

# **Melkior Resources Inc.**

Management's Discussion and Analysis

For the nine-month period ended May 31, 2011

*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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# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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Nature of activities .....	3
Overall performance .....	3
Results of operations .....	3
Investing activities.....	4
Financing activities.....	9
Working capital .....	10
Summary of quarterly results .....	10
Related party transactions .....	10
Change in accounting policies .....	10
IFRS Convergence .....	10
Outstanding share data.....	10
Financial instruments .....	10
Subsequent event .....	11
Special note regarding forward-looking statements .....	11

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(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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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 nine-month period ended May 31, 2011. This MD&A should be read in conjunction with the Company's financial statements and related notes for the nine-month period ended May 31, 2011 with the Company's MD&A included in the 2010 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](http://www.sedar.com).

### Nature of activities

Melkior is an exploration stage company engaged in the acquisition and exploration of mining properties located in Quebec and Ontario.

### Overall performance

Exploration for the nine-month period ended May 31, 2011 ("Q3-2011") totalled \$1,976,241 versus \$1,647,617 for the nine-month period ended May 31, 2010 ("Q3-2010"). The main exploration expenditures in Q3-2011 were on the West Timmins Carscallen property.

### Results of operations

The net loss for Q3-2011 was \$1,098,736 versus a net profit for Q3-2010 of \$155,170.

Total expenses were \$1,134,242 in Q3-2011 versus \$774,337 in Q3-2010, and this increase is due to the following:

- Write-offs for \$472,247 in Q3-2011 of mining assets relating to Rim Nickel West McFaulds compared to \$8,469 in Q3-2010 relating to the Ungava property.
- The General and administrative expenses were \$135,073 in Q3-2011 (\$256,247 in Q3-2010). The Company paid a bonus of \$100,000 to the president in Q3-2010. There was no bonus paid in Q3-2011.
- Professional and consulting fees increased in Q2-2011 from Q2-2010:

	<u>Q3-2011</u>	<u>Q3-2010</u>
	\$	\$
Legal	21,273	13,809
Accounting	77,748	70,466
Audit	6,125	6,300
Management	51,900	52,250
	<u>157,046</u>	<u>142,825</u>

Melkior recorded a \$884,000 recovery of future income taxes in Q3-2010 (none in Q3-2011) representing the tax impact of the flow-through shares issued.

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(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

### Investing activities

Deferred exploration expenses Q3-2011	Rim Nickel						Others	Total
	Ungava	Launay	Troilus	Timmins	Eldorado	McFaulds		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning	-	413,572	394,341	3,853,630	207,191	1,612,632	233,470	6,714,836
Additions								
Drilling	-	1,153	-	1,057,744	124,271	4,478	21,982	1,209,628
Geology – prospecting	800	7,640	-	48,414	1,088	11,169	5,302	74,413
Geophysics geochemistry	-	47,516	-	290,181	4,099	267,787	62,989	672,572
Line cutting	-	18,655	-	-	-	973	-	19,628
	800	74,964	-	1,396,339	129,458	284,407	90,273	1,976,241
Options	-	-	-	45,912	-	7,534	-	53,446
Recharge	-	-	-	(17,048)	-	-	(1,483)	(18,531)
	800	74,964	-	1,425,203	129,458	291,941	88,790	2,011,156
Deductions								
Tax credits	-	(29,850)	-	-	-	-	-	(29,850)
Write-off	(800)	-	-	-	-	(101,222)	-	(102,022)
Balance, end	-	458,686	394,341	5,278,833	336,649	1,803,351	322,260	8,594,120

Deferred exploration expenses Q3-2010	Rim Nickel						Others	Total
	Ungava	Launay	Otish	Troilus	Timmins	Nickel		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning	-	404,989	78,068	394,341	2,185,704	622,915	117,392	3,803,409
Additions								
Drilling	-	900	-	-	1,134,944	480	-	1,136,324
Geology – prospecting	7,775	11,939	-	-	32,089	4,760	8,264	64,827
Geophysics geochemistry	7,040	-	-	-	201,626	171,708	9,855	390,229
Line cutting	-	-	-	-	56,237	-	-	56,237
Management	-	-	-	-	-	-	-	-
	14,815	12,839	-	-	1,424,896	176,948	18,119	1,647,617
Options	-	-	-	-	33,375	4,125	-	37,500
Recharge	-	-	-	-	(110,604)	(5,790)	-	(116,394)
	14,815	12,839	-	-	1,347,667	175,283	18,119	1,568,723
Deductions								
Tax credits	(6,346)	(4,905)	-	-	-	-	-	(11,251)
Write-off	(8,469)	-	-	-	-	-	-	(8,469)
Balance, end	-	412,923	78,068	394,341	3,533,371	798,198	135,511	5,352,412

# Melkior Resources Inc.

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## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### Investing activities (Cont'd)

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

#### McFaulds

(Nickel - East Rim 100% - West Rim 50% - Riverside 50%- Broke Back 100% - Riverbank 100%)

##### *East Rim*

Melkior owns 100% interest in approximately 1,370 claim units or 22,016 hectares in the East Rim Property in the "Ring of Fire" discovery area of North Central Ontario, which covers a large, significant regional gravity feature. The property is possibly underlain by large volumes of dense mafic or ultramafic rocks of the type that can host significant nickel copper massive sulphide occurrences as demonstrated by the work of Noront Resources Ltd. ("Noront"). East Rim is located approximately 25 kilometres from the chromite deposit recently acquired by Cliffs Natural Resources and 30 kilometres from the nickel discovery by Noront.

Melkior has completed MEGATEM and VTEM airborne surveys. A series of targets with massive sulphide geophysical signatures have been located. A number of these targets have been located and defined on the ground using Time Domain Electromagnetics. Winter drilling was originally planned, it was delayed and a summer 2011 program is planned.

##### *West Rim*

Bold Ventures Inc. (50%) and the Company have jointly decided to abandon the West Rim McFaulds property. The Company wrote off the mining property and deferred exploration expenses for \$458,796.

##### *Broke Back and Riverbank*

On January 18, 2010, the Company signed an agreement to acquire 100% interest in the Broke Back and Riverbank properties, located in McFaulds region in Ontario. The Company acquired the 100% interest from two of the original vendors of East and West Rim Nickel by reimbursing out of pocket staking costs of \$167,400 and by undertaking approximately \$400,000 of assessment work. The vendors of the original East Rim property will retain a 2% NSR royalty. The stakers of Broke Back and Riverbank are North American Exploration Limited and Geotest Corporation. Jens Hansen, president of the Company, is a principal of Geotest Corporation.

The Broke Back property has 843 claim units over 134.9 sq kilometres. These claims adjoin the main Noront claim block, it is located 7 kilometres north of the Noront Eagle One nickel discovery and approximately 6 kilometres northeast of the chromite property of Cliffs Natural Resources Inc. The Riverbank property has 87 claim units over 13.9 sq kilometres. These claims located west of the Attawapiskat.

In June 2010, an airborne VTEM electromagnetic and magnetic survey of its 100% owned Broke Back and Riverbank claim groups was completed. A total of 1765 line kilometres were flown.

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)

## **Management's Discussion and Analysis**

Nine-month period ended May 31, 2011

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### **Investing activities (Cont'd)**

#### **Timmins West (Carscallen Gold)**

(100% owned – gold)

The Melkior property is located 5km west of the Lake Shore Gold Corp. developing West Timmins gold mine. The property is composed of approximately 100 claim units.

Melkior is continuing exploration of its Carscallen gold property. Approximately 25,000 metres have been drilled to date.

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 exploration budget for Fiscal 2011 is \$1,300,000. This budget could be modified according to the results of the drilling program underway.

#### **Timmins Loveland**

(100% owned - or copper nickel)

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.

The Company has no exploration budget for Fiscal 2011.

#### **Timmins Eldorado**

(100% owned - nickel)

The Eldorado property was staked by the Company in 2006 and is composed of 328 claim units covering 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.

A 6 hole, 910 metres drill program was completed in Q2-2011. The results indicated some anomalous gold values, however nothing potentially economic was encountered.

#### **Shaw Gold**

(100% - gold)

The property is located approximately 13 kilometres south-east of the City of Timmins and is subject to two 1% NSR royalty of which 0.5% can be repurchased for \$1,000,000 each. This property is contiguous with the Timmins Eldorado property.

A brief geological reconnaissance was undertaken in 2009 with anomalous gold (236pph), anomalous silver (2.7 g/t) and anomalous zinc (1.3%) being recorded. An airborne VTEM survey covered the properties in 2010.

# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### Investing activities (Cont'd)

#### Big Marsh

(100% owned – base metals)

The Company holds claims in the Carscallen Township near Timmins, subject to two 2% NSR of which the Company has the right to buy out half (1%) of the NSR for \$1,000,000 each. The Big Marsh property is located in Carscallen Township two kilometres north of the Melkior Timmins gold property. These claims adjoin a property being actively explored for gold and base metals by a subsidiary of San Gold Corp.

The exploration budget for Fiscal 2011 is approximately \$50,000, which may be delayed. The Big Marsh property is an integral part of Melkior's West Timmins holdings. It is likely that the planned budget will be increased.

#### Fripp

(100% owned – gold)

The Fripp property is located 25 kilometres south southwest of the City of Timmins. The exploration budget for Fiscal 2011 is \$10,000. The work will consist of prospecting and sampling.

#### Bristol

(100% owned - gold)

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 Big Red Diamond Corporation ("Big Red") whereby Bid Red can acquire a 50% interest in the Bristol property. Big Red issued 1,000,000 of its common share to the Company (valued at \$60,000 as per the value on the stock exchange of Big Red 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. Melkior is the operator. As at August 31, 2010, \$8,337 of work was completed on the Bristol property according to the agreement.

The Melkior claims are located between two Big Red claim groups in Bristol Township. Regional airborne geophysics suggests exploration targets that extend from the Melkior claims onto the Big Red properties. The Bristol claims are 5 kilometres north of the Lake Shore Gold West Timmins gold deposit.

The exploration budget will be paid by Big Red, the option holder.

#### Long Lac -Geraldton

(100% owned – gold copper)

The Beardmore property is located in northern Ontario, approximately 20 km east of the town of Longlac. It consists of 203 unpatented claims, covering 32.5 km<sup>2</sup>. In early 2008 an airborne AeroTEM survey was flown and in the summer of 2008 a small program of prospecting over selected anomalies was undertaken.

The Company has completed an induced polarization survey of 26.1 line kilometres and an AeroTEM airborne survey of 462 line kilometres.

# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### Investing activities (Cont'd)

#### Launay

(100% owned - gold)

Melkior holds 169 claims or 75.6 square kilometres. The property is located 80 kilometres north west of Val-D'Or, Quebec. Previous work has identified two gold zones with large tonnage low grade potential. Historical assays from drill holes include 6.92g/t gold over 12.8 metres and 9.10g/t gold over 7.0 metres.

The 2009 program was designed to verify gold at the Zone 75, follow the geological trend onto the new claims and sample the trend. Grab samples taken on Zone 75 yielded 13.75g/t, 5.06g/t and 3.08g/t gold thereby supporting earlier drill results. On the new claims, which are approximately 4 kilometres to the north of Zone 75, several anomalous gold in grab samples including 1.415g/t and 1.28g/t with anomalous silver values of up to 19.15g/t were discovered.

During Q2-2011, the Company completed an induced polarisation survey over the most important mineralized zones.

#### Troilus

(50% earn-in - copper zinc gold)

On October 20, 2008, the Company signed an agreement whereby it 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 three year period. Of the above amount, \$250,000 were spent before June 30, 2009. Beaufield is the operator. The President of the Company is also the President of Beaufield. The Boards of Directors of both companies have approved this transaction.

Drilling started on December 4, 2008 and was completed on January 20, 2009. The current grassroots program consisted of drilling 6 holes for 933 metres. The holes targeted specific airborne geophysical anomalies with coincident electromagnetics and magnetics. Prior to drilling these targets they have been confirmed by ground geophysics. The geophysical anomalies drilled are indicative of those typically caused by massive sulphides which in this environment can host copper-zinc sulphides with accompanying gold and silver. Sulphides were intersected in 3 of the 6 holes. Significant base metals were not observed in the core.

As of November 30, 2010, \$461,547 has been spent on Troilus, which at this time remains to be completed.

The exploration budget for Fiscal 2011 is \$50,000.

#### Ungava Quebec

(49% owned copper-nickel-platinum group)

Melkior owns 49% of this project with Xstrata Nickel (formally Falconbridge Ltd) holding 51%. In 1999, Falconbridge Ltd reported a resource of 817,000 tonnes 3.05% nickel, 1.26% copper and 2.65g/t platinum-palladium. This is non NI 43-101 compliant and has not been verified by a qualified person. A 2004 drill hole on a new target intersected 99.77 metres 0.64% nickel and 0.26% copper. This has not been followed up.



# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### Investing activities (Cont'd)

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 for \$1,347,833 in 2009 and \$8,469 in 2010.

The property remains a significant asset and will be further explored at a later time. Melkior has had communication with Joint Venture partner Xstrata Nickel in this regard.

There is no exploration budget for Fiscal 2011.

### Mont Otish

(100% Molybdenum – Diamond exploration rights)

In 2010, the Company wrote-off the residual value of the Mont Otish properties for \$78,068 since no work is schedule in the near future.

Melkior plans to retain some of the claims but a program has not yet been prepared.

### Henderson

(100% – Uranium, nickel)

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 50-50 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.

During the summer 2010, FNI earned its 50% interest. The Company chose to participate in the exploration over \$60,000.

Melkior completed the budget for Fiscal 2011 of \$40,000.

### Other properties in Quebec

The Company owns 35 claims in Vauquelin Township and 30 claims in Tiblemont Township located approximately 50km east of Val-d'Or, Quebec. The properties and their deferred exploration expenses were written off in Fiscal 2005 since the exploration work for gold was not successful. Nevertheless, there is activity by others in the area hence the properties will be maintained in good standing. Together the Vauquelin and Tiblemont properties have approximately \$770,000 in excess work credits.

### Project generation

Melkior is not presently looking to increase its property portfolio.

### Financing activities

In Q3-2011, 1,470,000 options were exercised for a consideration of \$153,750.

# Melkior Resources Inc.

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## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### Working capital

The Company has a working capital of \$3,204,379 as at May 31, 2011 as compared to \$4 826 747 plus \$638,342 of exploration funds as of August 31, 2010. 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.

	<u>May 31</u> <u>2011</u>	<u>February 28</u> <u>2011</u>	<u>November 30</u> <u>2010</u>	<u>August 31</u> <u>2010</u>
	\$	\$	\$	\$
Income	8,549	12,554	14,403	23,420
Net profit (loss) for the period	(333,481)	(724,931)	(40,324)	(285,204)
Net loss per share	-	(0.01)	-	-

  

	<u>May 31</u> <u>2010</u>	<u>February 28</u> <u>2010</u>	<u>November 30</u> <u>2009</u>	<u>August 31</u> <u>2009</u>
	\$	\$	\$	\$
Income	14,969	20,498	10,040	58,027
Net profit (loss) for the period	(143,415)	449,089	(150,504)	(4,025,831)
Net loss per share	-	-	-	(0.05)

Three factors influence greatly the variation of quarterly results: write-off of mining assets (August 2009 et February 2011), future income taxes when flow-through financing are renounced (February 2010).

### Related party transactions

In Q3-2011, the related party transactions are in the normal course of operations and there is no related party transaction out of the normal course of business to disclose.

### Change in accounting policies

No change in accounting policies to report for Q3-2011.

### IFRS Convergence

No change in the IFRS convergence to report for Q3-2011.

### Outstanding share data

	<u>As at</u> <u>June 30,</u> <u>2011</u>
	Number
Common shares	110,950,370
Options	9,700,000
Warrants	22,769,204
	<u>143,419,574</u>

### Financial instruments

There is no significant change relating to the financial instruments since the annual MD&A of August 31, 2010.

# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

Nine-month period ended May 31, 2011

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### 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.

### 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.

June 30, 2011

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

(S) Ingrid Martin  
Ingrid Martin  
Chief Financial Officer