

Melkior Resources Inc.

(an exploration company)

Annual Financial Statements

Years ended August 31, 2011 and 2010

Melkior Resources Inc.

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Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Shareholders of
Melkior Resources Inc.

Raymond Chabot Grant Thornton LLP

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We have audited the accompanying financial statements of Melkior Resources Inc., which comprise the balance sheets as at August 31, 2011 and 2010 and the statements of earnings and comprehensive loss, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Melkior Resources Inc. as at August 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Val-d'Or
November 30, 2011

¹ Chartered accountant auditor permit no. 13953

Melkior Resources Inc.

(an exploration company)

Balance Sheets

	August 31	
	2011	2010
	\$	\$
Assets		
Current assets		
Cash	50,092	117,421
Short-term investments (Note 3)	2,226,396	5,056,988
Sales tax receivable and other receivables	185,998	133,806
Due from partners, without interest, on demand	29,794	8,337
Taxes credits receivable	33,684	25,914
Prepaid expenses	20,467	24,299
Listed shares held for trading	146,750	218,625
	<u>2,693,181</u>	<u>5,585,390</u>
Exploration funds (Note 3)	-	638,342
Mining assets (Note 4)		
Mining properties	1,515,443	1,812,930
Deferred exploration expenses	10,064,817	6,714,836
	<u>14,273,441</u>	<u>14,751,498</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,057,635	738,643
Due to partners, without interest, on demand	4,894	20,000
	<u>1,062,529</u>	<u>758,643</u>
Shareholders' Equity		
Share capital (Note 5)	42,029,417	41,827,367
Contributed surplus (Note 5e)	2,978,022	2,136,614
Deficit	(31,796,527)	(29,971,126)
	<u>13,210,912</u>	<u>13,992,855</u>
	<u>14,273,441</u>	<u>14,751,498</u>

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

(s) Jens E. Hansen

Jens E. Hansen
President and Director

(s) Norman Farrell

Norman Farrell
Director

Melkior Resources Inc.

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Statement of Earnings and Comprehensive Loss and Deficit

	Year ended August 31	
	2011	2010
	\$	\$
EARNINGS AND COMPREHENSIVE LOSS		
Expenses		
General and administrative	166,891	294,554
Travelling and promotion	23,916	20,781
Investors and shareholders relations	108,124	107,029
Professional and consulting fees	208,397	201,669
General exploration	3,991	3,695
Stock-based compensation	283,712	398,404
Amortization	-	4,134
Fair value variation on financial instruments held for trading	53,807	(66,657)
Write-off of mining assets	486,650	119,352
	<u>1,335,488</u>	<u>1,082,961</u>
Income		
Interest income	37,143	30,667
Management fees	4,944	28,260
Gain on disposal of equipment	-	10,000
	<u>42,087</u>	<u>68,927</u>
Loss before income taxes	<u>(1,293,401)</u>	<u>(1,014,034)</u>
Future income taxes (Note 6)	-	884,000
Net loss and comprehensive loss	<u>(1,293,401)</u>	<u>(130,034)</u>
Basic and diluted net loss per share	<u>(0.01)</u>	<u>-</u>
Weighted average number of outstanding common shares	<u>110,704,342</u>	<u>103,851,317</u>
DEFICIT		
Deficit, beginning of year	(29,971,126)	(28,174,223)
Net loss	(1,293,401)	(130,034)
Future income taxes related to flow-through shares	-	(884,000)
Share issue expenses	-	(782,869)
Change of maturity date of warrants (note 5c)	(532,000)	-
Deficit, end of year	<u>(31,796,527)</u>	<u>(29,971,126)</u>

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

Melkior Resources Inc.

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Statement of Cash Flows

	Year ended August 31	
	2011	2010
	\$	\$
Operating activities		
Net loss	(1,293,401)	(130,034)
Non-cash items:		
Stock-based compensation	283,712	398,404
Amortization	-	4,134
Fair value variation on listed shares held for trading	60,698	(76,625)
Fair value variation on short-term investments held for trading	(6,891)	9,968
Interest accrued on short-term investments	(2,609)	21,439
Gain on disposal of equipment	-	(10,000)
Write-off of mining assets	486,650	119,352
Future income taxes	-	(884,000)
	<u>(471,841)</u>	<u>(547,362)</u>
Changes in non-cash working capital items		
Sales tax receivable	(52,192)	(102,684)
Due from partners	(3,644)	(927)
Prepaid expenses	3,832	674
Accounts payable and accrued liabilities	(73,399)	173,041
Due to partners	598	(296)
	<u>(124,805)</u>	<u>69,808</u>
Cash flows from operating activities	<u>(596,646)</u>	<u>(477,554)</u>
Investing activities		
Purchase of short-term investments	(4,069,770)	(12,985,186)
Disposal of short-term investments	7,548,204	10,039,982
Disposal of listed shares held for trading	11,178	-
Additions to mining properties	(77,161)	(203,234)
Deferred exploration expenses	(3,079,423)	(2,677,973)
Payments received from partners for exploration costs	18,531	120,484
Taxes credits cashed	24,008	79,566
Disposal of equipment	-	10,000
Cash flows from investing activities	<u>375,567</u>	<u>(5,616,361)</u>
Financing activities		
Issuance of common shares	153,750	6,110,362
Share issue expenses	-	(484,680)
Cash flows from financing activities	<u>153,750</u>	<u>5,625,682</u>
Net changes in cash	(67,329)	(468,233)
Cash, beginning of year	117,421	585,654
Cash, end of year	<u>50,092</u>	<u>117,421</u>

See Note 8 for additional information on the statement of cash flows

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

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2011 and 2010

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 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 and 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.

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 charged to earnings. Government assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses.

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

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As at August 31, 2011 and 2010

2. Accounting policies (Cont'd)

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 5.

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 5. 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 consultants. When the options are granted, the compensation charge is recorded in the statement of earnings or in deferred exploration expense and the counterpart is credited to contributed surplus. The expense is recorded over the vesting period for employees and over the performance period for consultants. On exercise of stock options, any consideration paid and the contributed surplus related to these options are credited to capital stock.

Fair value of the warrants

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

Income taxes

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

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2. Accounting policies (Cont'd)

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. Other receivables and due from partners are 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.

3. Short-term investments

As of August 31, 2011, short-term investments include guaranteed investments from Canadian financial institutions totalling \$2,226,396 (\$5,695,330 in 2010) cashable at any time without penalties, maturing between February 9, 2012 and August 17, 2012 (August 10, 2011 and August 17, 2011 in 2010) and bearing interest rates between 1% and 1.1% (0.90% and 0.95%).

The exploration funds were spent before December 31, 2010.

	August 31, 2011	August 31, 2010
	\$	\$
Guaranteed investment certificates	2,226,396	5,695,330
Less: Exploration funds	-	(638,342)
	<u>2,226,396</u>	<u>5,056,988</u>

4. Mining assets

Mining properties	August 31 2010	Acquisition s	Write-offs	August 31 2011
	\$	\$		\$
Quebec				
Launay	393,991	6,743	-	400,734
Mont Otish	-	12,651	(12,651)	-
Troilus	-	4,279	-	4,279
Ontario				
Timmins	272,976	52,095	-	325,071
Henderson	5,375	-	-	5,375
Long Lac	19,824	61	-	19,885
Eldorado	25,333	2,801	-	28,134
Rim Nickel–McFaulds	1,095,431	928	(364,394)	731,965
	<u>1,812,930</u>	<u>79,558</u>	<u>(377,045)</u>	<u>1,515,443</u>

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Notes to financial statements

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4. Mining assets (Cont'd)

<u>Mining properties</u>	<u>August 31 2009</u>	<u>Acquisition s</u>	<u>Write-offs</u>	<u>August 31 2010</u>
	<u>\$</u>	<u>\$</u>		<u>\$</u>
Quebec				
Launay	389,131	4,860	-	393,991
Mont Otish	32,335	480	(32,815)	-
Ontario				
Timmins	247,976	25,000	-	272,976
Henderson	5,375	-	-	5,375
Long Lac	19,824	-	-	19,824
Eldorado	24,853	480	-	25,333
Rim Nickel-McFaulds	920,978	174,453	-	1,095,431
	<u>1,640,472</u>	<u>205,273</u>	<u>(32,815)</u>	<u>1,812,930</u>

<u>Deferred exploration expenses</u>	<u>August 31 2010</u>	<u>Expendi- tures</u>	<u>Tax credits</u>	<u>Write-offs</u>	<u>August 31 2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>		<u>\$</u>
Quebec					
Launay	413,572	77,564	(31,178)	-	459,958
Ungava	-	800	-	(800)	-
Troilus	394,341	1,590	(1,102)	-	394,829
Ontario					
Timmins	3,853,630	1,696,422	-	-	5,550,052
Henderson	35,331	20,499	-	-	55,830
Long Lac	198,139	68,691	-	-	266,830
Eldorado	207,191	129,458	-	-	336,649
Rim Nickel-McFaulds	1,612,632	1,496,842	-	(108,805)	3,000,669
	<u>6,714,836</u>	<u>3,491,866</u>	<u>(32,280)</u>	<u>(109,605)</u>	<u>10,064,817</u>

<u>Deferred exploration expenses</u>	<u>August 31 2009</u>	<u>Expendi- tures</u>	<u>Tax credits</u>	<u>Write-offs</u>	<u>August 31 2010</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>		<u>\$</u>
Quebec					
Launay	404,989	13,488	(4,905)	-	413,572
Ungava	-	14,815	(6,346)	(8,469)	-
Mont Otish	78,068	-	-	(78,068)	-
Troilus	394,341	-	-	-	394,341
Ontario					
Timmins	2,007,815	1,845,815	-	-	3,853,630
Henderson	14,931	20,400	-	-	35,331
Long Lac	102,461	95,678	-	-	198,139
Eldorado	177,889	29,302	-	-	207,191
Rim Nickel-McFaulds	622,915	989,717	-	-	1,612,632
	<u>3,803,409</u>	<u>3,009,215</u>	<u>(11,251)</u>	<u>(86,537)</u>	<u>6,714,836</u>

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Notes to financial statements

As at August 31, 2011 and 2010

4. 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 ("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.

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 didn'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 in 2009. The Company does minimal work on the property and continues to write them off for \$800 in 2011 and \$8,469 in 2010.

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 in 2009. Even though the Company maintains certain claims in good standing, the Company wrote-off the residual value of the Mont Otish properties for \$12,651 in 2011 and \$110,883 in 2010 since no work is schedule in the near future.

d) *Troilus*

As per an agreement signed on October 20, 2008 and amended August 24, 2011, the Company 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 four 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 \$463,137 since the beginning of the agreement.

e) *Other properties in Québec*

The Company holds claims in the Vauquelin and Tiblemont properties. The Vauquelin and Tiblemont properties and their deferred exploration expenses were written off in 2005.

Ontario

f) *Timmins*

i) *Carscallen*

The Company holds a 100% interest in the Carscallen, west of Timmins. Some 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.

In October and November, 2010, the Company signed three agreements to acquire 100% interests in mining claims in consideration of \$10,000 cash and two 2% NSR royalties of which 1% can be repurchased for \$500,000 each.

Melkior Resources Inc.

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Notes to financial statements

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4. Mining assets (Cont'd)

ii) *Loveland*

The Company holds a 100% interest in the Loveland property located in the Loveland Township. On October 26, 2010, the Company signed an agreement to acquire 100% interest in additional mining claims in consideration of \$1,000 cash and a 2% NSR royalty of which 1% can be repurchased for \$500,000.

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 was the operator. In January 2011, Bold earned its 10% interest in the Loveland property. According to the terms of the contract, Bold decided in February 2011 not to pursue the exploration and returned the 10% interest in the Loveland property to the Company in exchange of a \$40,000 payment.

iiiv) *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 Northcore Resources Inc. ("Northcore") (previously Big Red Diamond Corporation) whereby Northcore can acquire a 50% interest in the Bristol property. Northcore issued 1,000,000 of its common shares to the Company (valued at \$60,000 as per the value on the stock exchange of Northcore 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 is the operator. As at August 31, 2011, \$24,458 of work was completed for Northcore on the property.

iv) *Big Marsh*

The Company holds claims in the Carscallen Township near Timmins, subject to two 2% NSR, half (1%) of which may be repurchased for \$1,000,000 each.

v) *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.

vi) *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.

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% 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.

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4. Mining assets (Cont'd)

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.

i) *Eldorado*

The Eldorado property located approximately 20 kilometres southeast of Timmins, was staked by the Company in 2006.

j) *Rim Nickel - McFaulds*

i) *Rim Nickel East*

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

ii) *Rim Nickel West*

The Company held 100% of the Rim Nickel West property located in the McFaulds Lake area. Bold Ventures Inc. ("Bold") had acquired 50% of the West Rim Nickel property, following the completing of \$125,000 in exploration work, as per the agreement signed on April 9, 2008 and amended on June 2, 2008.

In March 2011, the Company has opted to relinquish its interest in the property. Bold, the partner on this property, has also opted out of the project. The Company wrote off the mining property and deferred exploration expenses for \$473,199.

iii) *Riverside*

Adjoining the Rim Nickel East, the Company staked in June 2008, jointly with MacDonald Mines Exploration Ltd ("MacDonald"), the Riverside property. The Company owned 50% and MacDonald the other 50%. Those claims were dropped in 2011 and restaked without the participation of MacDonald and consequently the expenses before 2011 were written off for \$14,403. Those claims will be integrated into the East Rim property.

iv) *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. 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. The property is subject to a 2% NSR royalty. The Company 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.

On August 10, 2011, the Company signed a formal option agreement, which allows Green Swan Capital Corp. ("Green Swan") to earn up to a 70% interest in Broke Back et Riverbank, subject to a NSR not to exceed 2.5%. The option agreement replaces the September 1, 2010 letter of intent that had been modified on July 7, 2011. Green Swan is a capital pool company and intends to have this option constitute its qualifying transaction.

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4. Mining assets (Cont'd)

Green Swan may earn an initial 51% interest ("Option 1") by making cash payments of \$25,000, issuing 1,500,000 common shares, issuing 750,000 warrants and incurring \$1,000,000 expenditures before December 31, 2014. The warrants are exercisable for a period of 12 months at a price of 15 cents per common share and for a further 12 month period at a price of 25 cents per common share, and have an acceleration clause should Green Swan's shares trade above 30 cents for 20 consecutive trading days.

If the Company carries out any exploration activity on the properties before the closing of the qualifying transaction, then by December 31, 2011 Green Swan must reimburse the Company for the costs of such activity, plus management fee, which reimbursement and management fee will be deducted against the \$1,000,000 work program.

Upon exercise of Option 1, Green Swan will have the right to elect to proceed with Option 2, under which Green Swan would have the right to earn an additional 19% interest in the properties by incurring additional exploration expenditures totalling a further \$1,000,000 over an additional 24 month time frame. Green Swan may terminate either Option 1 or Option 2 at any time by giving 120 days advance notice to that effect to the Company. Green Swan's failure to give such notice will trigger a payment from Green Swan to the Company in the amount of \$25,000.

On the completion of Option 2, Green Swan would own 70% of the properties and an industry standard joint venture will immediately be created. A joint venture may also be created on the occurrence of certain other joint venture events, as defined in the agreement.

The Company has the right, following the completion of Option 1, but prior to Green Swan making any expenditure to complete Option 2, to advise that it wishes to immediately form a Joint Venture on a 51% Green Swan / 49% the Company basis. The exercise of this right by the Company is considered a joint venture event in the agreement. From the date of the qualifying transaction, Green Swan shall be the operator. As of the date of these financial statements, the qualifying transaction was still not completed.

5. Share capital

Authorized:

The Company's authorized share capital consists of:

- an unlimited number of common shares of no par value, voting and participating
- 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:

	2011		2010	
	Number	Amount	Number	Amount
Balance at beginning of year	109,480,370	\$ 41,827,367	90,074,531	\$ 35,684,352
Private placements	-	-	9,243,001	2,772,900
Flow-through private placements	-	-	9,959,400	3,286,602
Exercise of warrants	-	-	3,438	860
Value of warrants exercised	-	-	-	653
Exercise of options	1,470,000	153,750	200,000	50,000
Value of option exercised	-	48,300	-	32,000
Balance at end of year	<u>110,950,370</u>	<u>42,029,417</u>	<u>109,480,370</u>	<u>41,827,367</u>

Melkior Resources Inc.

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Notes to financial statements

As at August 31, 2011 and 2010

5. Share capital (Cont'd)

a) *Private placements*

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. 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.

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*

The Board of Directors has approved the conversion of its rolling stock option plan to a fix stock option plan (the "Plan") and received the TSX Venture approval on January 19, 2011. The reason for this change is to simplify the administration of the Plan and also to incorporate the numerous amendments brought recently to the TSX Venture Exchange's policy relating to stock options. The following are the major changes to the Plan:

- The number of shares to be delivered upon the exercise of all options granted under the plan shall not exceed 10,948,000, being slightly less than 10% of the Company's issued and outstanding shares at the time;
- Unless indicated otherwise by the Board at the time of grant, 1/6 of options granted shall vest every three months from the date of the grant;
- In the event that an optionee ceases to be an eligible person prior to the expiry date of his options, the options shall expire 12 months after the termination date or on the expiry date, whichever comes first (except for persons providing investor relations activities who will remain subject to a 30 day expiry period). In the event of termination with cause, the options of an eligible person shall expire on the date of the notice of termination; and
- Options shall no longer be subject to a 4 month hold period from the date of grant.

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.

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5. Share capital (Cont'd)

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 a consultant, 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 providing investor relations activities, in any 12 month period, will not exceed 2% of the issued common shares at the time of grant. These options must vest in stages over a 12 month period from the date of grant with no more than 25% of the options vesting in any three month period.

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

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of year	9,270,000	0.29	6,470,000	0.31
Granted	2,400,000	0.27	3,225,000	0.25
Exercised	(1,470,000)	0.10	(200,000)	0.25
Cancelled	(300,000)	0.35	(225,000)	0.30
Expired	(200,000)	0.20	-	-
Balance at end	<u>9,700,000</u>	0.31	<u>9,270,000</u>	0.29
Exercisable at the end of year	<u>8,100,000</u>	0.32	<u>9,270,000</u>	0.29

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

Fiscal 2011

Grant date	December 23, 2010	February 16, 2011
Optionee	Directors, officer and consultants	Consultant
Number of options	2,200,000	200,000
Exercise price	\$0.27	\$0.27
Exercise price compared to the market	Higher	Higher
Risk free interest	2.45%	2.44%
Average expected volatility	92.14%	91.16%
Expected dividend	-	-
Expected life (years)	5	5
Vesting	1/6 every 3 months	1/6 every 3 months
Estimated fair value per option	\$0.18	\$0.15
Estimated fair value	\$396,000	\$30,000

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5. Share capital (Cont'd)

Fiscal 2010 Grant date	October 21, 2009	December 30, 2009	July 16, 2010	July 28, 2010
	Investor relation	Directors, officers and consultants	Directors, officers and consultants	Consultants
Optionee	firm			
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

For fiscal 2011, the Company granted 2,400,000 stock options. These options were granted at an exercise price higher than the closing market value of the shares the previous day of the grant. The total fair value of these options amounts to \$426,000 of which \$351,540 will be accounted for in stock-based compensation expenses (\$265,608 as of August 31, 2011) and \$74,460 will be capitalized in the deferred exploration expenses (\$35,492 as of August 31, 2011). The assumptions used include an average interest rate without risk of 2.45%, an average expected life of the options of 5 years, no expected dividend yield, an estimated average volatility of 92.1% and a weighted average fair value per option of \$0.18.

For fiscal 2010, a total of 3,225,000 options were granted. These options were granted at an exercise price higher than 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 expenses (\$398,404 as of August 31, 2010, \$18,104 as of August 31, 2011 and \$11,868 will be recorded in fiscal 2012), \$103,500 will be capitalized in the deferred exploration expenses (\$37,578 as of August 31, 2010, \$38,504 as of August 31, 2011 and \$27,418 will be recorded in fiscal 2012) and the remaining \$16,874 will not be accounted for as stock-based compensation since these options were cancelled in June 2010. The assumptions 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.

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As at August 31, 2011 and 2010

5. Share capital (Cont'd)

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2011:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		\$	
1,400,000	1,400,000	0.30	January 15, 2012
100,000	100,000	0.35	October 26, 2012
1,900,000	1,900,000	0.50	December 17, 2012
200,000	200,000	0.25	February 25, 2013
300,000	300,000	0.10	November 7, 2013
400,000	400,000	0.40	August 7, 2014
900,000	900,000	0.36	December 30, 2014
1,900,000	1,900,000	0.20	July 16, 2015
200,000	200,000	0.20	July 28, 2015
2,200,000	733,333	0.27	December 23, 2015
200,000	66,667	0.27	February 16, 2016
<u>9,700,000</u>	<u>8,100,000</u>		

c) Warrants

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

	2011		2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance at beginning	21,112,599	0.39	16,491,100	0.39
Issued	-	-	4,621,499	0.40
Balance at end	<u>21,112,599</u>	0.39	<u>21,112,599</u>	0.39

Warrants outstanding as at August 31, 2011 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
4,758,928	0.35	June 30, 2012 ²⁾
4,496,499	0.50	December 15, 2011
125,000	0.50	December 17, 2011
2,903,226	0.25	December 18, 2011
1,659,999	0.60	March 13, 2012 ¹⁾
590,000	0.60	March 27, 2012 ¹⁾
1,578,947	0.60	May 8, 2012
5,000,000	0.35	June 9, 2013
<u>21,112,599</u>		

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As at August 31, 2011 and 2010

5. Share capital (Cont'd)

- 1) 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 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.
- 2) On June 21, 2011, the Corporation extended the life of 4,758,928 existing warrants expiring on June 30, 2011 to June 30, 2012. The increase in the weighted average fair value on the extension date of the warrants awarded was \$0.1118 per warrant or \$532,000 estimated using the Black-Scholes model and the following average assumptions: risk-free interest rate of 1.76%, projected volatility of 112%, predicted average life of warrants of 1.027 year and no dividend yield.

d) Warrants issued as compensation

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

	2011		2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance of year	1,803,167	\$ 0.31	453,030	\$ 0.30
Issued	-	-	1,656,605	0.32
Exercised	-	-	(3,438)	0.25
Expired	(146,562)	0.25	(303,030)	0.33
Balance of year	<u>1,656,605</u>	0.32	<u>1,803,167</u>	0.31

Warrants issued as compensation outstanding as at August 31, 2011 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
665,965	0.30	December 15, 2011
965,640	0.33	December 15, 2011
25,000	0.30	December 17, 2011
<u>1,656,605</u>		

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Notes to financial statements

As at August 31, 2011 and 2010

5. Share capital (Cont'd)

e) *Contributed surplus*

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance at beginning	2,136,614	1,435,096
Agent warrants (Note 5a)	-	298,189
Exercise of agent warrants cost credited to share capital	-	(653)
Stock-based compensation in favour of directors and officers (Note 5b)	265,772	399,000
Stock-based compensation in favour of consultants (Note 5b)	91,936	36,982
Exercise of stock options credited to share capital	(48,300)	(32,000)
Change of maturity date of warrants (note 5c)	532,000	-
Balance at end	<u>2,978,022</u>	<u>2,136,614</u>

f) *Policies and processes for managing capital*

The capital of the Company consists of the items included in shareholders' equity of \$13,210,912 as of August 31, 2009 (\$13,992,855 as of August 31, 2010). 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 with the requirements in the fiscal years.

6. Income taxes

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Loss before income taxes	<u>(1,293,401)</u>	<u>(1,014,034)</u>
Income taxes at the combined federal and provincial tax rate of 28,9% (30% in 2010)	(373,800)	(306,500)
Stock-based compensation	103,400	131,800
Fair value variation on financial instruments held for trading	8,800	(11,600)
Change in tax rates	17,500	22,500
Loss expired	-	36,300
Other items non deductible	100	(7,500)
Unrecognized tax benefit	244,000	(749,000)
Income taxes	<u>-</u>	<u>(884,000)</u>

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6. 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:

	2011	2010
	\$	\$
Future income tax assets		
Deferred exploration expenses	905,000	890,000
Non-capital losses	893,000	711,000
Net capital losses	12,000	5,000
Listed shares held for trading	154,000	156,000
Share issue expenses	91,000	148,000
	<u>2,055,000</u>	<u>1,910,000</u>
Future income tax liabilities		
Mining properties	317,000	419,000
Tax credit receivable	3,000	-
	<u>320,000</u>	<u>419,000</u>
	1,735,000	1,491,000
Less valuation allowance	<u>(1,735,000)</u>	<u>(1,491,000)</u>
Future income tax liabilities	<u>-</u>	<u>-</u>

In 2010, a \$130,000 future income tax asset was calculated on the share issue expenses and a valuation allowance was calculated on that asset as of August 31, 2010.

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
2031	729,000
	<u>\$ 3,409,000</u>

The Company will also be able to deduct in the future share issue expenses for which the future income tax asset is not recorded and these expenses total \$336,555.

In December 2009, the Company issued flow-through shares for gross proceeds of \$3,286,602. Under the flow-through share agreements, the Company renounced in February 2010 to \$3,286,602 of qualifying expenditures to the investors effective December 31, 2009, although under the Canadian Income Tax Act, the expenditures may actually be incurred up to December 31, 2010. The Company is required to record a tax liability at the time the renunciation is filed with the tax authorities by an increase in the share issue expenses relating to the flow-through shares for the future income taxes related to the tax deductions the Company had forgone. The Company has estimated that the future income taxes recorded at the time of renunciation would be \$884,000. Consequently, the Company has recognized share issue expenses and an increase in future income tax liability of \$884,000 respectively in February 2010.

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6. Income taxes (Cont'd)

The Company has future income tax assets of loss carryforwards and deductible temporary differences that it had not recognized in previous years as a result of applying the “more likely than not” test. The taxable temporary differences, which arose through the issuance of the flow-through shares in December 2009, are expected to reverse, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary differences. Accordingly, the Company has recognized that portion of its unrecognized future income tax assets by reversing a valuation allowance of \$884,000.

The Company has a federal non refundable tax credit of \$616,900 and a Québec non refundable tax credit of \$50,800. These credits will be applicable in reduction of income taxes payable for an indefinite period.

7. Related party transactions

In the normal course of operations in 2011 and 2010:

- a) A Company controlled by an officer charged:
 - i) Professional fees relating to exploration work amounting to \$48,270 (\$53,765 in 2010) capitalized in deferred exploration expenses;
 - ii) Management fees amounting to \$56,400 (\$57,450 in 2010) expensed in professional and consulting fees;
 - iii) Rent totalling \$36,000 (\$36,000 in 2010) expensed in general and administrative;
- b) A company controlled by an officer charged professional fees of \$75,823 that was expensed (\$82,075 in 2010 of which \$76,200 was expenses and \$5,875 was recorded as share issue expenses);
- c) A director charged \$10,000 (\$20,640 in 2010) of exploration work capitalized in deferred exploration expenses and \$2,000 (\$17,040 in 2010) of administration work expensed in general and administrative.
- d) As at August 31, 2011, the balance due to the related parties amounted to \$22,051 (August 31, 2010 – \$27,410) 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 in 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 (Note 4j, iv).

This transaction was measured at book value.

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Notes to financial statements

As at August 31, 2011 and 2010

8. Additional information to the statement of cash flows

	2011	2010
	\$	\$
Exercise of option credited to share capital	48,300	32,000
Exercise of broker warrants credited to share capital	-	653
Agent warrants granted for raising capital	-	298,189
Future income taxes accounted for in share issue expenses	-	884,000
Tax credits receivable applied against deferred exploration expenses	31,276	11,251
Additions of mining properties included in accounts payable and accrued liabilities	4,381	3,573
Additions of deferred exploration expenses included in accounts payable and accrued liabilities	893,568	501,987
Due from partners included in property and deferred exploration expenses	25,223	7,410
Due to partners included in property and deferred exploration expenses	4,296	20,000
Due from partners paid by listed shares	-	60,000
Stock-based compensation included in deferred exploration expenses	73,996	37,578

9. 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 \$17,078 as of August 31, 2011. Since the interest rates are lower than 1%, a decrease of interest down to 0% would increase de fair value of these by \$16,372 as of August 31, 2011. 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 substantially are all held in financial instruments guaranteed by major Canadian financial institutions. The maximum credit risk is equivalent to the carrying value. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from partners.

Liquidity risk

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

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9. Financial instruments (Cont'd)

Other price risk

The other price 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 the other 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 Arrowhead Gold Corp (previously Otish Energy Inc.) for an original value of \$1,312,000. As of August 31, 2011, the value of these listed shares is \$126,750.
- A 50% interest in the Bristol property to Northcore for an original value of \$60,000. As of August 31, 2011, the value of these listed shares is \$20,000.

As of August 31, 2011, a 10% decrease (increase) in the closing price on the stock market would result in an estimated increase (decrease) in net loss before income taxes of approximately \$14,675.

Fair Value

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

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

The fair value of financial instruments is summarized as follows:

	2011		2010	
	Carrying amount	Fair Value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
<i>Held for trading</i>				
Cash	50,092	50,092	117,421	117,421
Short-term investments	2,226,396	2,226,396	5,056,988	5,056,988
Listed share	146,750	146,750	218,625	218,625
Exploration funds	-	-	638,342	638,342
<i>Loans and receivables</i>				
Due from partners	29,794	29,794	8,337	8,337
Other receivables	-	-	17,129	17,129
Financial liabilities				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	1,057,635	1,057,635	738,643	738,643
Due to partners	4,894	4,894	20,000	20,000

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10. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

11. Subsequent event

On November 17, the Company announced the extension for two years the term of the 4,496,499 warrants expiring December 15, 2011 and the 125,000 warrants expiring December 17, 2011.