

# **Melkior Resources Inc.**

## Interim Financial Statements

For the nine-month period ended May 31, 2011

*The attached financial statements have been prepared by Management of  
Melkior Resources Inc. and have not been reviewed by an auditor.*

**Melkior Resources Inc.**

1801, McGill College avenue, Suite 1325, Montréal, Québec, Canada, H3A 2N4  
Tel.: (613) 721-2919 Fax: (613) 680-1091

# Melkior Resources Inc.

(an exploration company)

## Balance Sheets

	<b>May 31, 2011</b>	<b>August 31, 2010</b>
	(unaudited)	(audited)
	\$	\$
<b>Assets</b>		
Current assets		
Cash	203,427	117,421
Short term investments (Note 3)	3,058,982	5,056,988
Sales tax receivable and other receivables	106,606	133,806
Due from partners, without interest, on demand	29,794	8,337
Taxes credits receivable	31,254	25,914
Prepaid expenses	31,261	24,299
Listed shares held for trading	161,500	218,625
	<u>3,622,824</u>	<u>5,585,390</u>
Exploration funds	-	638,342
Mining assets (Note 4)		
Mining properties	1,516,576	1,812,930
Deferred exploration expenses	8,594,120	6,714,836
	<u>13,733,520</u>	<u>14,751,498</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	418,445	738,643
Due to partners, without interest, on demand	-	20,000
	<u>418,445</u>	<u>758,643</u>
<b>Shareholders' Equity</b>		
Share capital (Note 5)	42,029,417	41,827,367
Contributes surplus (Note 5d)	2,355,520	2,136,614
Deficit	(31,069,862)	(29,971,126)
	<u>13,315,075</u>	<u>13,992,855</u>
	<u>13,733,520</u>	<u>14,751,498</u>

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

# Melkior Resources Inc.

(an exploration company)

## Statement of Earnings and Comprehensive Loss and Deficit

(Unaudited)

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>EARNINGS AND COMPREHENSIVE LOSS</b>				
<b>Expenses</b>				
General and administrative	54,985	62,193	135,073	256,247
Travelling and promotion	11,928	2,573	21,455	17,105
Investors and shareholders relations	33,130	20,725	87,798	103,767
Professional and consulting fees	40,134	34,225	157,046	142,825
General exploration	(83)	-	4,441	2,170
Stock-based compensation	109,012	8,438	213,760	204,376
Amortization	-	1,386	-	4,134
Fair value variation on financial instruments held for trading	92,801	27,794	42,422	35,244
Write-off of mining assets	123	1,050	472,247	8,469
	<u>342,030</u>	<u>158,384</u>	<u>1,134,242</u>	<u>774,337</u>
<b>Other income</b>				
Interest income	8,549	8,120	30,562	20,535
Project management fees	-	6,849	4,944	24,972
	<u>8,549</u>	<u>14,969</u>	<u>35,506</u>	<u>45,507</u>
Loss before income taxes	<u>(333,481)</u>	<u>(143,415)</u>	<u>(1,098,736)</u>	<u>(728,830)</u>
Future income taxes	-	-	-	884,000
<b>Net income (loss) and comprehensive income (loss)</b>	<u>(333,481)</u>	<u>(143,415)</u>	<u>(1,098,736)</u>	<u>155,170</u>
<b>Basic and diluted net loss per share</b>	<u>-</u>	<u>-</u>	<u>(0.01)</u>	<u>-</u>
<b>Weighted average number of outstanding common shares</b>	<u>110,950,370</u>	<u>109,480,370</u>	<u>110,621,432</u>	<u>101,954,347</u>
<b>DEFICIT</b>				
Deficit, beginning of period	(30,736,381)	(29,542,507)	(29,971,126)	(28,174,223)
Net income (loss)	(333,481)	(143,415)	(1,098,736)	155,170
Future income taxes related to flow-through shares	-	-	-	(884,000)
Share issue expenses	-	-	-	(782,869)
<b>Deficit, end of period</b>	<u>(31,069,862)</u>	<u>(29,685,922)</u>	<u>(31,069,862)</u>	<u>(29,685,922)</u>

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

# Melkior Resources Inc.

(an exploration company)

## Statement of Cash Flows

(Unaudited)

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss for the period	(333,481)	(143,415)	(1,098,736)	155,170
Non-cash items:				
Stock-based compensation	109,012	8,438	213,760	204,376
Amortization	-	1,386	-	4,134
Fair value variation on financial instruments held for trading	92,801	27,794	42,422	35,244
Write-off of mining assets	123	1,050	472,247	8,469
Recovery of future income taxes	-	-	-	(884,000)
Interest accrued on interest income	(7,226)	(885)	(12,560)	14,690
	<u>(138,771)</u>	<u>(105,632)</u>	<u>(382,867)</u>	<u>(461,917)</u>
Changes in non-cash working capital items				
Sales tax receivable	(13,352)	(13,802)	27,200	(23,719)
Due from partners	-	1,229	(3,644)	(1,994)
Prepaid expenses	(24,216)	(2,742)	(6,962)	9,765
Accounts payable and accrued liabilities	(59,034)	(29,314)	(115,022)	(6,650)
Due to a partner	5,472	(14,960)	-	(296)
	<u>(91,130)</u>	<u>(59,589)</u>	<u>(98,428)</u>	<u>(22,894)</u>
Cash flows used in operating activities	<u>(229,901)</u>	<u>(165,221)</u>	<u>(481,295)</u>	<u>(484,811)</u>
<b>Investing activities</b>				
Purchase of short term investments	-	-	(2,650,770)	(5,892,982)
Disposal of short term investments	900,000	2,038,000	5,303,204	3,403,000
Disposal of listed shares	11,178	-	11,178	-
Additions to mining properties	(40,125)	(185,870)	(74,977)	(203,234)
Deferred exploration expenses	(474,160)	(910,451)	(2,217,623)	(1,705,158)
Payments received from partners for exploration costs	-	3,320	18,531	116,394
Taxes credits cashed	24,008	-	24,008	4,475
Cash flows used in investing activities	<u>420,901</u>	<u>944,999</u>	<u>413,551</u>	<u>(4,277,505)</u>
<b>Financing activities</b>				
Issuance of common shares	-	-	153,750	6,110,362
Share issue expenses	-	-	-	(484,680)
Cash flows from financing activities	<u>-</u>	<u>-</u>	<u>153,750</u>	<u>5,625,682</u>
Net changes in cash and cash equivalents	191,000	779,778	86,006	863,366
Cash, beginning of period	12,427	669,242	117,421	585,654
Cash, end of period	<u>203,427</u>	<u>1,449,020</u>	<u>203,427</u>	<u>1,449,020</u>

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

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

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### 1. Basis of presentation

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial statements. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2010. The accounting policies follow that of the most recently reported audited annual financial statements.

### 2. 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 estimates include the carrying value of mining properties, deferred exploration expenses, stock-based compensation and future income taxes. Actual results may differ from those estimates.

### 3. Short term investments

As of February 28, 2011, short term investments include guaranteed investments from Canadian financial institutions totalling \$3,058,982 cashable at any time without penalties, maturing between August 17, 2011 and February 9, 2011 and bearing interest rates between 0.90% and 1.10%.

### 4. Mining assets

<u>Mining properties</u>	<u>August 31, 2010</u>	<u>Acquisitions</u>	<u>Write-offs</u>	<u>May 31, 2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Quebec</b>				
Launay	393,991	6,658	-	400,649
Mont Otish	-	12,651	(12,651)	-
Troilus	-	1,573	-	1,573
<b>Ontario</b>				
Timmins	272,976	52,095	-	325,071
Henderson	5,375	-	-	5,375
Long Lac	19,824	61	-	19,885
Eldorado	25,333	-	-	25,333
Rim Nickel – McFaulds	1,095,431	833	(357,574)	738,690
	<u>1,812,930</u>	<u>73,871</u>	<u>(370,225)</u>	<u>1,516,576</u>

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 4. Mining assets (Cont'd)

<u>Deferred exploration expenses</u>	<u>August 31, 2010</u>	<u>Expenditures</u>	<u>Tax credits</u>	<u>Write-offs</u>	<u>May 31, 2011</u>
	\$	\$	\$		\$
<b>Quebec</b>					
Launay	413,572	74,964	(29,850)	-	458,686
Ungava	-	800	-	(800)	-
Troilus	394,341	-	-	-	394,341
<b>Ontario</b>					
Timmins	3,853,630	1,425,203	-	-	5,278,833
Henderson	35,331	20,499	-	-	55,830
Long Lac	198,139	68,291	-	-	266,430
Eldorado	207,191	129,458	-	-	336,649
Rim Nickel - McFaulds	1,612,632	291,941	-	(101,222)	1,803,351
	<u>6,714,836</u>	<u>2,011,156</u>	<u>(29,850)</u>	<u>(102,022)</u>	<u>8,594,120</u>

#### a) *Timmins*

##### i) *Carscallen*

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% Net Smelter Return ("NSR") royalties of which 1% can be repurchased for \$500,000 each.

##### ii) *Loveland*

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

In January 2011, Bold Ventures Inc. ("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.

#### b) *Rim Nickel - McFaulds*

##### i) *Rim Nickel West*

The Company has opted to relinquish its interest in the Rim Nickel West McFaulds 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 \$458,796.

##### ii) *Broke Back and Riverbank*

On September 1, 2010, the Company signed a letter of intent with Green Swan Capital Corp ("Green Swan"), a capital pool company, whereby Green Swan can acquire a 100% interest in the Brokeback and Riverbank properties. The final terms are still being discussed and there is no certainty that the sale will be completed.

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 5. Share capital

#### Authorized:

The Company's authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the value of paid up capital.

#### Issued:

Changes in the Company's common share capital were as follows:

	Nine-month period ended May 31, 2011	
	Number of shares	Amount \$
Balance at beginning of period	109,480,370	41,827,367
Exercise of stock options	1,470,000	153,750
Value of stock options exercised	-	48,300
Balance at end of period	<u>110,950,370</u>	<u>42,029,417</u>

#### a) *Stock option plan*

The Board of Directors has approved the conversion of its rolling stock option plan to a fixed 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;
- 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.

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 5. Share capital (Cont'd)

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

	Nine-month period ended May 31, 2011	
	Number of options	Weighted average exercise price
		\$
Balance at beginning of period	9,270,000	0.32
Granted	2,400,000	0.27
Exercised	(1,470,000)	0.10
Expired	(200,000)	0.20
Cancelled	(300,000)	0.35
Balance at end of period	9,700,000	0.31
Option exercisable at end of period	7,700,000	0.32

During fiscal 2010, some stock options were granted to consultants involved in exploration work and in administration. Based on the duration of their contracts, their stock-based compensation cost for \$28,878 and \$13,578 was capitalized in the deferred exploration expenses and expensed in the statement of earnings respectively for the nine-month period ended May 31, 2011.

For the six-month period ended February 28, 2011, the Company granted 2,400,000 stock options. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. The total fair value of these options amount to \$426,000 of which \$351,540 will be accounted for in stock-based compensation (\$200,182 as of May 31, 2011) and \$74,460 will be capitalized in the deferred exploration expenses (\$24,568 as of May 31, 2011). The hypotheses 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 92.6% and a weighted average fair value per option of \$0.18.

In detail, their fair value was calculated with the following assumptions:

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



# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 5. Share capital (Cont'd)

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

<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
		\$	
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	366,667	0.27	December 23, 2015
200,000	33,333	0.27	February 16, 2016
<u>9,700,000</u>	<u>7,700,000</u>		

#### b) Warrants

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

	<u>Nine-month period ended May 31, 2011</u>	
	<u>Number of warrants</u>	<u>Weighted average exercise price</u>
Balance at beginning and end of period	<u>22,915,766</u>	<u>\$ 0.39</u>

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 5. Share capital (Cont'd)

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

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

Note:

- 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 (the "Accelerated Expiry Notice") that the warrants shall terminate on the earlier of the date that is 25 days following the date of the Accelerated Expiry Notice or the warrants expiry date.
- 2) See note 7

#### d) *Contributed surplus*

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

	<b>Nine-month period ended May 31, 2011</b>
	<b>\$</b>
Balance at beginning of the period	2,136,614
Stock-based compensation in favor of directors and officers (note 5a)	199,770
Stock-based compensation in favor of consultants (note 5a)	67,436
Exercise of stock options credited to share capital	(48,300)
Balance at end of period	<u>2,355,520</u>

# Melkior Resources Inc.

(an exploration company)

## Notes to financial statements

Nine-month period ended May 31, 2011

(Unaudited)

### 6. Statement of cash flows

	Three-month period ended		Nine-month period ended	
	May 31,		May 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Additional information</b>				
Exercise of options credited to share capital	-	-	48,300	50,000
Exercise of warrants credited to share capital	-	-	-	860
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	-	-	29,348	11,251
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	300,383	45,839	300,383	45,839
Due from partners included in deferred exploration expenses and mining properties	25,223	2,951	25,223	2,951
Listed shares received on disposal of mining assets	-	-	-	60,000
Exploration funds deducted from short-term investments	-	2,083,462	-	2,083,462
Stock-based compensation included in deferred exploration expenses	23,490	-	53,446	37,500

### 7. Subsequent event

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 or \$532,000 estimated using the Black-Scholes model and the following weighted 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.