# Melkior Resources Inc.

## Management's Discussion and Analysis

For the six-month period ended February 28, 2010

*The attached Management's Discussion and Analysis has been prepared by Management of Melkior Resources Inc. and has not been reviewed by an auditor.*

**Melkior Resources Inc.**
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The following Management's Discussion and Analysis (the "MD&A") of the financial condition and results of the operations of Melkior Resources Inc. ("Melkior" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the six-month period ended February 28, 2010. This MD&A should be read in conjunction with the Company's financial statements and related notes for the six-month period ended February 28, 2010 with the Company's MD&A included in the 2009 Annual Report. 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 a development stage company engaged in the acquisition and exploration of mining properties located in Quebec and Ontario.

**Overall performance**

In December 2009, the Company closed a private placement of $6,059,502 by issuing 9,243,001 units at a price of $0.30 and 9,959,400 flow-through common shares at a price of $0.33. The private placement allows the Company to aggressively expand its work programs in West Timmins and East Rim Nickel.

Exploration for the six-month period ended February 28, 2010 ("Q2-2010") totalled $728,146 versus $984,871 for the six-month period ended February 28, 2009 ("Q2-2009"). The main exploration expenditures in Q2-2010 were on Timmins West Carscallen.

**Results of operations**

The net income for Q2-2010 is $298,585 versus a net loss for Q2-2009 of $2,210,407.
Total expenses are $615,953 in Q2-2010 versus $2,256,772 in Q2-2009, due to the following:

- Write-offs for $7,419 in Q2-2010 of mining assets relating to Ungava. In Q2-2009, Melkior wrote off mining assets relating to Ungava and Mont Otish for $1,466,037.
- $195,938 stock-based compensation expense was recorded in Q2-2010 while in Q2-2009 the stock-based compensation expense was $12,000.
- A $7,450 fair value loss was recorded in Q2-2010. In Q2-2009, the fair value loss was $512,500 on the 1,025,000 shares (4,100,000 consolidated 4 to 1) received from Otish Energy Inc. following the sale of the properties in the Mont Otish.
- Professional and consulting fees increased in Q2-2010:

| | **Q2-2010** | **Q2-2009** |
|---|---|---|
| | **$** | **$** |
| Legal | 13,809 | 3,082 |
| Accounting | 52,816 | 55,128 |
| Audit | 6,300 | 7,000 |
| Management | 35,675 | 23,695 |
| | 108,600 | 88,905 |

- General and administrative increased to $194,054 in Q2-2010 ($91,336 in Q2-2009) due to:
  - A bonus of $100,000 paid to the president of the Company, Jens E. Hansen.
  - Part XII.6 tax on flow-through shares charged in Q2-2009 for $21,805.
  - Additional involvement of Nathalie Hansen, director, in the daily administration of the Company in Q2-2010.

**Results of operations** (Cont'd)

- During Q2-2010, Melkior increased investors relation activities and incurred a cost of $83,042 in investors and shareholders relations compared to $42,925 in Q2-2009. Melkior signed an agreement in October 2009 with the investor relations firm Agoracom whereby Melkior will disburse a monthly fee of $3,000 and has granted 225,000 stock options exercisable at $0.30 $ until November 1, 2011.

Interest income was $12,415 in Q2-2010 versus $42,965 in Q2-2009 due lower interest rates available.

Melkior recorded a $884,000 recovery of future income taxes in Q2-2010 (none in Q2-2009) representing the tax impact of the flow-through shares issued.

## Investing activities

| **Deferred exploration expenses Q2-2010** | **Ungava** | **Launay** | **Otish** | **Troilus** | **Timmins** | **Rim Nickel** | **Others** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance beginning | - | 404,989 | 78,068 | 394,341 | 2,185,704 | 622,915 | 117,392 | 3,803,409 |
| Additions | | | | | | | | |
| Drilling | - | 900 | - | - | 460,782 | 480 | - | 462,162 |
| Geology – prospecting | 6,725 | 11,939 | - | - | 14,341 | 1,455 | 7,863 | 42,323 |
| Geophysics geochemistry | 7,040 | - | - | - | 143,019 | 7,990 | 9,375 | 167,424 |
| Line cutting | - | - | - | - | 56,237 | - | - | 56,237 |
| Management | - | - | - | - | - | - | - | - |
| | 13,765 | 12,839 | - | - | 674,379 | 9,925 | 17,238 | 728,146 |
| Options | - | - | - | - | 33,375 | 4,125 | | 37,500 |
| Recharge | - | - | - | - | (107,284) | (5,790) | - | (113,074) |
| | 13,765 | 12,839 | - | - | 600,470 | 8,260 | 17,238 | 652,572 |
| Deductions | | | | | | | | |
| Tax credits | (6,346) | (4,905) | - | - | - | - | - | (11,251) |
| Write-off | (7,419) | - | - | - | - | - | - | (7,419) |
| Balance, end | - | 412,923 | 78,068 | 394,341 | 2,786,174 | 631,175 | 134,630 | 4,437,311 |

| **Deferred exploration expenses Q2-2009** | **Ungava** | **Launay** | **Otish** | **Troilus** | **Timmins West** | **Eldora-do** | **Rim Nickel** | **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 | - | 4,836 | - | 286,688 | 70,163 | - | - | - | 361,687 |
| Geology – prospecting | 650 | 17,803 | 15,291 | 41,092 | 23,893 | 2,208 | 15,418 | 13,865 | 130,220 |
| Geophysics geochemistry | 675 | - | 21,578 | 49,138 | 25,307 | 79,009 | 217,967 | 175 | 393,849 |
| Line cutting | - | - | - | 11,422 | 29,628 | - | - | - | 41,050 |
| Management | - | - | - | 58,065 | - | - | - | - | 58,065 |
| | 1,325 | 22,639 | 36,869 | 446,405 | 148,991 | 81,217 | 233,385 | 14,040 | 984,871 |
| Options | 2,000 | 5,110 | - | 2,000 | 8,028 | 7,029 | 7,000 | - | 31,167 |
| Recharge | - | - | - | - | - | - | (26,904) | - | (26,904) |
| | 3,325 | 27,749 | 36,869 | 448,405 | 157,019 | 88,246 | 213,481 | 14,040 | 989,134 |
| Deductions | | | | | | | | | |
| Tax credits | - | - | - | (64,842) | - | - | - | - | (64,842) |
| Write-off | (1,138,240) | - | (106,419) | - | - | - | - | - | (1,244,659) |
| Disposal | - | - | - | - | - | - | - | - | - |
| Balance, end | - | 4,263,588 | 78,068 | 383,563 | 1,569,756 | 173,422 | 607,592 | 99,750 | 7,175,739 |

**Investing activities** (Cont'd)

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

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

Melkior holds a 100% interest in 1,492 claim units or 23,872 hectares in the East Rim Nickel project in the McFaulds "Ring of Fire" exploration area in Northern Ontario. MEGATEM and VTEM airborne surveys have been completed and a series of targets with massive sulphide geophysical signatures have been located. It is anticipated that these will be drill ready in March-April 2010.

Melkior also owns a 50% interest in 934 claim units or 14,960 hectares in the West Rim project. MEGATEM airborne surveying has been completed on this property. Both the East and West Rim blocks were staked to cover large regional gravity anomalies which are typically associated with the worlds major nickel districts (Sudbury, Raglan, Norilsk). Drilling by Noront Resources Limited (TSXV: NOT) has demonstrated the potential for significant nickel-copper-PGE discoveries in the "Ring of Fire".

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 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 are located adjacent to Noront, 10 kilometres north of the Eagle Nest nickel discoveries and 7 kilometres northwest of the Freewest Resources Canada Inc new major chromite discoveries. 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.

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 world class chrome mine developments anticipated in the area.

Melkior is expecting to be able to drill the East Rim targets during 2010 if contractors are available and the necessary permits obtained. Approximately 3000 metres is anticipated.

Melkior's planned budget for this program is $1.5 million.

**Investing activities** (Cont'd)

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

Drilling of 7 holes has been completed on the West Timmins Carscallen property prior to the December 16 holiday break. The gold assay results were disclosed on January 11, 2010 (see detailed result table on January 11 , 2010 press release) for the seven new holes (1959.5 metres) from its 10,000 metre ongoing diamond drill program on its 100% owned West Timmins Carscallen gold project. The property covers 16.32 sq kilometres, is contiguous to Lake Shore Gold Corp. (TSX: LSG) on its eastern and southern boundaries and is located 5 kilometres due west of the new developing Timmins Mine

The December drilling was concentrated specifically on the northern portion of the Zam-Zam zone with one hole (CAR23-09) drilled 450 metres to the south of the Shenkman. These holes continued to intersect gold in quartz pyrite veins. The gold-bearing zone near the surface consists of a single thick quartz pyrite vein (between 0.5 to 1m-thick). At depth, the zone is not confined to a single vein but rather consists of a series of thin quartz pyrite veins (< 5cm-thick) at a metre-scale interval. The total width of the altered envelope varies from 5 to 20 metres.

A second zone was intersected near the surface east of Zam-Zam and consists of quartz pyrite veins (see table for grade). The veins are a few cm thick and occur within a ~2 to 5m wide corridor. This zone is clearly distinct from the main Zam-Zam zone and occurs about 80 to 90m above it (east of it; i.e. uphole). The deeper holes continued to intersect this second gold-bearing zone, occurring closer to the main zone (about 30m from it; uphole). The point of intersection could provide greater widths at depth.

Hole CAR23-09 was drilled on the Shenkman zone to test its continuity at depth. It consists of pyrite stringers hosted in a Quart Feldspar Porphyry (QFP) intrusion. The QFP was intersected from 76-93 metres and contains two gold-bearing zones (see table). New zones were encountered above and under the QFP intrusion. They consist of 2-3cm thick quartz pyrite veins hosted in granite (see table). The continuity of these quartz pyrite vein systems in the QFP remain to be tested. The presence of gold in a wide QFP is considered highly promising for the emplacement of gold at greater depths.

Approximately 20,000 metres planned for 2010 will continue to test Zam-Zam deeper and also to drill Shenkman, Mystery and 1010 to a target depth of more than 500 metres. The zone is still open North of Zam-Zam and at depth (also a potential if the main zone intersects with the secondary one). Induced Polarization (IP) surveys have detected new structures on the property that will be drilled in an exploratory fashion. These new zones present southward extensions of the Mystery Zone. IP anomalies have also been encountered toward the southwest boundary of the property. These anomalies will be drilled.

On April 6, 2010, Melkior issued a press release with part of the results from the ongoing drilling program. Results will be announced as they have been received and analysed

**Investing activities** (Cont'd)

From surface to approximately 200 to 300 m vertical, the Zam Zam Shenkman Zone is hosted in a granite and typically consists of a thick quartz vein (~0.7 m) containing 10 to 25% pyrite and >10 g/t Au. At greater depth, the zone is hosted in mafic volcanic rocks and in the first two deeper holes appears to be wider and more diffuse, consisting of one or more ~1 m wide sub-zones, each of which contain networks of thin quartz and pyrite stringer/veinlets with associated ankerite alteration. To date the gold values encountered in these sub-zones are generally lower than near surface (~1 to <5 g /t Au). For instance hole CAR-33-2010 contains several <1 m thick mineralized zones at 30 to 70 metre intervals between 400 m and 700 m (Table 2).

The presence of multiple mineralized zones at depth within or adjacent to the Zam Zam Shenkman Zone along with the change in host rock composition from granite to mafic volcanics are both considered to be very encouraging. Further work will include a series of deep holes parallel to CAR-32-2010 and CAR-33-2010. Intermediate holes should also be drilled in a second phase to link the near-surface, thick, quartz-rich mineralized veins to the widespread and quartz-poor mineralized zones at depth. The intersection of the mineralized zones with the granite-mafic volcanic contact could also be an interesting target for future drill holes.

Within the granite host Melkior has so far traced the gold system for a length of approximately 1000 metres and to a depth of up to 250 metres. The current program will systematically drill these zones to progressively greater depths starting at approximately 500 metre depth.

Current drilling has extended the zone northward beyond the granite contact into surrounding mafic volcanic rocks. A new Induced Polarization (IP) survey has traced the zone northward.

Drilling is continuing and a second drill will commenced drilling early April 2010 to test IP anomalies allowing the first drill to continue deeper drilling at the Zam Zam Shenkman zone.

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 allocated budget for the West Timmins Carscallen property has been increased following the $6M financing to approximately $3.0 million, subject to exploration results

**Investing activities** (Cont'd)

**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.

**Timmins Eldorado**
(100% owned - nickel)

Melkior holds 328 claim units or 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.

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 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.

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. Upon completion of the current work Melkior plans to drill those conductors which have massive sulphide characteristics. It is anticipated 3000 metres of drilling will be required. Melkior plans to engage a second drill rig for the Eldorado project expected to start in April while the first rig will continue systematic drilling of the Carscallen West Timmins gold property.

The budget reaches up to $400,000.

**Financing activities**
In December 2009, the Company closed a private placement of $6,059,502 by issuing 9,243,001 units at a price of $0.30 and 9,959,400 flow-through common shares at a price of $0.33. Also during Q2-2010, 200,000 options and 3,438 warrants were exercised for a consideration of $50,000 and $653 respectively.

**Working capital**
The Company has a working capital of $4,945,674 as at February 28, 2010 as compared to $3,497,210 as of August 31, 2009. The Company has also exploration funds of $2,994,907. 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.

| | February 28 2010 | November 30 2009 | August 31 2009 | May 31 2009 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Income | 20,498 | 10,040 | 58,027 | 9,574 |
| Net profit (loss) for the period | 449,089 | (150,504) | (4,025,831) | (73,612) |
| Net loss per share | - | - | (0.05) | - |

| | February 28 2008 | November 30 2008 | August 31 2008 | May 31 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Income | 12,318 | 34,047 | 41,152 | 44,262 |
| Net profit (loss) for the period | (1,582,614) | (627,793) | (74,627) | (484,412) |
| Net loss per share | (0.02) | (0.01) | - | (0.01) |

Three factors influence greatly the variation of quarterly results: write-off of mining assets (February 2009 and August 2009), future income taxes when flow-through financing are renounced (February 2010) and fair value variation on the listed shares following the market melt down (November 2008 and May 2008).

**Industry and economic factors affecting the Company's performance**
Details of risk factors that could affect the Company's performance are outlined in the Company's MD&A included in the 2009 annual report.

In addition, the properties may be subject to native land claims, particularly in Ontario.

**Related party transactions**
*In the normal course of operations:*

a) For the six-month period ended February 28, 2010 ("Q2-2010'), companies controlled by Jens E. Hansen (president and director) charged:
   i) Professional fees relating to geology amounting to $15,250 ($27,550 for the six-month period ended February 28, 2009 ("Q2-2009")) capitalised in deferred exploration expenses;
   ii) Management fees amounting to $31,350 ($23,310 for Q2-2009) expensed in professional and consulting fees;
   iii) Rent totalling $18,000 ($18,000 for Q2-2009) expensed in general and administrative;

   In addition, the president received a $100,000 bonus.
b) For Q2-2010, a company controlled by Ingrid Martin (chief financial officer) charged professional fees of $51,396 ($47,779 for Q2-09) of which $45,521 ($47,779 for Q2-2009) was expensed and $5,875 (nil for Q2-09) was recorded as share issue expenses;

**Related party transactions** (Cont'd)

c) For Q2-2010, $20,640 of exploration work capitalised in deferred exploration expenses and $17,040 of administration work expensed in general and administrative was provided by a Nathalie Hansen, director. Her salary was charged through Beaufield Resources inc. where the president of the Company is also president the Beaufield Resources inc. Starting January 2010, the Company pays the salary of the Director directly and therefore those transactions are note considered related parties anymore.
d) As at February 28, 2010, the balance due to the related parties amounted to $170,460 (February 28, 2009 – $32,210) and was recorded in accounts payable and accrued liabilities. This amount is subject to the same conditions as those of non related parties.

*Not in the normal course of business:*
e) 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 their costs incurred in this transaction for the staking (Note 6c). As of February 28, 2010, this amount is recorded in accounts payable and accrued liabilities and is subject to the same conditions as those of non related parties.

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

**Critical accounting estimates**
The preparation of interim financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgement is applied are mining asset valuations and stock-based compensation. Actual results could differ from management's best estimates as additional information becomes available in the future.

**Change in accounting policies**
*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"):*
a) Financial Instrument: in June 2009, the CICA amended Section 3862, "Financial instrument - disclosure". This section has been amended to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments (three hierarchy levels) and entity exposure to liquidity risk. The amendments to this section apply to annual financial statements for years ending after September 2009. Disclosure and presentation requirements pertaining to this section are contained in Note 10 of the February 28, 2010 financial statements and have no impact on the Company's financial results.

**IFRS Convergence**
No new development to report for Q2-2010.

## Financial instruments

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

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

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

| **Fair value variation on gain (loss):** | **Q2-2010** | **Q2-2009** |
|---|---|---|
| | $ | $ |
| Listed shares | (5,000) | (533,000) |
| Treasury bills | - | 5,979 |
| Guaranteed investment certificates | (2,450) | (14,020) |
| | (7,450) | (541,041) |

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

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

*Interest rate risk*
The short term investments, exploration funds and cash and cash equivalents bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. Interest rates 1% higher would have decreased the fair value of these by $50,089 as of February 28, 2010. Since the interest rates are lower that 1%, a decrease of interest down to 0% would increase de fair value of these by $20,155 as of February 28, 2010. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

**Financial instruments** (Cont'd)

*Credit Risk*
The Company is subject to concentrations of credit risk through cash and cash equivalents, short-term investments and exploration funds. The Company maintains substantially all of its cash and cash equivalents, short term investments and exploration funds in financial instruments guaranteed by either a major Canadian financial institution. 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 seeks to maintain a sufficient amount of cash and cash equivalents, and to ensure that the Company has at his disposal sufficient sources of financing such as private placements. The Company establishes cash budgets to ensure it has the necessary funds to fulfill its obligations. Being able to obtain new funds allows the Company to pursue its activities and even tough the Company was successful in the past, there is no guarantee that it will succeed in the future.

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

The listed shares held by the Company are exclusively shares from a Venture 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 and the option of the Bristol property in 2009. The original value based on the stock market was $1,372,000. As of February 28, 2010, the value of these listed shares is $137,000.

As of February 28, 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 $13,700.

*Fair Value*
Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments. The fair value of the listed shares is based on the last bid price on the stock market at the end of the period.

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 cash equivalent, short-term investments, listed shares and exploration funds are considered a level 1.

**Financial instruments** (Cont'd)

The faire value of financial instruments is summarized as follows:

| | February 28, 2010 | | August 31, 2009 | |
|---|---|---|---|---|
| | Carrying amount | Fair Value | Carrying amount | Fair value |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| *Held for trading* | | | | |
| Cash and cash equivalents | 669,242 | 669,242 | 585,654 | 585,654 |
| Short-term investments | 4,296,584 | 4,296,584 | 2,781,533 | 2,781,533 |
| Listed share | 137,000 | 137,000 | 82,000 | 82,000 |
| Exploration funds | 2,994,907 | 2,994,907 | - | - |
| *Loans and receivables* | | | | |
| Due from partners | 9,378 | 9,378 | 60,000 | 60,000 |
| **Financial liabilities** | | | | |
| *Other liabilities* | | | | |
| Accounts payable and accrued liabilities | 303,199 | 303,199 | 159,705 | 159,705 |
| Due to a partner | 17,840 | 17,840 | 2,596 | 2,596 |

**Outstanding share data**

| | As at April 20, 2010 |
|---|---|
| | Number |
| Common shares | 109,480,370 |
| Options | 7,395,000 |
| Warrants | 22,915,766 |
| | 139,791,136 |

**Subsequent event**
There is no subsequent event to disclose.

**Special note regarding forward-looking statements**

This Report contains forward-looking statements that are based on beliefs of its management as well as assumptions made by and information currently available to management of the Company. When used in this Report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", and the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those statements. The statements contained in this Report speak only as of the date hereof. The Company does not undertake any obligation to release publicly any revisions to these statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

April 20, 2010

| | |
|---|---|
| (S) Jens E. Hansen | (S) Ingrid Martin |
| Jens E. Hansen | Ingrid Martin |
| President | Chief Financial Officer |