000	0.10	November 7, 2013
400,000	0.40	August 7, 2014
6,470,000		

c) *Warrants*

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

	2009		2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance at beginning	12,508,885	0.41	7,641,500	0.44
Issued	4,908,928	0.35	5,303,030	0.35
Exercised	-	-	(435,645)	0.155
Expired	(473,683)	0.52	-	-
Balance at end	16,944,130	0.39	12,508,885	0.41

Warrants outstanding as at August 31, 2009 are as follows:

Number of warrants	Exercise price	Expiry date
	$	
303,030	0.33	November 1, 2009
4,758,928	0.35	June 30, 2011
150,000	0.25	June 30, 2011
2,903,226	0.25	December 18, 2011 1)
1,659,999	0.60	March 13, 2012 2)
590,000	0.60	March 27, 2012 3)
1,578,947	0.60	May 8, 2012 4)
5,000,000	0.35	June 9, 2013 5)
16,944,130		

8. Share capital (Cont'd)

Note:
1) The expiry date was extended from December 18, 2008 to December 18, 2011.
2) The expiry date was extended from March 13, 2008 to March 13, 2012.
3) The expiry date was extended from March 27, 2008 to March 27, 2012.
4) The expiry date was extended from May 8, 2008 to May 8, 2012.
5) The expiry date was extended from June 9, 2009 to June 9, 2013

d) Contributed surplus

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

	2009	2008
	$	$
Balance at beginning	1,249,429	454,977
Agent warrants (Note 8a)	28,500	75,758
Exercise of agent warrants cost credited to share capital	-	(26,139)
Stock-based compensation in favour of directors and officers (Note 8b)	138,000	640,000
Stock-based compensation in favour of consultants (Note 8b)	19,167	127,833
Exercise of stock options credited to share capital	-	(23,000)
Balance at end	1,435,096	1,249,429

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of $8,945,225 as of August 31, 2009 ($14,147,004 as of August 31, 2008). The Company's objectives when managing capital are to safeguard its ability to continue its operations as well as its acquisition and exploration programs. As needed, the Company raises funds through private placements. The Company doesn't use long term debts since it doesn't generate operating revenues. There is no dividend policy. The Company doesn't have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, unless the Company closes a flow-through private placement where the funds are restricted in use for exploration expenses.

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 form the following:

	2009	2008
	$	$
Loss before income taxes	(6,309,850)	(590,034)
Income taxes at the combined federal and provincial tax rate of 31% (31% in 2008)	(1,949,700)	(184,500)
Share issue expenses deductible	(43,400)	(41,500)
Stock-based compensation	39,900	210,100
Fair value variation on financial instruments held for trading	167,600	213,700
Non taxable gain on disposal of mining assets	(15,300)	(291,400)
Change in enacted rates	-	137,400
Other items non deductible	1,900	1,900
Unrecognized tax benefit	1,799,000	(368,700)
Income taxes	-	(323,000)

9. Income taxes (Cont'd)

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

	2009	2008
	$	$
Future income tax assets		
Share issue expenses deductible	81,000	106,000
Operating losses carried forward	528,000	433,000
Listed shares held for trading	331,000	126,000
Equipment	3,000	6,000
Mining assets	1,332,000	9,000
	2,275,000	680,000
Less valuation allowance	(2,275,000)	(680,000)
Future income tax liabilities	-	-

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:

2010	$ 135,000
2014	387,000
2015	226,000
2026	222,000
2027	230,000
2028	292,000
2029	470,000
	$ 1,962,000

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 $300,334.

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 for fiscal 2009:

a) Companies controlled by an officer charged:
   i) Professional fees relating to geology amounting to $49,950 ($69,239 for fiscal year 2008) capitalised in deferred exploration expenses;
   ii) Management fees amounting to $45,160 ($37,350 for fiscal year 2008) expensed in professional and consulting fees;
   iii) Rent totalling $36,000 ($36,360 for fiscal year 2008) expensed in general and administrative;

b) A company controlled by an officer charged professional fees of $75,469 ($66,938 for fiscal year 2008) of which $75,469 ($63,313 in fiscal year 2008) was expenses and $3,625 in Fiscal year 2008 was recorded as share issue expenses;

11. Related party transactions (Cont'd)

c) A director (nominated November 7, 2008) charged:
   i) Professional fees relating to geophysics or geology of $33,975 capitalised in deferred exploration expenses or mining properties;
   ii) Consulting fees of $11,500 expensed in investors and shareholders relations or professional and consulting fees.

d) From February 14, 2008 (date of his 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.

e) As at August 31, 2009, the balance due to the related parties amounted to $33,358 (August 31, 2008 – $16,592) 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:

f) In November 2007, officers of the Company participated in private placements of flow-through shares (Note 8a) for a total consideration of $44,900.

g) As part of the acquisition of the Rim Nickel property, a director and the president of the Company received $110,000 cash on September 22, 2008 which represent the reimbursement of their costs incurred in this transaction for the staking (Note 7i). 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.

13. Additional information to the statement of cash flows

	2009	2008
	$	$
Interest cashed	153,788	80,656
Issuance of shares for acquisition of mining properties	-	660,000
Agent warrants granted for raising capital	28,500	75,758
Future income taxes accounted for in share issue expenses	-	323,000
Tax credits receivable applied against deferred exploration expenses	89,754	27,848
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	1,534	306,000
Additions of deferred exploration expenses included in accounts payable and accrued liabilities	98,129	145,870
Due from partners included in deferred exploration expenses	10,429	75,726
Proceed of disposal of a mining asset included in due from partners	49,571	-
Amortization included in deferred exploration expenses	-	2,748
Listed shares received on disposal of mining assets	-	1,312,000
Stock-based compensation included in deferred exploration expenses	28,167	95,833

14. Financial instruments

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, exploration funds and 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. Interest rates 1% higher would have decreased the fair value of these by $12,690 as of August 31, 2009. Since the interest rates are lower that 1%, a decrease of interest down to 0% would increase de fair value of these by $4,986 as of August 31, 2009. 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. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from partners.

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 tough the Company was successful in the past, there is no guarantee that it will succeed in the future.

Market risk
Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its listed shares and unfavourable market conditions could result in the disposal of its listed shares at less than favourable prices.

The listed shares held by the Company are exclusively shares from a Venture issuer who's activities are in the mineral exploration field. Those shares were obtained following the sale of mining assets in the Otish Basin in December 2007 and the original value based on the closing price on the stock market was $1,312,000. As of August 31, 2009, the value of these listed shares is $82,000.

As of August 31, 2009, a 10% decrease (increase) in the closing price on the stock market would result in an estimated increase (decrease) in net after-tax loss of approximately $8,200.

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

The faire value of financial instruments is summarized as follows:

	2009		2008	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial assets				
Held for trading				
Cash and cash equivalents	585,654	585,654	1,110,658	1,110,658
Short-term investments	2,781,533	2,781,533	3,018,060	3,018,060
Listed share	82,000	82,000	615,000	615,000
Exploration funds	-	-	373,930	373,930
Loans and receivables				
Due from partners	60,000	60,000	90,568	90,568
Financial liabilities				
Other liabilities				
Accounts payable and accrued liabilities	159,705	159,705	524,487	524,487
Due to a partner	2,596	2,596	-	-

15. Subsequent events

In October 2009, the Company granted 225,000 options exercisable at $0,30 until November 1, 2011 were granted to an investor relation company. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. The fair value of these options amount to $33,750 accounted for in stock-based compensation. The hypotheses used include an interest rate without risk of 1.51%, an expected life of the options of 2 years, an expected dividend yield of nil, an estimated volatility of 109% and a fair value per option of $0.15.

Melkior Resources Inc.
(an exploration company)
General Information
For the year ended August 31, 2009

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Ottawa, Ontario

Alan Lee Barker*
Whitby, Ontario)

Nathalie Hansen
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