Melkior Resources Inc.

(an exploration company)

Annual Financial Statements

Years ended August 31, 2010 and 2009

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Auditors' Report

To the shareholders of
Melkior Resources Inc.

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.

Raymond Chabot Grant Thornton LLP [1]

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
	5,585,390	3,659,511
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
	14,751,498	9,107,526
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	738,643	159,705
Due to partners, without interest, on demand	20,000	2,596
	758,643	162,301
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)
	13,992,855	8,945,225
	14,751,498	9,107,526

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)
	1,082,961	6,423,816
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	-
	68,927	113,966
Loss before income taxes	(1,014,034)	(6,309,850)
Future income taxes (Note 8)	884,000	-
Net loss and comprehensive loss	(130,034)	(6,309,850)
Basic and diluted net loss per share	-	(0.07)
Weighted average number of outstanding common shares	103,851,317	85,973,284
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	(29,971,126)	(28,174,223)

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)	-
	(547,362)	(245,937)
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
	69,808	76,262
Cash flows from operating activities	(477,554)	(169,675)
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	(5,616,361)	(1,306,233)
Financing activities		
Issuance of shares	6,110,362	999,375
Share issue expenses	(484,680)	(48,471)
Cash flows from financing activities	5,625,682	950,904
Net changes in cash	(468,233)	(525,004)
Cash, beginning of year	585,654	1,110,658
Cash, end of year	117,421	585,654

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

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

1. Governing statutes and nature of operations

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

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

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

2. Accounting changes

Accounting changes adopted recently

Taking effect September 1, 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.

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 faire 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.

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 be applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

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

- Held for trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings exclude interest income and are presented under fair value variation on financial instruments held for trading. Cash and 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.

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

5. Equipment

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

6. Mining assets

Mining properties	August 31 2009	Acquisitions	Disposals	Write-offs	August 31 2010
	$	$	$		$
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
	1,640,472	205,273	-	(32,815)	1,812,930

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

6. Mining assets (Cont'd)

Deferred exploration expenses	August 31 2009	Expenditures	Tax credits	Disposals	Write-offs	August 31 2010
	$	$	$	$		$
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
	3,803,409	3,009,215	(11,251)	-	(86,537)	6,714,836

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

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.

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 Bid 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 touwnship 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.

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.

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	109,480,370	41,827,367	90,074,531	35,684,352

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.

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.

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	9,270,000	0.29	6,470,000	0.31
Exercisable at the end of year	9,270,000	0.29	6,470,000	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

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:

Number of options outstanding	Exercise price	Expiry date
	$	
1,200,000	0.10	November 11, 2010
270,000	0.125	February 9, 2011
200,000	0.20	May 8, 2011
1,400,000	0.30	January 15, 2012
400,000	0.35	October 26, 2012
1,900,000	0.50	December 17, 2012
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
9,270,000		

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	22,915,766	0.39	16,944,130	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)]
22,915,766		

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.

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

d) Contributed surplus

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

	2010	2009
	$	$
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	2,136,614	1,435,096

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 form the following:

	2010	2009
	$	$
Loss before income taxes	(1,014,034)	(6,309,850)
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	(605 000)	1,799,000
Income taxes	(884,000)	-

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:

	2010	2009
	$	$
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
	1,821,000	2,275,000
Less valuation allowance	(1,821,000)	(2,275,000)
Future income tax liabilities	-	-

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

2014	$ 387,000
2015	226,000
2026	222,000
2027	263,000
2028	292,000
2029	470,000
2030	820,000
	$ 2,680,000

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

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

	2010	**2009**
	$	**$**
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

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 that 1%, a decrease of interest down to 0% would increase de 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 tough the Company was successful in the past, there is no guarantee that it will succeed in the future.

Market risk
Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to 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.

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 faire value of financial instruments is summarized as follows:

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Held for trading				
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	-	-
Loans and receivables				
Due from partners	8,337	8,337	60,000	60,000
Financial liabilities				
Other liabilities				
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.