# Melkior Resources Inc.

## Management's Discussion and Analysis

For the three-month period ended November 30, 2009

*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 three-month period ended November 30, 2009. This MD&A should be read in conjunction with the Company's financial statements and related notes for the three-month period ended November 30, 2009 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 three-month period ended November 30, 2009 ("Q1-2010") totalled $324,231 versus $430,366 for the three-month period ended November 30, 2008 ("Q1-2009"). The main exploration expenditures in Q1-2010 were on Timmins West Carscallen.

**Results of operations**
Total expenses are $160,544 in Q1-2010 versus $661,840 in Q1-2009, due to the following:

- Write-offs for $6,920 in Q1-2010 (nil in Q1-2009) of mining assets relating to Ungava.
- No stock-based compensation expense was recorded in Q1-2010 while in Q1-2009 the stock-based compensation expenses was $12,000.
- A $10,250 fair value loss was recorded in Q1-2010 ($512,500 in Q1-2009) 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 slightly in Q1-2010:

| | Q1-2010 | Q1-2009 |
|---|---|---|
| | $ | $ |
| Legal | 2,608 | 750 |
| Accounting | 27,412 | 28,954 |
| Audit | 2,800 | - |
| Management | 13,200 | 9,460 |
| | **46,020** | **39,164** |

- General and administrative decreased to $48,909 in Q1-2010 ($57,438 in Q1-2009) due to:
  - Part XII.6 tax on flow-through shares charged in Q1-2009 for $21,805.
  - Additional involvement of Nathalie Hansen, director, in the daily administration of the Company in Q1-2010.
- Melkior now reimburses its share of medical insurance for consultants hired by the Company.
- During Q1-2010, Melkior increased investors relation activities and incurred a cost of $35,484 in investors and shareholders relations compared to $13,763 in Q1-2009. 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 $6,840 in Q1-2010 versus $30,847 in Q1-2009 due to less cash and cash equivalents, term deposits and exploration funds on deposit and also lower interest rates available.

## Investing activities

| **Deferred exploration expenses Q1-2010** | **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 | - | - | - | - | 169,231 | - | - | 169,231 |
| Geology – prospecting | 5,800 | 11,188 | - | - | 9,581 | 325 | 6,955 | 33,849 |
| Geophysics geochemistry | 7,040 | - | - | - | 85,400 | - | 9,375 | 101,815 |
| Line cutting | - | - | - | - | 19,336 | - | - | 19,336 |
| Management | - | - | - | - | - | - | - | - |
| | 12,840 | 11,188 | - | - | 283,548 | 325 | 16,330 | 324,231 |
| Options | - | - | - | - | - | - | - | - |
| Recharge | - | - | - | - | - | (4,500) | - | (4,500) |
| | 12,840 | 11,188 | - | - | 283,548 | (4,175) | 16,330 | 319,731 |
| Deductions | | | | | | | | |
| Tax credits | (5,920) | (4,789) | - | - | - | - | - | (10,709) |
| Write-off | (6,920) | - | - | - | - | - | - | (6,920) |
| Balance, end | - | 411,388 | 78,068 | 394,341 | 2,469,252 | 618,740 | 133,722 | 4,105,511 |

| **Deferred exploration expenses Q1-2009** | **Ungava** | **Launay** | **Otish** | **Troilus** | **Timmins** | **Rim Nickel** | **Others** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance beginning | 1,134,915 | 4,235,839 | 147,618 | - | 1,497,913 | 394,111 | 85,710 | 7,496,106 |
| Additions | | | | | | | | |
| Drilling | - | 3,797 | - | 904 | 59,900 | - | - | 64,601 |
| Geology – prospecting | 650 | 12,906 | 14,670 | 26,520 | 12,290 | 10,170 | 702 | 77,908 |
| Geophysics geochemistry | 325 | - | 21,209 | 29,178 | 2,917 | 212,788 | - | 266,417 |
| Line cutting | - | - | - | 11,422 | - | - | - | 11,422 |
| Management | - | - | - | 10,018 | - | - | - | 10,018 |
| | 975 | 16,703 | 35,879 | 78,042 | 75,107 | 222,958 | 702 | 430,366 |
| Options | 2,000 | 5,110 | - | 2,000 | 15,057 | 7,000 | - | 31,167 |
| Recharge | - | - | - | - | - | (19,288) | - | (19,288) |
| | 2,975 | 21,813 | 35,879 | 80,042 | 90,164 | 210,670 | 702 | 442,245 |
| Deductions | | | | | | | | |
| Tax credits | - | - | - | - | - | - | - | - |
| Disposal | - | - | - | - | - | - | - | - |
| Balance, end | 1,137,890 | 4,257,652 | 183,497 | 80,042 | 1,588,077 | 604,781 | 86,412 | 7,938,351 |

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".

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. Nebu Resources Inc. adjoins the Melkior claims on the southwestern boundary.

Drilling will re-start on the Carscallen property on January 18 2010 with up to 8,000 metres planned for the next two phases. This program is intended to extend drilling to below the 500 metre level. To date gold has been traced by drilling for over 1000 metres of strike and consistently to a depth of 150 metres (and up to 225m in deeper holes) on the Zam-Zam, Shenkman, Mystery and 1010 zones.

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.

Two shallow holes were drilled to improve 3D modeling.

The 8,000 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. More IP surveying is underway.

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.

**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.
An airborne VTEM survey has identified several massive sulphide signal targets which will be drilled using a budget of up to $400,000.

**Financing activities**
During Q1-2010, 100,000 options were exercised for a consideration of $25,000.

**Working capital**
The Company has a working capital of $3,053,002 as at November 30, 2009 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.

| | **November 30 2009** | **August 31 2009** | **May 31 2009** | **February 28 2008** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Income | 10,040 | 58,027 | 9,574 | 12,318 |
| Net loss for the period | (150,504) | (4,025,831) | (73,612) | (1,582,614) |
| Net loss per share | - | (0.05) | - | (0.02) |

| | **November 30 2008** | **August 31 2008** | **May 31 2008** | **February 29 2008** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Income | 34,047 | 41,152 | 44,262 | 1,133,641 |
| Net profit (loss) for the period | (627,793) | (74,627) | (484,412) | 312,385 |
| Net loss per share | (0.01) | - | (0.01) | - |

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

**Related party transactions**
*In the normal course of operations:*
a) For Q1-2010, companies controlled by Jens E. Hansen (President and Director) charged:
   i) Professional fees relating to geology amounting to $9,120 ($17,090 in Q1-2009) capitalised in deferred exploration expenses;
   ii) Management fees amounting to $13,200 ($9,460 for Q1-2009) expensed in professional and consulting fees;
   iii) Rent totalling $9,000 ($9,000 for Q1-2009) expensed in general and administrative;
b) For Q1-2010, a company controlled by Ingrid Martin (Chief Financial Officer and secretary) charged professional fees of $24,088 ($25,925 for Q1-2009);
c) For Q1-2010, $17,680 of exploration work capitalised in deferred exploration expenses and $11,040 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 will pay the salary of the Director directly.
d) As at November 30, 2009, the balance due to the related parties amounted to $74,099 (November 30, 2008 – $31,924) 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.

**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**
No new accounting changes to report for Q1-2010.

**IFRS Convergence**
No new development to report for Q1-2010.

**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.

**Financial instruments** (Cont'd)

*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):** | **Q1-2010** | **Q1-2009** |
|---|---|---|
| | $ | $ |
| Listed shares | (10,250) | (512,500) |
| Treasury bills | - | 73 |
| Guaranteed investment certificates | (3,892) | (17,737) |
| | (14,142) | (530,154) |

*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 $19,639 as of November 30, 2009. Since the interest rates are lower that 1%, a decrease of interest down to 0% would increase de fair value of these by $6,913 as of November 30, 2009. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

Credit Risk
The Company is subject to concentrations of credit risk through cash and cash equivalents, short-term investments and exploration funds. The Company maintains substantially all of its cash and cash equivalents, short term investments and exploration funds in financial instruments guaranteed by either a major Canadian financial institution or by the Canadian Government. The maximum credit risk is equivalent to the carrying value. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from partners.

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

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

The listed shares held by the Company are exclusively shares from a Venture issuer who's activities are in the mineral exploration field. Those shares were obtained following the sale of mining assets in the Otish Basin in December 2007 and the original value based on the closing price on the stock market was $1,312,000. As of November 30, 2009, the value of these listed shares is $71,750.

As of November 30, 2009, a 10% decrease (increase) in the closing price on the stock market would result in an estimated increase (decrease) in net after-tax loss of approximately $7,175.

**Financial instruments** (Cont'd)

Fair Value
The fair value of the listed shares held for trading is based on the closing price on the stock market. Since this evaluation is based on quoted prices in active markets, it's considered a level 1 in the fair value hierarchy.

The faire value of financial instruments is summarized as follows:

| | **30 novembre 2009** | | **31 août 2009** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair Value** | **Carrying amount** | **Fair value** |
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| *Held for trading* | | | | |
| Cash and cash equivalents | 338,018 | 338,018 | 585,654 | 585,654 |
| Short-term investments | 2,784,481 | 2,784,481 | 2,781,533 | 2,781,533 |
| Listed share | 71 750 | 71,750 | 82,000 | 82,000 |
| Exploration funds | - | - | - | - |
| *Loans and receivables* | | | | |
| Due from partners | 65,197 | 65,197 | 60,000 | 60,000 |
| **Financial liabilities** | | | | |
| *Other liabilities* | | | | |
| Accounts payable and accrued liabilities | 348,260 | 348,260 | 159,705 | 159,705 |
| Due to a partner | - | - | 2,596 | 2,596 |

**Outstanding share data**

| | **As at January 15, 2010** |
|---|---|
| | Number |
| Common shares | 109,480,370 |
| Options | 7,395,000 |
| Warrants | 22,915,766 |
| | 139,791,136 |

**Subsequent event**

a) 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 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.

**Subsequent event** (Cont'd)

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) On December 30, 2009, the Company granted 900,000 stock options and their fair value was calculated at $225,000. Some stock options were granted to a director and to a consultant involved in exploration work and therefore $37,500 of the stock-based compensation cost was capitalized in the deferred exploration expenses.

c) 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.

**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.

January 15, 2010

(S) Jens E. Hansen
Jens E. Hansen
President

(S) Ingrid Martin
Ingrid Martin
Chief Financial Officer