

Melkior Resources Inc.

(an exploration company)

Annual Report

2010

Melkior Resources Inc.

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Melkior Resources Inc.

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Melkior Resources Inc.

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President's Message

For the year ended August 31, 2010

Dear Shareholder:

It gives me a great pleasure to update you on the very active exploration year at Melkior Resources.

The Carscallen gold exploration project is our team's primary focus. Encouraged by the continuous gold intercepts, through our drilling program, we continue to advance a steady and thorough exploration campaign. Following the interpretation of a down-hole induced polarization survey, and a geological interpretation of all drilling results to date, we have started to explore deeper targets, as well as the newly inferred contact zone of the Zam Zam and Shenkman mineralization trends.

In 2011, we plan to continue drilling based on updated modelling of drill results and of geophysics. The West Timmins location and access are exceptional.

Big Marsh, located immediately north of Carscallen is slated for future attention. Several neighbouring properties are being explored by other exploration companies. Melkior has completed a detailed airborne VTEM, magnetometer survey of most of Carscallen Township. This enables us to situate the Melkior's Carscallen, Big Marsh and Bristol properties in a regional context.

Ring of Fire East Rim promises to be an active exploration and drill project for 2011. Interpretation of MEGATEM and VTEM surveys have identified a series of high-priority massive sulphide, poly-metallic type targets situated in a prominent regional gravity anomaly. The gravity anomaly resembles that of other important Nickel-Copper camps. Several high priority airborne targets have been followed up by ground geophysics in preparation for drilling in 2011.

Shaw and Eldorado in the Timmins area have been surveyed by VTEM. Targets for drilling have been selected for drill testing in early 2011.

In the Long Lac area geological sampling and Induced Polarization (IP) surveys have been completed with targets selected. The properties adjoin the Milestone project of Kodiak Exploration Limited. 2011 work will consist of following up on the IP targets and monitoring work by others.

The Launay, Quebec gold property has been essentially inactive since the 1980's when wide intersections of low grade gold were intersected on the Melkior property. Summer prospecting and a new Induced Polarization survey have been completed. It is anticipated drilling will be undertaken in 2011.

The McLeod property in the Otish region of Quebec is located adjacent to Western Troy's MacLeod Lake Copper-molybdenum property. The Melkior claims will be maintained in good standing.

The Delta-Kenty Nickel-Copper-PGE deposit in the Ungava region of northern Quebec is receiving renewed attention from new operators very active in the area. Melkior will consider the sale of its 49% interest.

Melkior is very well financed. We anticipate a very busy 2011 and very much appreciate the continued, excellent support from our shareholders.

(s) Jens E. Hansen
Jens E. Hansen, P.Eng.
President

Melkior Resources Inc.

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Management's Discussion and Analysis

For the year ended August 31, 2010

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, 2010.

This MD&A should be read in conjunction with the Company's financial statements and related notes as at August 31, 2010. 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 \$4,826,747 working capital as of August 31, 2010 (\$3,497,210 as of August 31, 2009) plus \$638,342 exploration funds which will allow the Company to undertake its exploration program for at least the next two years.

In Fiscal 2010, Melkior raised \$6,059,502 (\$999,375 in 2009) by private placements and \$50,860 via the exercise of warrants and options.

Exploration for Fiscal 2010 totalled \$3,092,121 versus \$1,532,602 in Fiscal 2009. The main exploration expenditures in Fiscal 2010 were on Carscallen (Timmins West) and Rim Nickel (McFaulds). Mining properties at a total cost of \$205,273 were acquired in Fiscal 2010 mainly in the McFaulds region (\$106,480 in Fiscal 2009).

Selected annual information

	Fiscal year ended August 31		
	2010	2009	2008
	\$	\$	\$
Income	68,927	113,966	1,267,908
Net loss	(130,034)	(6,309,850)	(267,034)
Net Loss per share, basic and diluted	-	(0.07)	-

	As at August 31		
	2010	2009	2008
	\$	\$	\$
Total assets	14,751,498	9,107,526	14,671,491

Results of operations

Total expenses are \$1,082,961 in Fiscal 2010 versus \$6,423,816 in Fiscal 2009, due to the following:

- Write-offs for \$119,352 in Fiscal 2010 (\$5,346,461 in Fiscal 2009) of mining assets relating to Monts Otish and Ungava (Ungava, Monts Otish and Launay in Fiscal 2009) (see investing activities).
- A \$398,404 stock-based compensation expense was recorded in Fiscal 2010 following the grant of 3,225,000 options while in Fiscal 2009 the stock-based compensation expenses was \$129,000 following the grant of 700,000 options.

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Management's Discussion and Analysis

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Results of operations (Cont'd)

- A \$76,625 fair value gain was recorded in Fiscal 2010 (\$533,000 loss in Fiscal 2009) 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 increased slightly in Fiscal 2010:

	<u>2010</u>	<u>2009</u>
	\$	\$
Legal	16,599	10,037
Accounting	89,020	90,438
Audit	33,300	32,000
Consulting	5,300	16,135
Management	57,450	45,160
Professional and consulting fees	<u>201,669</u>	<u>193,770</u>

- General and administrative increased to \$294,554 in Fiscal 2010 (\$154,316 in Fiscal 2009) due to:
 - A bonus of \$100,000 paid to the president of the Company, Jens E. Hansen.
 - Additional involvement of Nathalie Hansen, director, in the daily administration of the Company.
- During Fiscal 2010, Melkior increased investor relations activities and incurred a cost of \$107,029 in investors and shareholders relations compared to \$71,940 in Fiscal 2009. Melkior signed an agreement in October 2009 with an investor relations firm whereby Melkior disbursed a monthly fee of \$3,000 and has granted 225,000 stock options. Melkior terminated this contract in May 2010.

Interest income was \$30,667 in Fiscal 2010 versus \$61,685 in Fiscal 2009 due to lower interest rates available.

The management fees income decreased to \$28,260 in Fiscal 2010 (\$2,710 in Fiscal 2009) since these fees were mainly earned as the operator of Loveland property (Rim Nickel West property in Fiscal 2009).

Melkior recorded a \$884,000 recovery of future income taxes in Fiscal 2010 (nil in Fiscal 2009) to compensate the tax impact of the flow-through shares issued.

In Fiscal 2009, Melkior sold a 50% interest in the Bristol property to Big Red Diamond Corporation ("Big Red") and realized a gain of \$49,571.

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Investing activities

The main mining assets of the Company are Carscallen Timmins West, Rim Nickel – McFaulds and Ungava. The total exploration budget for Fiscal 2011 is \$3,045,000.

Deferred exploration expenses 2010	Ungava	Launay	Otish	Troilus	Timmins	Eldorado	Rim Nickel McFaulds	Others	Total
	\$	\$	\$		\$		\$	\$	\$
Balance beginning	-	404,989	78,068	394,341	1,966,511	177,889	622,915	158,696	3,803,409
Additions									
Drilling	-	1,150	-	-	1,555,163	37	960	60,942	1,618,252
Geology – prospecting	7,775	12,338	-	-	52,055	9,664	8,795	30,376	121,003
Geophysics geochemistry	7,040	-	-	-	218,586	13,526	794,891	48,205	1,082,248
Line cutting	-	-	-	-	39,892	6,075	182,116	42,535	270,618
Management fees	-	-	-	-	-	-	-	-	-
	14,815	13,488	-	-	1,865,696	29,302	986,762	182,058	3,092,121
Options	-	-	-	-	28,833	-	8,745	-	37,578
Recharge	-	-	-	-	(7,410)	-	(5,790)	(107,284)	(120,484)
	14,815	13,488	-	-	1,887,119	29,302	989,717	74,774	3,009,215
Deductions									
Tax credits	(6,346)	(4,905)	-	-	-	-	-	-	(11,251)
Disposal	-	-	-	-	-	-	-	-	-
Write-off	(8,469)	-	(78,068)	-	-	-	-	-	(86,537)
Balance, end	-	413,572	-	394,341	3,853,630	207,191	1,612,632	233,470	6,714,836

Deferred exploration expenses 2009	Ungava	Launay	Otish	Troilus	Timmins	Eldorado	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

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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.

McFaulds

(Nickel - East Rim 100% - West Rim 50% - Riverside 50%- Broke Back 100% - Riverbank 100%)

East Rim

Melkior owns 100% interest in 1,376 claim units or 22,016 hectares in the 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 the Riverside property 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 targets with massive sulphide geophysical signatures have been located. A number of these targets have been located and defined on the ground using Time Domain Electromagnetics. Drilling is anticipated for this winter.

West Rim

Melkior holds the West Rim property 50%-50% with Bold Venture Inc The property covers 941 claims or 15,056 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.

Broke Back and Riverbank

On January 18, 2010, the Company signed an agreement to acquire 100% interest in the Broke Back and Riverbank properties, located in McFaulds region in Ontario. The Company can acquire the 100% interest from two of the original vendors of East and West Rim Nickel by reimbursing out of pocket staking costs of \$167,400 and by undertaking approximately \$400,000 of assessment work. The vendors of the original East Rim property will retain a 2% NSR royalty. The stakers of Broke Back and Riverbank are North American Exploration Limited and Geotest Corporation. Jens Hansen, president of the Company, is a principal of Geotest Corporation.

The Broke Back property has 843 claim units over 134.9 sq kilometres. These claims adjoin the main Noront claim block, it is located 7 kilometres north of the Noront Eagle One nickel discovery and approximately 6 kilometres northeast of the chromite property of Cliffs Natural Resources Inc. The Riverbank property has 87 claim units over 13.9 sq kilometres. These claims located west of the Attawapiskat River and are within the regional gravity high and adjacent to the Probe Mines Ltd Tamarack project.

In June 2010, an airborne VTEM electromagnetic and magnetic survey of its 100% owned Broke Back and Riverbank claim groups was completed. A total of 1765 line kilometres were flown. Once Melkior has received airborne data it will be interpreted and used to direct the next stage of exploration.

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Investing activities (Cont'd)

Melkior is confident that owning a very large land position in Canada's newest emerging mining camp will be important in the future advancement of Melkior. The value is considerably enhanced by the world class chromite discoveries and potential mine developments anticipated in the area.

The exploration budget for Fiscal 2011 is \$1,000,000 and the majority will be allocated to East Rim and includes drilling.

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.

Melkior is continuing exploration of its Carscallen gold property. A drill program started in November 2009 completed 57 holes and 15,202 meters up to mid June 2010. The Zam-Zam and Shenkman zones have been drilled to a systematic depth of approximately 500 meters. Data from this program are being processed and inserted into a 3 D model which will be used to direct drilling below the 500 meter level. 83% of the holes drilled have encountered gold of greater than 1 g/t and up to 109 g/t. The Zam-Zam – Shenkman and the 1010 zones all remain open along strike and at depth.

Melkior has engaged consultants to complete a model of the mineralized zones in order to direct drilling below the 500 metre level. A down –hole induced polarisation survey has been completed on 26 holes. The objective of the survey was to detect mineralization below the 500 metre level and to direct drilling.

Drilling stopped in mid June to permit assaying, 3D modelling and down hole geophysics to get caught up. Drilling will continue in November 2010.

Melkior is placing a high priority on drilling its West Timmins Carscallen gold property located in the centre of what is becoming a new gold mining district in West Timmins where there is superb infrastructure and a 100 year history of gold production. Melkior is highly encouraged by the consistency of encountering gold as drilling proceeds deeper.

The exploration budget for Fiscal 2011 is \$1,300,000. This budget could be increased following the results of the drilling program underway.

Timmins Loveland

(100% owned - or copper nickel)

On November 27, 2009, the Company signed a letter of intent with Bold Venture Inc. ("Bold") whereby Bold can acquire a 10% interest in the Loveland property by undertaking \$125,000 of exploration work. The Company is the operator. Once the 10% interest is earned, Bold can decide not to pursue the exploration. Bold will therefore return its 10% interest to the Company and the Company will have to pay Bold \$40,000. At any time, the Company has the right to purchase Bold's 10% interest by paying twice what Bold has spent to that time in cash.

Geophysics was carried out and one hole drilled without positive results. Bold completed \$120,158 of exploration work under the agreement.

The Company has no exploration budget for Fiscal 2011.

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Investing activities (Cont'd)

Timmins Eldorado

(100% owned - nickel)

The Eldorado property was staked by the Company in 2006 and is composed of 328 claim units covering 5,248 hectares in Eldorado and Shaw Township located approximately 10 kilometres south of Timmins. The property adjoins Liberty Mines Inc (TSX: LBE) which, following a recent financing by Jilin Jien Nickel Industry Co., Ltd, has resumed nickel production at its Redstone and McWatters Mines. Redstone is approximately one kilometre south of Melkior's claims.

A detailed VTEM survey by Geotech was completed in 2009. This led to the discovery of a series of conductors with the potential for locating massive sulphide nickel bearing deposits. Melkior plans to drill those conductors which have massive sulphide characteristics. It is anticipated 3000 metres of drilling will be required. The ground is swampy and requires winter drilling.

The exploration budget for Fiscal 2011 is \$300,000.

Shaw Gold

(100% - gold)

The property is located approximately 13 kilometres south-east of the City of Timmins and was staked in 2009. On October 30, 2009, the Company signed an agreement to acquire 100% interest in mining claims in consideration of \$15,500 cash and a 1% Net Smelter Return ("NSR") royalty of which 0.5% can be repurchased for \$1,000,000. On February 23rd, 2010, the Company signed an agreement to acquire 100% interest in additional mining claims in consideration of \$9,500 cash and a 1% Net Smelter Return ("NSR") royalty of which 0.5% can be repurchased for \$1,000,000.

In 2009, a three day reconnaissance program was undertaken on the newly staked Shaw property. The property consists of 78 unpatented claims covering 12.5 km², 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 2011 is \$150,000. An airborne magnetometer and electromagnetic survey is planned for late 2010.

Big Marsh

(100% owned – base metals)

The Company holds claims in the Carscallen Township near Timmins, subject to a 2% NSR of which the Company has the right to buy out half (1%) of the NSR for \$1,000,000. The Big Marsh property is located in Carscallen Township two kilometres north of the Melkior Timmins gold property. These claims adjoin a property being actively explored for base metals by San Gold Corp.

On December 15, 2008, the Company acquired additional claims in the Carscallen township for \$5,000, subject to a 2% NSR royalty of which 1% can be repurchased for \$1,000,000.

The exploration budget for Fiscal 2011 is \$50,000. The Big Marsh property is an integral part of Melkior's West Timmins holdings. It is likely that the planned budget will be increased.

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Investing activities (Cont'd)

Fripp

(100% owned – gold)

The Fripp property is located 25 kilometres south southwest of the City of Timmins. The exploration budget for Fiscal 2011 is \$10,000. The work will consist of prospecting.

Bristol

(100% owned - gold)

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 Big Red can acquire a 50% interest in the Bristol property. Big Red issued 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) and will 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. As at August 31, 2010, \$8,337 of work was completed on the Bristol property according to the agreement.

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 km². 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 2011 is \$120,000.

Launay

(100% owned - gold)

Melkior 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.

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Investing activities (Cont'd)

During 2009, 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.

The exploration budget for Fiscal 2011 is \$25,000. Prospecting and compiling is planned.

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, 2010, \$461,547 has been spent on Troilus.

The exploration budget for Fiscal 2011 is \$50,000.

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.

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 in 2009 and \$8,469 in 2010.

The property remains a significant asset and will be further explored at a later time. Melkior has had communication with Joint Venture partner Xstrata Nickel in this regard.

There is no exploration budget for Fiscal 2011.

Mont 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.

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Investing activities (Cont'd)

In 2010, the Company wrote-off the residual value of the Mont Otish properties for \$78,068 since no work is scheduled in the near future.

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.

During the summer 2010, FNI earned its 50% interest. The Company chose to participate in the exploration over \$60,000.

Melkior's budget for Fiscal 2011 is \$40,000.

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.

Financing activities

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.

On December 15 and 17, 2009, the Company closed a private placement of: (i) 9,243,001 units at a price of \$0.30 per unit for gross proceeds of \$2,772,900 and (ii) 9,959,400 flow-through common shares at a price of \$0.33 per flow-through shares for gross proceeds of \$3,286,602 for total gross proceeds of \$6,059,502 (collectively, the "Private Placement"). Each unit is comprised of one common share and one-half of one warrant. Each whole warrant entitles its holder to purchase one additional common share at a price of \$0.40 per common share from the first 12 months and at a price of \$0.50 per common share for the subsequent 12 months. The Company paid to the brokers (i) cash in the amount of \$371,666, representing 7 % of the gross proceeds raised by the brokers, and (ii) 1,656,605 broker warrants, representing 10% of the number of units and flow-through shares issued under the brokered portion of the private placement. A total of 690,965 Broker Warrants entitle its holder to purchase one additional common share at a price of \$0.30 per common share and 965,640 broker warrants entitle its holder

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For the year ended August 31, 2010

Financing activities (Cont'd)

to purchase one additional common share at a price of \$0.33 per common share, for a period of 24 months following the Closing Date.

In Fiscal 2010, 3,438 warrants were exercised for a net proceed of \$860 and 200,000 options were exercised for a consideration of \$50,000.

Working capital

The Company has a working capital of \$4,826,747 of at August 31, 2010 plus \$638,342 exploration funds as compared to \$3,497,210 as of August 31, 2009. 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 2010	May 31 2010	February 28 2010	November 30 2009
	\$	\$	\$	\$
Income	23,420	14,969	20,498	10,040
Net profit (loss) for the period	(285,204)	(143,415)	449,089	(150,504)
Net loss per share	-	-	-	-
Total assets	14,751,498	14,183,184	14,539,969	9,165,606
	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

Fourth quarter

The Company reported a net loss of \$285,204 for the quarter ended August 31, 2010 ("Q4 2010") compared to \$4,025,831 for the quarter ended August 31, 2009 ("Q4 2009").

In Q4 2009, Melkior sold a 50% interest in the Bristol property to Big Red and realized a gain of \$49,571.

Total expenses were higher in Q4 2010 at \$308,624 compared to \$4,083,858 in Q4 2009 mainly due to following:

- Write-offs for \$110,883 in Q4 2010 (\$3,872,631 in Q4 2009) of mining assets relating to Monts Otish (Ungava and Launay in Q4 2009).
- A \$194,028 stock-based compensation expense was recorded in Q4 2010 following the grant of 2,100,000 options while in Q4 2009 the stock-based compensation expenses was \$117,000 following the grant of 400,000 options.

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Fourth quarter (Cont'd)

- A \$107,250 fair value gain was recorded in Q4 2010 (\$20,500 in Q4 2009) on the 4,100,000 shares received from Otish Energy Inc. following the sale of the properties in the Mont Otish.

The Company expensed \$1,444,504 in exploration in Q4 2010 (\$402,770 in Q4 2009) mostly on Timmins West.

Related party transactions

In the normal course of operations for fiscal 2010:

- a) Companies controlled by Jens E. Hansen (president and director) charged:
 - i) Professional fees relating to exploration work amounting to \$53,765 (\$49,950 for fiscal year 2009) capitalised in deferred exploration expenses;
 - ii) Management fees amounting to \$57,450 (\$45,160 for fiscal year 2009) expensed in professional and consulting fees;
 - iii) Rent totalling \$36,000 (\$36,000 for fiscal year 2009) expensed in general and administrative;
- b) A company controlled by Ingrid Martin (cfo and secretary) charged professional fees of \$82,075 (\$75,469 for fiscal year 2009) of which \$76,200 (\$75,469 in fiscal year 2009) was expenses and \$5,875 was recorded as share issue expenses;
- c) Nathalie Hansen (director) (nominated November 7, 2008) charged:
 - i) For fiscal 2010, \$20,640 of exploration work capitalised in deferred exploration expenses and \$17,040 of administration work expensed in general and administrative.
 - ii) For fiscal 2009, professional fees relating to geophysics or geology of \$33,975 capitalised in deferred exploration expenses or mining properties; consulting fees of \$11,500 expensed in investors and shareholders relations or professional and consulting fees.
- d) As at August 31, 2010, the balance due to the related parties amounted to \$27,410 (August 31, 2009 – \$33,358) and was recorded in accounts payable and accrued liabilities. This amount 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.

Not in the normal course of business:

- e) As part of the acquisition of the Broke Back and Riverbank properties, a company controlled by Jens E. Hansen received \$127,400 cash which represent the reimbursement of its costs incurred in this transaction for the staking.

This transaction was measured at book value.

Subsequent events

On September 1, 2010, the Company signed a letter of intent with Green Swan Capital Corp (“Green Swan”), a capital pool company, whereby Green Swan can acquire a 100% interest in the Broke Back and Riverbank properties by issuing 10,000,000 of its shares to Melkior. The property is subject to a 2.5% NSR royalty. The finalization of the sale to Green Swan is conditional on regulatory and board approvals as well as the latter raising \$650,000 for exploration and administrative purposes.

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Outstanding share data

	As of November 30, 2010
	<u>Number</u>
Common shares	110,680,370
Options	8,070,000
Warrants	<u>22,915,766</u>
	<u>141,666,136</u>

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 2010, 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 stock-based compensation and future income taxes.

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"):

The Company adopted an amendment to Section 3862, *Financial Instruments – Disclosures*. This amendment establishes additional disclosure requirements regarding the level in the fair value of hierarchy in which fair value measurements are categorized for assets and liabilities measured in the balance sheet. The adoption of these amendments did not have any measurement impact on the Company's financial statements and the additional disclosure requirements are presented in the notes of the financial statements.

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IFRS Convergence

The Company is using a four step roadmap to convert to IFRS:

STEP 1: DIAGNOSTIC

The initial diagnostic stage has been completed in 2009 to understand, identify and assess the overall effort required to produce financial information under IFRS.

STEP 2: DESIGN AND PLANNING

STEP 2.1: ACCOUNTING POLICIES

The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed in the summer 2011. Overall, a lot of effort will be put in the financial statements presentation as IFRS requires more disclosure.

Set out below are the main areas where changes in accounting policies are expected to have a significant impact on the Company's financial statements. The list below should not be regarded as a complete list of changes that will result from transition to the IFRS. It is intended to highlight areas that the Company believes to be the most significant; however, the analysis of changes is still in process and the selection of accounting policies where choices are available under IFRS has not been completed. We note that the regulatory bodies that promulgate the Canadian GAAP and the IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's financial statements in future years. The future impacts of the IFRS will also depend on the particular circumstances prevailing in those years. The standards listed below are those existing based on current Canadian GAAP and IFRS. At this stage, the Company is not able to reliably quantify the expected impacts of these differences on its financial statements.

They are as follows:

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.

The Company believes that the choices available under IFRS 1 will allow the opening balance as of September 1, 2010 to remain similar in all material aspects to the closing balance of August 31, 2010. The Company expects that key IFRS 1 exemption decisions will be approved by Management during the spring 2011.

Share-based payment (IFRS 2)

The Company manages equity-settled stock based remuneration plans for its directors, officers, employees and consultants. The plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at grant date, using the Black-Scholes option pricing model.

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IFRS Convergence (Cont'd)

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. However, pre-change accounting standards allow an entity the option of either using the graded vesting method or the straight-line method which recognizes expenses equally over the average life of the grant. The Company is currently using the straight-line method for its grants. The use of the graded vesting model will not result in a material impact over the complete vesting period. The use of the graded vesting model will result in the recognition of greater expenses in the first quarters of the vesting period and fewer expenses in the last quarters compared to the model currently in use by the Company. When the vesting occurs over a limited number of quarters not over several years, the volatility that the Company will use in the Black-Scholes calculation will be the same for all the vesting period. At the date of transition, there was no material adjustment needed relating to the adoption of the graded vesting model.

An individual is classified as an employee when the individual is an employee for legal or tax purposes (including directors and officers) or provides services similar to those performed by an employee. This definition of an employee is broader than that currently applied by the Company and will result in certain contractors and consultants being classified as employees under IFRS. During the convergence, certain consultants were reclassified as employees but it did not create a material adjustment.

For option granted to non-employees, IFRS requires that stock-based compensation be measured at the fair value of the services received unless the fair value of the services cannot be reliably measured.

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. A forfeiture occurs when an option is granted with a vesting period, but the person who received the option leaves before all the option is vested. Each quarter, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. There was no forfeiture for options granted except for investor relations firms since de adoption of section 3870 and consequently we have considered the forfeiture rate to be nil based on our past experience for grants other than to investor relations firms. At the date of transition, there was no material adjustment needed relating to forfeiture.

According to IFRS 1 transition rules, the Company adopts IFRS 2 on all options granted after November 7, 2002 there were not yet vested on the transition date. The Company has no option issued between November 7, 2002 and the 3870 adoption date, that were not vested on transition date.

Exploration and evaluation ("E&E") assets (IFRS 6)

Under IFRS, the Company must identify and account for pre-E&E, E&E and development expenditure separately. There was no such obligation under pre-change accounting standards. The E&E phase begins when the Company obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-E&E costs are and must be expensed.

E&E costs may be expensed as incurred or capitalised. Indeed according to IFRS, an entity must determine an accounting method determining which expenses are accounted for as an E&E asset considering the level the expense can be associated with a mineral resources.

Unlike IFRS, pre-change accounting standards indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment. Amongst Canadian exploration companies that have announced their IFRS treatment, part are capitalising and the other part are expensing the E&E costs. In Australia, most of the exploration companies that we have reviewed capitalize their E&E costs.

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IFRS Convergence (Cont'd)

The management believes that it's important and relevant to display on the face of the statement of financial position that mining assets are one of its most valuable assets and the essence of the Company's business. Consequently the Company will continue to capitalize E&E costs. There is no transition impact on the statement of financial position and the statement of comprehensive loss.

E&E costs for each separate area of interest are recognized as an E&E asset where the following conditions are satisfied:

- The rights to explore the area of interest are current; and
- At least one of the following conditions is met:
 - The E&E costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
 - E&E activities in the area interest have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

E&E assets include: the acquisition of rights to explore; research and analysis of existing exploration data; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. General and administrative costs are only allocated to the extent that they can be related directly to operational activities in the relevant area of interest.

In terms of presentation, we intend to use the IFRS terminology of E&E expenses on the face of the statement of financial position..

E&E assets shall be classified as either tangible property plant and equipment or intangible asset according to the nature of the assets acquired. The Company will present them as intangible assets under the description exploration and evaluation assets on the face of the statement of financial position.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the costs capitalised in E&E assets are transferred to mining assets in development. Following this transfer, all construction, installation and infrastructure costs will be capitalized in the mining assets in development category or property plant and equipment under construction. At the end of the development phase, all assets in the mining assets in development will be transferred to mining assets and will be amortized according to the unit of production mode.

Under IFRS, initial measurement of E&E is at cost. Subsequently the Company can elect to measure exploration and evaluation assets using either the cost model or the revaluation model. Under pre-change accounting standards, E&E are measured at cost and the revaluation of E&E is not allowed other than during business combination and assets acquisition. Based on our review, the revaluation model has not been widely selected as an accounting policy due to the difficulty and the effort required to continually monitoring fair values. Since it believes the cost is more reliable, the Company will continue to use the cost for initial and subsequent measurement and therefore there is no transition impact on the statement of financial position and statement of comprehensive loss.

No depreciation charge is recognized during the E&E phase. In circumstances where a property is abandoned or it is established that the E&E costs capitalized cannot be recovered, the cumulative capitalised costs relating to the property are written down to their recoverable amounts.

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Management's Discussion and Analysis

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IFRS Convergence (Cont'd)

IFRS 6's requirements for impairment are different to IAS 36 for: considering what are the triggering events and the level at which impairment testing is performed. E&E assets are assessed for impairment annually if facts and circumstances indicate that impairment may exist. Following is a non exhaustive list of trigger events examples: the right to explore has, or will in the near future, expire, and renewal is not expected; further E&E expenses are not budgeted nor planned; the decision to discontinue activities had been made due to lack of discovery; the development is likely but the E&E asset is unlikely to be recovered in full. Concerning the level at which impairment testing is performed, IFRS 6 allows E&E assets to be grouped with producing assets. Since the Company has no producing asset at the moment, impairment testing will be done on an area of interest basis. Finally, under pre-change accounting standards, there is a presumption that a write-down is necessary when there has been a delay in development activity that extends beyond three years; there is no such presumption under IFRS.

Impairment of assets (IAS 36)

At least once a year, the carrying amount of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. The impairment loss is the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, management estimates the future cash flows for each asset or cash generating unit and then it determines an appropriate interest rate to calculate the present value of the cash flows. The actualisation factors are established individually for each asset or cash generating unit and reflect their risk profile determined by management. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of comprehensive loss for the period. For an asset that does not generate largely independent cash flow, the recoverable amount is determined for the cash generating unit to which the asset belongs. For E&E asset, the cash generating unit will be the area of interest.

In the event that the Company has insufficient information about its mining assets to estimate future cash flows to test the recoverability of capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

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 pre-change accounting standards (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 pre-change accounting standards. The Company believes that the changes of this policy should not have an impact on the financial statements on the changeover date. Nevertheless, in the subsequent years, this policy could generate more volatility in the statement of comprehensive loss.

When an impairment loss subsequently reverses when it is justified by a change of circumstances, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive loss.

The Company assessed its assets by reviewing the trigger events and found that no impairment losses were required to be recognized as at the transition date.

Financial instruments (IAS 39)

Under IFRS, all financial assets must be classified into "loans and receivables", held-to-maturity", "fair value through profit or loss" or "available-for-sale" categories. Like IFRS, all financial assets under Canadian GAAP must be classified into "loans and receivables", held-to-maturity", "held-for-trading" (fair value through profit or loss) or "available-for-sale" categories. However, there are certain differences from IFRS with respect to the types of assets that may be classified into each of these categories.

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IFRS Convergence (Cont'd)

Financial instruments may be designated on initial recognition as measured at fair value through profit or loss only if certain criteria are met. Like IFRS, financial instruments may be designated on initial recognition as held for trading (and measured at fair value through profit and loss) only if certain criteria are met. However, these criteria are less restrictive than under IFRS.

The Company is presently evaluating the impact of these potential modifications.

STEP 2.2: FINANCIAL STATEMENTS PREPARATION

By the end of May 2011, we will prepare the financial statement model and we will identify the IFRS convergence adjustments.

STEP 2.3: TRAINING AND COMMUNICATION

The CFO participated to several courses organized by the Ordre des comptables agrees du Quebec and also courses specific to the mining industry given by CA firms. Now, the CFO must keep updated as IFRS is expected to change before 2011.

A communication plan beyond the mandatory disclosure required in the MD&A will be developed in the summer 2011 if the changes on the financial statements are important.

STEP 2.4: IT 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 supporting documents will probably have to be adapted to support the changes 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.

STEP 2.5: INTERNAL CONTROLS:

By the end of May 2011, Management will review existing internal control process and procedures to address significant changes to existing accounting policies and practices.

STEP 2.6: 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.

STEP 3: IMPLEMENTATION

In this stage the Company will implement the changes that have been developed including changes to the accounting processes and policies. The Company will also quantify the IFRS impacts.

Management will prepare the structure of the first quarterly financial statements as of November 30, 2011 with the opening balance as of September 1st, 2010 and the comparables as of November 30, 2010 with the disclosure notes.

Management plans to complete this step in the summer 2011.

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Management's Discussion and Analysis

For the year ended August 31, 2010

IFRS Convergence (Cont'd)

STEP 4: POST IMPLEMENTATION

Management will prepare the interim and annual financial statements in compliance with IFRS for the year ending August 31, 2012.

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 listed shares are classified as held for trading; the short-term investments are designated as held for trading because the Company intends to redeem them, partly or entirely, before their maturity dates.
- 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;
- 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 partners 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:	2010	2009
Listed shares	76,625	\$ (533,000)
Treasury bills	-	269
Guaranteed investment certificates	(9,968)	(9,760)
	<u>66,657</u>	<u>(542,491)</u>

Financial risk management

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

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

Interest rate risk

The short term investments and exploration funds 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 \$54,960 as of August 31, 2010. Since the interest rates are lower than 1%, a decrease of interest down to 0% would increase the fair value of these by \$54,193 as of August 31, 2010. 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, short-term investments and exploration funds which are substantially all held in financial instruments guaranteed by major Canadian financial institutions. 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.

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Financial Instrument (Cont'd)

Liquidity risk

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

Market risk

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 price risk relating to its investments in listed shares.

The listed shares held by the Company are exclusively shares from Venture issuers 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 to Otish Energy Inc. and the original value based on the closing price on the stock market was \$1,312,000. As of August 31, 2010, the value of these listed shares is \$148,625.
- A 50% interest in the Bristol property to Big Red for 1,000,000 common shares valued at \$60,000. As of August 31, 2010, the value of these listed shares is \$70,000.

As of August 31, 2010, 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 \$21,863.

Fair Value

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

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and listed shares are considered a level 1 and the short-term investments are considered a level 2.

The fair value of financial instruments is summarized as follows:

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
<i>Held for trading</i>				
Cash	117,421	117,421	585,654	585,654
Short-term investments	5,056,988	5,056,988	2,781,533	2,781,533
Listed share	218,625	218,625	82,000	82,000
Exploration funds	638,342	638,342	-	-
<i>Loans and receivables</i>				
Due from partners	8,337	8,337	60,000	60,000
Financial liabilities				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	738,643	738,643	159,705	159,705
Due to partners	20,000	20,000	2,596	2,596

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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.

Melkior Resources Inc.

(an exploration company)

Management's Discussion and Analysis

For the year ended August 31, 2010

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. Mined 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.

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.

Melkior Resources Inc.

(an exploration company)

Management's Discussion and Analysis

For the year ended August 31, 2010

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 30, 2010

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

(s) Ingrid Martin
Ingrid Martin
CFO



Auditors' Report

To the shareholders of
Melkior Resources Inc.

Raymond Chabot Grant Thornton LLP

Place du Québec
888 3rd Avenue
Val-d'Or, Québec J9P 5E6

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We have audited the balance sheets of Melkior Resources Inc. as at August 31, 2010 and 2009 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



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Val-d'Or, October 22, 2010

¹ Chartered accountant auditor permit no. 13953

Melkior Resources Inc.

(an exploration company)

Balance Sheets

	August 31	
	2010	2009
	\$	\$
Assets		
Current assets		
Cash	117,421	585,654
Short-term investments (Note 4)	5,056,988	2,781,533
Sales tax receivable and other receivables	133,806	31,122
Due from partners, without interest, on demand	8,337	60,000
Taxes credits receivable	25,914	94,229
Prepaid expenses	24,299	24,973
Listed shares held for trading	218,625	82,000
	<u>5,585,390</u>	<u>3,659,511</u>
Exploration funds (Note 4)	638,342	-
Equipment (Note 5)	-	4,134
Mining assets (Note 6)		
Mining properties	1,812,930	1,640,472
Deferred exploration expenses	6,714,836	3,803,409
	<u>14,751,498</u>	<u>9,107,526</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	738,643	159,705
Due to partners, without interest, on demand	20,000	2,596
	<u>758,643</u>	<u>162,301</u>
Shareholders' Equity		
Share capital (Note 7)	41,827,367	35,684,352
Contributes surplus (Note 7d)	2,136,614	1,435,096
Deficit	(29,971,126)	(28,174,223)
	<u>13,992,855</u>	<u>8,945,225</u>
	<u>14,751,498</u>	<u>9,107,526</u>

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

(s) Jens E. Hansen

Jens E. Hansen
President and Director

(s) Norman Farrell

Norman Farrell
Director

Melkior Resources Inc.

(an exploration company)

Statement of Earnings and Comprehensive Loss and Deficit

	Year ended August 31	
	2010	2009
	\$	\$
EARNINGS AND COMPREHENSIVE LOSS		
Expenses		
General and administrative	294,554	154,316
Travelling and promotion	20,781	6,788
Investors and shareholders relations	107,029	71,940
Professional and consulting fees	201,669	193,770
General exploration	3,695	5,406
Stock-based compensation	398,404	129,000
Amortization	4,134	5,496
Fair value variation on financial instruments held for trading	(66,657)	542,491
Write-off of mining assets	119,352	5,346,461
Taxes credits related to a mining asset disposed previously	-	(31,852)
	<u>1,082,961</u>	<u>6,423,816</u>
Income		
Interest income	30,667	61,685
Management fees	28,260	2,710
Gain on disposal of mining assets	-	49,571
Gain on disposal of equipment	10,000	-
	<u>68,927</u>	<u>113,966</u>
Loss before income taxes	<u>(1,014,034)</u>	<u>(6,309,850)</u>
Future income taxes (Note 8)	<u>884,000</u>	<u>-</u>
Net loss and comprehensive loss	<u>(130,034)</u>	<u>(6,309,850)</u>
Basic and diluted net loss per share	<u>-</u>	<u>(0.07)</u>
Weighted average number of outstanding common shares	<u>103,851,317</u>	<u>85,973,284</u>
DEFICIT		
Deficit, beginning of year	(28,174,223)	(21,787,402)
Net loss	(130,034)	(6,309,850)
Future income taxes related to flow-through shares	(884,000)	-
Share issue expenses	(782,869)	(76,971)
Deficit, end of year	<u>(29,971,126)</u>	<u>(28,174,223)</u>

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

Melkior Resources Inc.

(an exploration company)

Statement of Cash Flows

	Year ended August 31	
	2010	2009
	\$	\$
Operating activities		
Net loss	(130,034)	(6,309,850)
Non-cash items:		
Stock-based compensation	398,404	129,000
Amortization	4,134	5,496
Fair value variation on listed shares held for trading	(76,625)	533,000
Fair value variation on short-term investments held for trading	9,968	9,760
Interest accrued on interest income	21,439	89,767
Gain on disposal of mining assets	-	(49,571)
Gain on disposal of equipment	(10,000)	-
Write-off off mining assets	119,352	5,346,461
Future income taxes	(884,000)	-
	<u>(547,362)</u>	<u>(245,937)</u>
Changes in non-cash working capital items		
Sales tax receivable	(102,684)	16,004
Due from partners	(927)	14,842
Prepaid expenses	674	57,695
Accounts payable and accrued liabilities	173,041	(12,575)
Due to partners	(296)	296
	<u>69,808</u>	<u>76,262</u>
Cash flows from operating activities	<u>(477,554)</u>	<u>(169,675)</u>
Investing activities		
Purchase of short-term investments	(12,985,186)	(3,488,000)
Disposal of short-term investments	10,039,982	3,625,000
Exploration funds	-	373,930
Additions to mining properties	(203,234)	(410,946)
Deferred exploration expenses	(2,677,973)	(1,500,641)
Payments received from partners for exploration costs	120,484	26,904
Taxes credits cashed	79,566	67,520
Disposal of equipment	10,000	-
Cash flows from investing activities	<u>(5,616,361)</u>	<u>(1,306,233)</u>
Financing activities		
Issuance of shares	6,110,362	999,375
Share issue expenses	(484,680)	(48,471)
Cash flows from financing activities	<u>5,625,682</u>	<u>950,904</u>
Net changes in cash	(468,233)	(525,004)
Cash, beginning of year	585,654	1,110,658
Cash, end of year	<u>117,421</u>	<u>585,654</u>

See Note 12 for additional information on the statement of cash flows

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

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

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, 2009, according to the transition dispositions, the Company adopted the following new accounting policies published by the Canadian Institute of Chartered Accountants ("CICA"):

The Company adopted an amendment to Section 3862, *Financial Instruments – Disclosures*. This amendment establishes additional disclosure requirements regarding the level in the fair value of hierarchy in which fair value measurements are categorized for assets and liabilities measured in the balance sheet. The adoption of these amendments did not have any measurement impact on the Company's financial statements and the additional disclosure requirements are presented in note 13.

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, stock-based compensation and future income taxes. 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.

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.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

3. Accounting policies (Cont'd)

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.

Mineral properties and exploration expenses are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company performs a recoverability test when estimate future cash flows are available. In the event that management has not sufficient information to estimate future cash flows to evaluate the recoverability of capitalized amounts, management will evaluate it by comparing the fair value and the carrying value, without doing a recoverability test. Management will also consider whether results from exploration works justify further investments, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties for proceeds in excess of the carrying 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 7.

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 7. 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.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

3. Accounting policies (Cont'd)

Fair value of the warrants

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

Income taxes

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

Financial assets and liabilities

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

- Held for trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings exclude interest income and are presented under fair value variation on financial instruments held for trading. Cash and listed shares are classified as held for trading; the short-term investments are designated as held for trading because the Company intends to redeem them, partly or entirely, before their maturity dates.
- 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;
- 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 partners are classified as other financial liabilities.

4. Short term investments

As of August 31, 2010, short term investments include guaranteed investments from Canadian financial institutions totalling \$5,695,330 cashable at any time without penalties, maturing between August 10, 2011 and August 17, 2011 and bearing interest rates between 0.90% and 0.95%.

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%.

The exploration funds must be spent before December 31, 2010.

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
	\$	\$
Guaranteed investment certificates	5,695,330	2,781,533
Less: Exploration funds	(638,342)	-
	<u>5,056,988</u>	<u>2,781,533</u>

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

5. Equipment

As of August 31, 2009	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Equipment	16,500	12,366	4,134

6. Mining assets

<u>Mining properties</u>	<u>August 31 2009</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Write-offs</u>	<u>August 31 2010</u>
	\$	\$	\$		\$
Quebec					
Launay	389,131	4,860	-	-	393,991
Mont Otish	32,335	480	-	(32,815)	-
Ontario					
Timmins	272,829	25,480	-	-	298,309
Henderson	5,375	-	-	-	5,375
Long Lac	19,824	-	-	-	19,824
Rim Nickel – McFaulds	920,978	174,453	-	-	1,095,431
	<u>1,640,472</u>	<u>205,273</u>	<u>-</u>	<u>(32,815)</u>	<u>1,812,930</u>

<u>Mining properties</u>	<u>August 31 2008</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Write-offs</u>	<u>August 31 2009</u>
	\$	\$	\$		\$
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
	<u>1,755,750</u>	<u>106,480</u>	<u>(380)</u>	<u>(221,378)</u>	<u>1,640,472</u>

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

6. Mining assets (Cont'd)

<u>Deferred exploration expenses</u>	<u>August 31 2009</u>	<u>Expenditures</u>	<u>Tax credits</u>	<u>Disposals</u>	<u>Write-offs</u>	<u>August 31 2010</u>
	\$	\$	\$	\$		\$
Quebec						
Launay	404,989	13,488	(4,905)	-	-	413,572
Ungava	-	14,815	(6,346)	-	(8,469)	-
Mont Otish	78,068	-	-	-	(78,068)	-
Troilus	394,341	-	-	-	-	394,341
Ontario						
Timmins	2,185,704	1,875,117	-	-	-	4,060,821
Henderson	14,931	20,400	-	-	-	35,331
Long Lac	102,461	95,678	-	-	-	198,139
Rim Nickel - McFaulds	622,915	989,717	-	-	-	1,612,632
	<u>3,803,409</u>	<u>3,009,215</u>	<u>(11,251)</u>	<u>-</u>	<u>(86,537)</u>	<u>6,714,836</u>

<u>Deferred exploration expenses</u>	<u>August 31 2008</u>	<u>Expenditures</u>	<u>Tax credits</u>	<u>Disposals</u>	<u>Write-offs</u>	<u>August 31 2009</u>
	\$	\$	\$	\$		\$
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
	<u>7,496,106</u>	<u>1,533,865</u>	<u>(91,430)</u>	<u>(10,049)</u>	<u>(5,125,083)</u>	<u>3,803,409</u>

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

6. Mining assets (Cont'd)

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 half (1%) of which may be repurchased for \$1,000,000. In 2009, the Company reviewed the exploration expenses and wrote-off the exploration expenses incurred more than three years ago for \$3,872,631.

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 \$8,469 in 2010 and \$1,347,833 in 2009.

c) *Mont Otish*

In April 2007, the Company acquired claims located 30 kilometres northwest from the Otish basin. 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 2009. In addition, the Company wrote-off the deferred exploration expenses relating to the exploration rights on diamonds in the Otish Mountains for \$28,352 in 2009.

In 2010, the Company wrote-off the residual value of the Mont Otish properties for \$110,883 since no work is schedule in the near future.

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 since the beginning of the agreement.

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 another groups of claims is subject to a 2% NSR of which the Company has the right to buy out half (1%) of the NSR for \$1,000,000.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

6. Mining assets (Cont'd)

ii) *Eldorado*

The Eldorado property was staked by the Company in 2006.

iii) *Loveland*

The Company holds a 100% interest in the Loveland property located in the Loveland Township in Ontario. On November 27, 2009, the Company signed a letter of intent with Bold Venture Inc. ("Bold") whereby Bold can acquire a 10% interest in the Loveland property by undertaking \$125,000 of exploration work. The Company is the operator. Once the 10% interest is earned, Bold can decide not to pursue the exploration. Bold will therefore return its 10% interest to the Company and the Company will have to pay Bold \$40,000. At any time, the Company has the right to purchase Bold's 10% interest by paying twice in cash what Bold has spent to that time. As of August 31, 2010, Bold has incurred \$120,158 of exploration work.

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 Big Red can acquire a 50% interest in the Bristol property. Big Red issued 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) and will undertake \$400,000 of exploration work over a period of 48 months on the claims to earn the 50% interest. The Company will be the operator. As at August 31, 2010, \$8,337 of work was completed by Big Red on the property according to the agreement.

v) *Big Marsh*

The Company holds claims in the Carscallen Township near Timmins, subject to a 2% NSR half (1%) of which the Company has the right to buy out for \$1,000,000. On December 15, 2008, the Company acquired additional claims in that township for \$5,000, subject to a 2% NSR 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. On October 30, 2009, the Company signed an agreement to acquire 100% interest in additional mining claims in consideration of \$15,500 cash and a 1% NSR half (0.5%) of which can be repurchased for \$1,000,000. On February 23rd, 2010, the Company signed an agreement to acquire 100% interest in additional mining claims in consideration of \$9,500 cash and a 1% NSR royalty half (0.5%) of which can be repurchased for \$1,000,000.

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.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

6. Mining assets (Cont'd)

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.

During the summer 2010, FNI earned its 50% interest. The Company chose to participate in the exploration over \$60,000.

h) Long Lac

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

i) Rim Nickel - McFaulds

i) Rive Nickel East and West

The Company holds 100% of the East and West Rim Nickel property located in the McFaulds Lake area in Ontario. 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 at \$550,000. The East Rim Nickel property is subject to a 2% NSR royalty half (1%) of which can be repurchased by the Company for \$2,000,000. The West Rim Nickel property is subject to a 1% NSR royalty half (0.5%) of which can be repurchased by the Company for \$1,000,000.

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

ii) Riverside

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

iii) McFaulds – Broke Back and Riverbank

On January 18, 2010, the Company signed an agreement to acquire 100% interest in the the Broke Back and Riverbank properties, located in McFaulds region in Ontario. The Company acquired the 100% interest by reimbursing out of pocket staking costs of \$167,400 and by undertaking the assessment work needed to renew the claims for at least 12 months. The property is subject to a 2% NSR royalty. Melkior can repurchase 1% NSR for \$1,000,000 within one year of presenting a scoping study. One of the stakers of Broke Back and Riverbank is Geotest Corporation. Jens Hansen, president of the Company, is an officer of Geotest Corporation.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2010 and 2009

7. 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:

	2010		2009	
	Number	Amount \$	Number	Amount \$
Balance at beginning of year	90,074,531	35,684,352	82,815,603	34,134,977
Private placements	9,243,001	2,772,900	4,758,928	999,375
Flow-through private placements	9,959,400	3,286,602	-	-
Exercise of warrants	3,438	860	-	-
Value of warrants exercised	-	653	-	-
Exercise of options	200,000	50,000	-	-
Value of option exercised	-	32,000	-	-
Acquisition of mining properties (Note 6)	-	-	2,500,000	550,000
Balance at end of year	<u>109,480,370</u>	<u>41,827,367</u>	<u>90,074,531</u>	<u>35,684,352</u>

a) *Private placements*

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 entitles 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.

On December 15 and 17, 2009, the Company closed a private placement of: (i) 9,243,001 units at a price of \$0.30 per unit for gross proceeds of \$2,772,900 and (ii) 9,959,400 flow-through common shares at a price of \$0.33 per flow-through shares for gross proceeds of \$3,286,602 for total gross proceeds of \$6,059,502 (collectively, the "Private Placement"). Each unit is comprised of one common share and one-half of one warrant. Each whole warrant entitles its holder to purchase one additional common share at a price of \$0.40 per common share from the first 12 months and at a price of \$0.50 per common share for the subsequent 12 months.

No value was attributed to the warrants.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2010 and 2009

7. Share capital (Cont'd)

The Company paid to the brokers (i) cash in the amount of \$371,666, representing 7 % of the gross proceeds raised by the brokers, and (ii) 1,656,605 broker warrants, representing 10% of the number of units and flow-through shares issued under the brokered portion of the private placement. A total of 690,965 broker warrants entitle its holder to purchase one additional common share at a price of \$0.30 per common share and 965,640 broker warrants entitle its holder to purchase one additional common share at a price of \$0.33 per common share, for a period of 24 months following the closing date.

The total broker warrant fair value amount to \$298,189 and this fair value was estimated using the Black-Scholes pricing model with no expected dividend yield, an expected volatility of 113%, a risk-free interest rate of 1.32% and an expected life of options of 2 years.

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 January 19, 2010. The aggregate number of optioned shares to be delivered upon the exercise of all options granted under the plan shall not exceed 10% of the number of issued and outstanding common shares at the time of the option grant. If any option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased optioned shares subject thereto shall again be available for the purposes of the plan.

The purchase price of the common shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors upon grant of each such option, but such price shall not be less than the market price at closing of transactions the day prior to the grant. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination, 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.

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

As at August 31, 2010 and 2009

7. Share capital (Cont'd)

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

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of year	6,470,000	0.31	5,870,000	0.31
Granted	3,225,000	0.25	700,000	0.27
Exercised	(200,000)	0.25	-	-
Cancelled	(225,000)	0.30	-	-
Expired	-	-	(100,000)	0.35
Balance at end	<u>9,270,000</u>	0.29	<u>6,470,000</u>	0.31
Exercisable at the end of year	<u>9,270,000</u>	0.29	<u>6,470,000</u>	0.31

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

Fiscal 2010 Grant date	October 21, 2009	December 30, 2009	July 16, 2010	July 28, 2010
Optionee	Investor relation firm	Directors, officers and consultants	Directors, officers and consultants	Consultants
Number of options	225,000	900,000	1,900,000	200,000
Exercise price	\$0.30	\$0.36	\$0.20	\$0.20
Exercise price compared to the market price	Higher	Higher	Higher	Higher
Risk free interest	1.51%	2.74%	2.39%	2.47%
Average expected volatility	109%	104%	98%	98%
Expected dividend	-	-	-	-
Expected life (years)	2	5	5	5
Vesting	25% every quarter	Immediate	Immediate	Immediate
Estimated fair value per option	\$0.15	\$0.25	\$0.14	\$0.12
Estimated fair value	\$33,750	\$225,000	\$266,000	\$24,000
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	
Exercise price compared to the market price	Higher		Higher	
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	

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Notes to financial statements

As at August 31, 2010 and 2009

7. Share capital (Cont'd)

For fiscal year 2010, a total of 3,225,000 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 \$548,750 of which \$428,376 will be accounted for in stock-based compensation (\$398,404 as of August 31, 2010), \$103,500 will be capitalized in the deferred exploration expenses (\$37,578 as of August 31, 2010) and the remaining \$16,874 will not be accounted for as stock-based compensation since these options were cancelled in June 2010. The hypotheses used include an average interest rate without risk of 2.43%, an average expected life of the options of 4.8 years, no expected dividend yield, an estimated average volatility of 100.7% and a weighted average fair value per option of \$0.17.

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, no expected dividend yield, an estimated average volatility of 103% and a weighted average fair value per option of \$0.20.

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2010:

<u>Number of options outstanding</u>	<u>Exercise price</u>	<u>Expiry date</u>
	\$	
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
200,000	0.25	February 25, 2013
300,000	0.10	November 7, 2013
400,000	0.40	August 7, 2014
900,000	0.36	December 30, 2014
1,900,000	0.20	July 16, 2015
200,000	0.20	July 28, 2015
<u>9,270,000</u>		

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2010 and 2009

7. Share capital (Cont'd)

c) Warrants

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

	2010		2009	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance at beginning	16,944,130	0.39	12,508,885	0.41
Issued	6,278,104	0.38	4,908,928	0.35
Exercised	(3,438)	0.25	-	-
Expired	(303,030)	0.33	(473,683)	0.52
Balance at end	<u>22,915,766</u>	0.39	<u>16,944,130</u>	0.39

Warrants outstanding as at August 31, 2010 are as follows:

Number of warrants	Exercise price \$	Expiry date
4,758,928	0.35	June 30, 2011
146,562	0.25	June 30, 2011
4,496,499	Y1: 0.40 Y2: 0.50	December 15, 2011
125,000	Y1: 0.40 Y2: 0.50	December 17, 2011
665,965	0.30	December 15, 2011
965,640	0.33	December 15, 2011
25,000	0.30	December 17, 2011
2,903,226	0.25	December 18, 2011 ¹⁾
1,659,999	0.60	March 13, 2012 ^{2) 6)}
590,000	0.60	March 27, 2012 ^{3) 6)}
1,578,947	0.60	May 8, 2012 ⁴⁾
5,000,000	0.35	June 9, 2013 ⁵⁾
<u>22,915,766</u>		

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
- 6) These warrants are subject to an accelerated expiry if the volume weighted average price of the common shares is at least \$0.80 for any period of 20 consecutive trading days. The Company may then, within five business days of such 20 trading day period, provide notice by press release to the holders of warrants (the "Accelerated Expiry Notice") that the warrants shall terminate on the earlier of the date that is 25 days following the date of the Accelerated Expiry Notice or the warrants expiry date.

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As at August 31, 2010 and 2009

7. Share capital (Cont'd)

d) Contributed surplus

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance at beginning	1,435,096	1,249,429
Agent warrants (Note 7a)	298,189	28,500
Exercise of agent warrants cost credited to share capital	(653)	-
Stock-based compensation in favour of directors and officers (Note 7b)	399,000	138,000
Stock-based compensation in favour of consultants (Note 7b)	36,982	19,167
Exercise of stock options credited to share capital	(32,000)	-
Balance at end	<u>2,136,614</u>	<u>1,435,096</u>

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$13,992,855 as of August 31, 2009 (\$8,945,225 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. The Company complied in this fiscal year.

8. Income taxes

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Loss before income taxes	<u>(1,014,034)</u>	<u>(6,309,850)</u>
Income taxes at the combined federal and provincial tax rate of 30% (31% in 2009)	(306,500)	(1,949,700)
Share issue expenses deductible	(71,300)	(43,400)
Stock-based compensation	120,400	39,900
Fair value variation on financial instruments held for trading	(20,200)	167,600
Non taxable gain on disposal of mining assets	-	(15,300)
Non taxable gain on disposal of equipment	(3,000)	-
Other items non deductible	1,600	1,900
Unrecognized tax benefit	<u>(605,000)</u>	<u>1,799,000</u>
Income taxes	<u>(884,000)</u>	<u>-</u>

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Notes to financial statements

As at August 31, 2010 and 2009

8. 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:

	<u>2010</u>	<u>2009</u>
	\$	\$
Future income tax assets		
Share issue expenses deductible	148,000	81,000
Operating losses carried forward	721,000	528,000
Listed shares held for trading	310,000	331,000
Equipment	-	3,000
Mining assets	642,000	1,332,000
	<u>1,821,000</u>	<u>2,275,000</u>
Less valuation allowance	<u>(1,821,000)</u>	<u>(2,275,000)</u>
Future income tax liabilities	<u>-</u>	<u>-</u>

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

2014	\$ 387,000
2015	226,000
2026	222,000
2027	263,000
2028	292,000
2029	470,000
2030	820,000
	<u>\$ 2,680,000</u>

The Company will also be able to deduct in the future share issue expenses for which the future income tax asset is not recorded. These expenses total \$549,131.

9. 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% NSR royalty as per a former agreement for the sale of its interest in the mining claims being part of the Joubi property, Dubuisson Township.

10. Related party transactions

In the normal course of operations for fiscal 2010:

- a) Companies controlled by an officer charged:
 - i) Professional fees relating to exploration work amounting to \$53,765 (\$49,950 for fiscal year 2009) capitalized in deferred exploration expenses;
 - ii) Management fees amounting to \$57,450 (\$45,160 for fiscal year 2009) expensed in professional and consulting fees;
 - iii) Rent totalling \$36,000 (\$36,000 for fiscal year 2009) expensed in general and administrative;
- b) A company controlled by an officer charged professional fees of \$82,075 (\$75,469 for fiscal year 2009) of which \$76,200 (\$75,469 in fiscal year 2009) was expenses and \$5,875 was recorded as share issue expenses;

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Notes to financial statements

As at August 31, 2010 and 2009

10. Related party transactions (Cont'd)

- c) A director (nominated November 7, 2008) charged:
- i) For fiscal 2010, \$20,640 of exploration work capitalized in deferred exploration expenses and \$17,040 of administration work expensed in general and administrative.
 - ii) For fiscal 2009, professional fees relating to geophysics or geology of \$33,975 capitalized in deferred exploration expenses or mining properties; consulting fees of \$11,500 expensed in investors and shareholders relations or professional and consulting fees.
- d) As at August 31, 2010, the balance due to the related parties amounted to \$27,410 (August 31, 2009 – \$33,358) and was recorded in accounts payable and accrued liabilities.

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

Not in the normal course of business for fiscal 2010:

- e) As part of the acquisition of the Broke Back and Riverbank properties, a company controlled by an officer received \$127,400 cash which represent the reimbursement of its costs incurred in this transaction for the staking.

This transaction was measured at book value.

11. 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.

12. Additional information to the statement of cash flows

	<u>2010</u>	<u>2009</u>
	\$	\$
Exercise of option credited to share capital	32,000	-
Exercise of broker warrants credited to share capital	653	-
Agent warrants granted for raising capital	298,189	28,500
Future income taxes accounted for in share issue expenses	884,000	-
Tax credits receivable applied against deferred exploration expenses	11,251	89,754
Additions of mining properties included in accounts payable and accrued liabilities	3,573	1,534
Additions of deferred exploration expenses included in accounts payable and accrued liabilities	501,987	98,129
Due from partners included in deferred exploration expenses	7,410	-
Due to partners included in deferred exploration expenses	20,000	2,300
Proceed of disposal of a mining asset included in due from partners	-	49,571
Due from partners paid by listed shares	60,000	-
Stock-based compensation included in deferred exploration expenses	37,578	28,167

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2010 and 2009

13. 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 and exploration funds 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 \$54,960 as of August 31, 2010. Since the interest rates are lower than 1%, a decrease of interest down to 0% would increase the fair value of these by \$54,193 as of August 31, 2010. 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, short-term investments and exploration funds which are substantially all held in financial instruments guaranteed by major Canadian financial institutions. 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.

Liquidity risk

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

Market risk

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 price risk relating to its investments in listed shares.

The listed shares held by the Company are exclusively shares from Venture issuers whose activities are in the mineral exploration field. Those shares were obtained following the sale of:

- Mining assets in the Otish Basin in December 2007 to Otish Energy Inc. and the original value based on the closing price on the stock market was \$1,312,000. As of August 31, 2010, the value of these listed shares is \$148,625.
- A 50% interest in the Bristol property to Big Red for 1,000,000 common shares valued at \$60,000. As of August 31, 2010, the value of these listed shares is \$70,000.

As of August 31, 2010, 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 \$21,863.

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2010 and 2009

13. Financial instruments (Cont'd)

Fair Value

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

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and listed shares are considered a level 1 and the short-term investments are considered a level 2.

The fair value of financial instruments is summarized as follows:

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
<i>Held for trading</i>				
Cash	117,421	117,421	585,654	585,654
Short-term investments	5,056,988	5,056,988	2,781,533	2,781,533
Listed share	218,625	218,625	82,000	82,000
Exploration funds	638,342	638,342	-	-
<i>Loans and receivables</i>				
Due from partners	8,337	8,337	60,000	60,000
Financial liabilities				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	738,643	738,643	159,705	159,705
Due to partners	20,000	20,000	2,596	2,596

14. Subsequent event

On September 1, 2010, the Company signed a letter of intent with Green Swan Capital Corp ("Green Swan"), a capital pool company, whereby Green Swan can acquire a 100% interest in the Brokeback and Riverbank properties by issuing 10,000,000 of its shares to Melkior. The property is subject to a 2.5% NSR royalty. The finalization of the sale to Green Swan is conditional on regulatory and board approvals as well as the latter raising \$650,000 for exploration and administrative purposes.

Melkior Resources Inc.

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General Information

For the year ended August 31, 2010

Directors

Norman Farrell*

Montreal, Quebec

Jens E. Hansen

Ottawa, Ontario

Alan Lee Barker*

Whitby, Ontario

Nathalie Hansen

Ashton, Ontario

Daniel E. Wolfus *

Los Angeles, California

**Members of the Audit Committee*

Officers

Jens E. Hansen

President

Ingrid Martin

Chef Financial Officer and Secretary

Auditors

Raymond Chabot Grant Thornton, LLP

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Transfer agent and registrar

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