

Melkior Resources Inc.

Interim Financial Statements

For the three-month period ended November 30, 2010

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

Melkior Resources Inc.

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Melkior Resources Inc.

(an exploration company)

Balance Sheets

	November 30, 2010	August 31, 2010
	<u>(unaudited)</u>	<u>(audited)</u>
	\$	\$
Assets		
Current assets		
Cash	3,766	117,421
Short term investments (Note 3)	4,826,960	5,056,988
Sales tax receivable and other receivables	123,775	133,806
Due from partners, without interest, on demand	1,661	8,337
Taxes credits receivable	41,352	25,914
Prepaid expenses	13,141	24,299
Listed shares held for trading	280,125	218,625
	<u>5,290,780</u>	<u>5,585,390</u>
Exploration funds	-	638,342
Mining assets (Note 4)		
Mining properties	1,832,827	1,812,930
Deferred exploration expenses	7,458,846	6,714,836
	<u>14,582,453</u>	<u>14,751,498</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	451,246	738,643
Due to a partner, without interest, on demand	44,524	20,000
	<u>495,770</u>	<u>758,643</u>
Shareholders' Equity		
Share capital (Note 5)	41,971,367	41,827,367
Contributes surplus (Note 5d)	2,126,766	2,136,614
Deficit	(30,011,450)	(29,971,126)
	<u>14,086,683</u>	<u>13,992,855</u>
	<u>14,582,453</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 November 30,	
	2010	2009
	\$	\$
EARNINGS AND COMPREHENSIVE LOSS		
Expenses		
General and administrative	37,792	48,909
Travelling and promotion	3,900	7,695
Investors and shareholders relations	23,615	35,484
Professional and consulting fees	42,996	46,020
General exploration	4,271	-
Stock-based compensation	4,526	-
Amortization	-	1,374
Fair value variation on financial instruments held for trading		14,142
	(62,373)	
Write-off of mining assets	-	6,920
	<u>54,727</u>	<u>160,544</u>
Other income		
Interest income	11,998	6,840
Project management fees	2,405	3,200
	<u>14,403</u>	<u>10,040</u>
Loss before income taxes	(40,324)	(150,504)
Future income taxes	-	-
Net loss and comprehensive loss	<u>(40,324)</u>	<u>(150,504)</u>
Basic and diluted net loss per share	<u>-</u>	<u>-</u>
Weighted average number of outstanding common shares	<u>110,108,941</u>	<u>90,174,531</u>
DEFICIT		
Deficit, beginning of period	(29,971,126)	(28,174,223)
Net loss	(40,324)	(150,504)
Share issue expenses	-	(2,375)
Deficit, end of period	<u>(30,011,450)</u>	<u>(28,327,102)</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 November 30,	
	2010	2009
	\$	\$
Operating activities		
Net loss for the period	(40,324)	(150,504)
Non-cash items:		
Stock-based compensation	4,526	-
Amortization	-	1,374
Fair value variation on listed shares held for trading	(61,500)	10,250
Fair value variation on short-term investments held for trading	(873)	3,892
Write-off of mining assets	-	6,920
Interest accrued on interest income	(10,757)	21,142
	<u>(108,928)</u>	<u>(106,926)</u>
Changes in non-cash working capital items		
Sales tax receivable and other receivables	10,031	7,949
Due from partners	749	(698)
Prepaid expenses	11,158	6,793
Accounts payable and accrued liabilities	46,613	37,623
Due to a partner	4,048	(296)
	<u>72,599</u>	<u>51,371</u>
Cash flows used in operating activities	<u>(36,329)</u>	<u>(55,555)</u>
Investing activities		
Purchase of short term investments	-	(1,392,982)
Disposal of short term investments	880,000	1,365,000
Additions to mining properties	(16,963)	(17,134)
Deferred exploration expenses	(1,078,893)	(178,565)
Payments received from partners for exploration costs	18,530	4,500
Taxes credits cashed	-	4,475
Cash flows used in investing activities	<u>(197,326)</u>	<u>(214,706)</u>
Financing activities		
Issuance of common shares	120,000	25,000
Share issue expenses	-	(2,375)
Cash flows from financing activities	<u>120,000</u>	<u>22,625</u>
Net changes in cash and cash equivalents	(113,655)	(247,636)
Cash, beginning of period	117,421	585,654
Cash, end of period	<u>3,766</u>	<u>338,018</u>

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

Melkior Resources Inc.

(an exploration company)

Notes to financial statements

Three-month period ended November 30, 2010

(Unaudited)

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 November 30, 2010, short term investments include guaranteed investments from Canadian financial institutions totalling \$4,826,960 cashable at any time without penalties, maturing between August 10, 2011 and August 17, 2011 and bearing interest rates between 0.90% and 0.95%.

4. Mining assets

<u>Mining properties</u>	<u>August 31, 2010</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>November 30, 2010</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Quebec				
Launay	393,991	3,328	-	397,319
Troilus	-	1,573	-	1,573
Ontario				
Timmins	272,976	14,935	-	287,911
Henderson	5,375	-	-	5,375
Long Lac	19,824	61	-	19,885
Eldorado	25,333	-	-	25,333
Rim Nickel – McFaulds	1,095,431	-	-	1,095,431
	<u>1,812,930</u>	<u>19,897</u>	<u>-</u>	<u>1,832,827</u>

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Three-month period ended November 30, 2010

(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>November 30, 2010</u>
	\$	\$	\$		\$
Quebec					
Launay	413,572	39,035	(15,438)	-	437,169
Troilus	394,341	-	-	-	394,341
Ontario					
Timmins	3,853,630	492,335	-	-	4,345,965
Henderson	35,331	24,524	-	-	59,855
Long Lac	198,139	34,507	-	-	232,646
Eldorado	207,191	435	-	-	207,626
Rim Nickel - McFaulds	1,612,632	168,612	-	-	1,781,244
	<u>6,714,836</u>	<u>759,448</u>	<u>(15,438)</u>	<u>-</u>	<u>7,458,846</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.

b) *McFaulds – 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 by issuing 10,000,000 of its shares to Melkior. The property is subject to a 2.5% NSR royalty. The finalization of the sale to Green Swan is conditional on regulatory and board approvals as well as the latter raising \$650,000 for exploration and administrative purposes.

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.

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Three-month period ended November 30, 2010

(Unaudited)

5. Share capital (Cont'd)

Issued:

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

	Three-month period ended November 30, 2010	
	Number of shares	Amount
		\$
Balance at beginning of period	109,480,370	41,827,367
Exercise of stock options	1,200,000	120,000
Value of stock options exercised	-	24,000
Balance at end of period	<u>110,680,370</u>	<u>41,971,367</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.

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

	Three-month period ended November 30, 2010	
	Number of options	Weighted average exercise price
		\$
Balance at beginning of period	9,270,000	0.29
Exercised	(1,200,000)	0.10
Balance at end of period	<u>8,070,000</u>	0.32
Option exercisable at end of period	<u>8,070,000</u>	0.32

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Three-month period ended November 30, 2010

(Unaudited)

5. Share capital (Cont'd)

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 \$9,626 and \$4,526 was capitalized in the deferred exploration expenses and expensed in the statement of earnings respectively during the three month ended November 30, 2010.

The following table summarizes information about common share purchase options outstanding and exercisable as at November 30, 2010:

<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
		\$	
270,000	270,000	0.125	February 9, 2011
200,000	200,000	0.20	May 8, 2011
1,400,000	1,400,000	0.30	January 15, 2012
400,000	400,000	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
<u>8,070,000</u>	<u>8,070,000</u>		

b) Warrants

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

	<u>Three-month period ended November 30, 2010</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>

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(Unaudited)

5. Share capital (Cont'd)

Warrants outstanding as at November 30, 2010 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
4,758,928	0.35	June 30, 2011
146,562	0.25	June 30, 2011
4,496,499	Y1: 0.40 Y2: 0.50	December 15, 2011
125,000	Y1: 0.40 Y2: 0.50	December 17, 2011
665,965	0.30	December 15, 2011
965,640	0.33	December 15, 2011
25,000	0.30	December 17, 2011
2,903,226	0.25	December 18, 2011 ¹⁾
1,659,999	0.60	March 13, 2012 ^{2) 6)}
590,000	0.60	March 27, 2012 ^{3) 6)}
1,578,947	0.60	May 8, 2012 ⁴⁾
5,000,000	0.35	June 9, 2013 ⁵⁾
<u>22,915,766</u>		

Note:

- 1) The expiry date was extended from December 18, 2008 to December 18, 2011.
- 2) The expiry date was extended from March 13, 2008 to March 13, 2012.
- 3) The expiry date was extended from March 27, 2008 to March 27, 2012.
- 4) The expiry date was extended from May 8, 2008 to May 8, 2012.
- 5) The expiry date was extended from June 9, 2009 to June 9, 2013
- 6) These warrants are subject to an accelerated expiry if the volume weighted average price of the common shares is at least \$0.80 for any period of 20 consecutive trading days. The Company may then, within five business days of such 20 trading day period, provide notice by press release to the holders of warrants (the "Accelerated Expiry Notice") that the warrants shall terminate on the earlier of the date that is 25 days following the date of the Accelerated Expiry Notice or the warrants expiry date.

d) *Contributed surplus*

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

	Three-month period ended November 30, 2010
	\$
Balance at beginning of the period	2,136,614
Stock-based compensation in favor of consultants (note 5a)	14,152
Exercise of stock options credited to share capital	(24,000)
Balance at end of period	<u>2,126,766</u>

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Notes to financial statements

Three-month period ended November 30, 2010

(Unaudited)

6. Statement of cash flows

	Three-month period ended November 30,	
	2010	2009
	\$	\$
Additional information		
Exercise of options credited to share capital	24,000	16,000
Tax credits receivable applied against deferred exploration expenses	15,438	10,709
Additions of mining properties included in accounts payable and accrued liabilities	6,507	-
Additions of deferred exploration expenses included in accounts payable and accrued liabilities	165,043	250,595
Due from partners included in deferred exploration expenses and mining properties	5,927	14,929
Due to a partner included in deferred exploration expenses	40,476	-
Stock-based compensation included in deferred exploration expenses	9,626	-

7. Subsequent event

On December 23, 2010, the Company granted 2,200,000 stock options and their fair value was calculated with the following assumptions:

Grant date	December 23, 2010
Optionee	Directors, officer and consultants
Number of options	2,200,000
Exercise price	\$0.27
Exercise price compared to the market	Higher
Risk free interest	2.45%
Average expected volatility	92%
Expected dividend	-
Expected life (years)	5
Vesting	1/6 every 3 months
Estimated fair value per option	\$0.18
Estimated fair value	\$396,000