Melkior Resources Inc.

Annual Report

2012

Melkior Resources Inc.
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Dear Shareholder:

I wish to thank all Melkior's shareholders for being patient and staying with us during one of the worst exploration and mining markets in many years. It is the fourth or fifth such downturn that I have witnessed in my 40 years in the business. With approximately $800,000, experienced management, no debt, low overhead and a strong portfolio of exploration and development properties Melkior is in excellent shape moving forward. Melkior's flagship properties, Carscallen and Launay are new discoveries made by Melkior with substantial upside in known, prolific gold camps

Carscallen, located within the Timmins mining camp remains a key property with substantial upside potential. Drilling has identified an important gold trend drilled from surface to 400 metres depth. The depth potential remains open. Melkior wishes to be practical and prudent in the current environment and will concentrate on outlining a possible gold resource that could be exploitable from surface. Drilling and recent channel sampling will focus on this. We are on a paved road and very close to mills.

The Launay gold property in the Quebec gold camp represents another near surface gold deposit that is being evaluated for its potential to be mined. The depth potential has not yet been explored. A gold resource was calculated in the 1980's. Melkior has completed new drilling and is undertaking surface channel sampling to update old calculations. The infrastructure is excellent and mills are nearby.

The Delta Kenty Lake nickel-copper-PGE deposit holds significant value. A calculation by Falconbridge (now Xstrata) published in its 1999 annual report quoted a tonnage of 817,600 tonnes 3.05% nickel, 1.26%, 1.64g/t palladium and 1.00g/t platinum. The project is shared 49% Melkior and 51% Xstrata Nickel. A joint venture drill hole on a new target in 2004 returned 99.77 metres 0.64% nickel and 0.26% copper. This has not been followed up. The tonnage reported is not 43-101 compliant and has not been verified by an independent qualified person. Melkior has the right to propose a program and become operator.

Melkior also holds several other important exploration assets in active mineral exploration and mining camps. The most interesting of these is two properties in the Geraldton-Long Lac gold camp. Subsequent to staking by Melkior we have been surrounded by a new company that has raised $2 million for exploring the adjoining properties.

We expect important market improvement in 2013 and thank you for your continued support.

(S) Jens E. Hansen
Jens E. Hansen
President
Melkior Resources Inc.

December 3, 2012

Management has prepared the following discussion and analysis (MD&A) which constitutes management's review of financial and operating factors affecting Melkior Resources Inc. ("Melkior" or the "Company") for the year ended August 31, 2012. This MD&A should be read in conjunction with the Company's financial statements and related notes as at August 31, 2012. All figures are in Canadian dollars unless otherwise noted.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the August 31, 2012 year end financial statements have been prepared in accordance with IFRS. The term "Previous GAAP" refers to Canadian GAAP before the adoption of IFRS.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

Nature of activities

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

Overall performance

Melkior has a $1,487,243 working capital as of August 31, 2012 ($1,630,652 as of August 31, 2011) which will allow the Company to undertake its exploration program for at least the next year.

In Fiscal 2012, Melkior raised $1,176,500 through flow-through private placements ($153,750 in Fiscal 2011 following the exercise of options).

Exploration for Fiscal 2012 totalled $871,746 versus $3,436,401 in Fiscal 2011. The main exploration expenditures in Fiscal 2012 were done on Carscallen. Mining properties at a total cost of $23,685 were acquired in Fiscal 2012 mainly in Timmins ($79,558 in Fiscal 2011).

Selected annual information

	Fiscal year ended August 31		
	2012	2011	2010
	IFRS	IFRS	Previous GAAP
	$	$	$
Income	11,506	48,978	68,927
Net loss and comprehensive loss	(1,482,131)	(1,246,094)	(130,034)
Net Loss per share, basic and diluted	(0.01)	(0.01)	-

	August 31, 2012	August 31, 2011	September 1, 2010
	IFRS	IFRS	IFRS
	$	$	$
Total assets	13,047,071	14,273,441	14,751,498

Results of operations

Total expenses increased to $1,428,313 in Fiscal 2012 versus $1,281,681 in Fiscal 2011, due to the following:

- Write-offs of exploration and evaluation assets for $727,953 in Fiscal 2012 ($486,650 in Fiscal 2011) relating to Rim Nickel McFaulds East, Troilus and Loveland (Rim Nickel McFaulds west in Fiscal 2011) (see investing activities).
- A $95,700 stock-based compensation expense was recorded in Fiscal 2012 ($283,712 in Fiscal 2011) following the grant of 2,400,000 options in Fiscal 2011 and 3,225,000 options in Fiscal 2010. This expense is recorded over the vesting period for directors, officers and employees and over the performance period for consultants.
- Professional and consulting fees are as follow:

	2012	2011
	$	$
Legal	20,917	21,967
Accounting and audit	104,476	126,430
Consulting	11,200	1,800
Management	67,250	58,200
Professional and consulting fees	**203,843**	**208,397**

- A $128,685 loss on sale of exploration and evaluation assets was recorded in April 2012 following the sale of the Launay Trojan property.
- Salaries and employee benefits expenses decreased to $12,988 from $54,485. A full time employee is working since May 2011 on a consulting basis.

The project management fees income decreased to nil from $4,944 in Fiscal 2011 since these fees were mainly earned as the operator of Loveland property and no exploration expenses were incurred in Fiscal 2012 on that property. A $28,375 allowance for losses on a receivable was recorded in Fiscal 2012 relating to those Loveland expenses charged to the partner.

Interest income was $11,506 in Fiscal 2012 versus $44,034 in Fiscal 2011 due to lower level of short-term investment held.

The Company incurred $158,125 unfavourable change in value of listed shares ($60,698 in Fiscal 2011). These changes were mainly generated by the 1,025,000 shares (4,100,000 consolidated 4 to 1) received from Arrowhead Gold Corp. (previously known as Otish Energy Inc.) following the sale of the properties in the Mont Otish area, by the 2,000,000 shares and 1,000,000 warrants received from Green Swan Capital Corp. (“Green Swan”) for a 51% (up to 70%) option on the Brokeback and Riverbank properties and by the 750,000 shares received from Lakeside Minerals Inc. (“Lakeside”) following the sale of 21 claims of the Launay property.

Investing activities

Exploration and evaluation expenses 2012	Launay	Troilus	Timmins	Eldorado	Rim Nickel McFaulds	Others	Total
	$	$	$	$	$	$	$
Balance beginning	459,958	394,829	5,550,052	336,649	3,000,669	322,660	10,064,817
Additions							
Drilling	189,622	-	446,052	50,842	40,069	-	726,585
Geology – prospecting	11,855	-	33,575	1,992	7,000	6,974	61,396
Geophysics geochem.	4,346	-	23,188	-	176	56,055	83,765
Line cutting	-	-	-	-	-	-	-
Management fees	-	-	-	-	-	-	-
	205,823	-	502,815	52,834	47,245	63,029	871,746
Stock-based compensation	-	-	54,652	-	3,234	-	57,886
Recharge	-	-	-	-	-	-	-
	24,159	-	557,467	52,834	50,479	63,029	929,632
Deductions							
Tax credits	(21,339)	-	-	-	-	-	(21,339)
Disposal	(35,975)	-	-	-	(86,089)	-	(122,064)
Write-off	-	(394,829)	-	-	-	(1,339)	(396,168)
Balance, end	608,467	-	6,107,519	389,483	2,965,059	384,350	10,454,878

Exploration and evaluation expenses 2011	Ungava	Launay	Troilus	Timmins	Eldora-do	Rim Nickel McFaulds	Others	Total
	$	$	$	$	$	$	$	$
Balance beginning	-	413,572	394,341	3,853,630	207,191	1,612,632	233,470	6,714,836
Additions								
Drilling	-	1,953	-	1,279,081	124,271	1,190,262	21,982	2,617,549
Geology – prospecting	800	8,840	1,590	60,810	1,088	16,169	5,302	96,062
Geophysics geochemistry	-	46,836	-	308,116	4,099	279,442	63,389	703,162
Line cutting	-	18,655	-	62,273	-	973	-	19,628
	800	77,564	1,590	1,649,470	129,458	1,486,846	90,673	3,436,401
Stock-based compensation	-	-	-	64,000	-	9,996	-	73,996
Recharge	-	-	-	(17,048)	-	-	(1,483)	(18,531)
	800	77,564	1,590	1,696,422	129,458	1,496,842	89,190	3,417,870
Deductions								
Tax credits	-	(31,178)	(1,102)	-	-	-	-	(32,280)
Disposal	-	-	-	-	-	-	-	-
Write-off	(800)	-	-	-	-	(108,805)	-	(109,605)
Balance, end	0	459,958	394,829	5,550,052	336,649	3,000,669	322,660	10,064,817

Investing activities (Cont'd)

Exploration and evaluation expenses	Partner	Budget 2012	Actual 2012 [1)]	Budget 2013
		$	$	$
Québec				
Ungava		-	1,139	-
Launay		100,000	205,823	Not yet available
Ontario				
Timmins				
Carscallen		360,000	500,013	250,000
Shaw		100,000	799	-
Big Marsh		-	400	35,000
Fripp		-	1,603	25,000
Bristol	Northcore Resources inc.	-	-	-
Sub total		**460,000**	**502,815**	**310,000**
Rim Nickel McFaulds				
East		50,000	11,096	-
Brokeback	Green Swan	-	15,129	-
Riverbank	Green Swan	-	21,020	-
Sub total		**50,000**	**47,245**	**-**
Eldorado		-	52,834	-
Henderson – Ontario	First Nickel Inc.	40,000	-	-
Long Lac		50,000	61,690	50,000
Loveland		-	200	-
Total		**700,000**	**871,746**	**360,000**

1) Actual 2012 disclosed in this table excludes the $57,886 stock-based compensation capitalised in exploration and evaluation expenses

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

Timmins West (Carscallen Gold)
(100% owned – gold)

Property description
Melkior holds a 100% interest in the Carscallen property, located 25 kilometres west of the city of Timmins, Ontario and accessible via highway 101. The infrastructure and access are superior and accessible year round. 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.

As of August 31, 2012, the property totals 104 claim units, covering 16.64 square-kilometres.

Investing activities (Cont'd)

Recent exploration

The Company started a diamond drill program in February 2012.The first phase of drilling focused on the Shenkman zone at depth. Two holes were designed based on the 3D model to intersect below the granite-mafic volcanic contact. Previous holes drilled on the Shenkman zone in 2010 and 2011 intersected 13.25 metres @ 5.10 g/t Au (CAR-71-2011); 13.30 metres @ 4.84 g/t Au (CAR-61-2010); 12.00 metres @ 1.86 g/t Au (CAR-51-2010) and 5.80 metres @ 2.87 g/t Au (CAR-47-2010). All of the above intersections were hosted in granite. As demonstrated by holes drilled on the ZamZam zone (located ~ 500 metres north of the Shenkman zone), mineralization is also encountered underneath the granite and is hosted in mafic volcanic rocks. Analyses of data from the previous drill campaigns suggest that intersections hosted in mafic volcanics are wider than those hosted within the granite. It is interpreted that mineralization intersected by holes CAR-47-2010, CAR-51-2010, CAR-61-2010 and CAR-71-2011 continues at depth and may be hosted within the mafic volcanic units.

The two holes totalled 1270 metres with CAR-79-2012 drilled to a final depth of 602 metres and CAR-80-2012 drilled to a final depth of 668 metres. CAR-79-2012 revealed several mineralized zones and new insights on geology on the Carscallen property. Hole CAR-80-2012 was drilled 100 metres north of CAR-79-2012 and 180 metres underneath CAR-51-2010 (12.00m @ 1.87 g/t gold, see press release July 23, 2010) and 250 metres under CAR-71-2011 (13.25m @ 5.10g/t gold, see press release July 28, 2011).

The holes expanded the Shenkman gold system with two significant observations:

1. Gold extends past the granite-volcanic contact and deeper than any previous drilling.
2. Anomalous copper and silver are present providing further evidence for a possible gold bearing copper VMS system at depth (Volcanogenic Massive Sulphide). A gold system appears to be present independently of the possible VMS target.
3. Gold grade appears to be improving at depth.

CAR-79-2012 was drilled at an azimuth of 265^{o} and a dip of -65^{o} with a final depth of 602 metres which corresponds to a vertical depth of 545 m. Several mineralized zones were intersected:

VMS Zone:			
-528.00 – 529.35 m	1.35 m	@	3.55% Copper
-528.00 – 538.00 m	10.00 m	@	2.54 g/t Gold
Gold Zones:			
-377.00 – 382.00 m	5.00 m	@	1.18 g/t Gold
-457.30 – 481.00 m	23.70 m	@	1.55 g/t Gold
including	7.85 m	@	3.72 g/t Gold
including anomalous copper up to 3770 ppm			
528.00 – 538.00 m	10.00 m	@	2.54 g/t Gold
including 1.35 m @ 3.55% Copper			

The hole was drilled about 80 m under hole CAR-61-2010 which returned 13.30 m @ 4.84 g/t Au and about 120 m under hole CAR-51-2010 which returned 12.00 m @ 1.87 g/t Au. CAR-79-2012 confirmed the extension at depth of gold mineralization on Shenkman. Mineralization was encountered up to about 500 m vertical and still open at depth. The zones consist of pyrite and carbonate veinlets with minor amount of chalcopyrite. Carbonate alteration is associated with the mineralization and is typical of the gold mineralization encountered on the Carscallen property.

Investing activities (Cont'd)

Chalcopyrite mineralization was encountered between 528.00 m and 529.35 m grading 3.55% Cu. The mineralization consists of stringers of copper sulphide mineralization within a chlorite-rich alteration zone. The texture of the sulphides and the chloritic alteration suggest a VMS origin (volcanogenic massive sulphides). This intersection is considered significant and may represent indications for a volcanogenic massive sulphide ("VMS") deposit underneath the granite body. This is a new discovery on the Carscallen property. Significant massive sulphide deposits occur in the Timmins District with the most important being Kidd Creek.

Hole CAR-79-2012 encountered several granite and mafic volcanic units beyond the main granite body (contact at 380 m). Granite dykes were encountered between 474.18 m and 501.10 m, between 522.70 m and 524.50 m, between 526.60 m and 528.00 m and between 539.00 m and 556.20 m, which most likely represent local roots of the major granite intrusion. Gold seems to be spatially related to some of these granite "roots", especially at the contact with associated mafic volcanic wedges . Three of the mineralized intersections are related to or in the vicinity of mafic volcanic – granite contacts.

The chalcopyrite occurrence is the first of this kind to be encountered on the Carscallen property and represents a whole new potential for the occurrence of primary VMS deposit. A DHEM (Down Hole Electromagnetic) survey was completed on hole CAR-79-2012 and hole CAR-80-2012 by Abitibi Geophysics. Preliminary results have identified conductive zones. Such conductive zones are strong, positive indicators for massive sulphides. Exploration will focus on a new, primary VMS deposit. Follow-up is a priority. Gold is most likely a later phase hosted in the chalcopyrite zone encountered at 528.00 – 529.35 m and could be expected in area or rocks which haven't been considered based on previous models. Gold also occurs as wide zones under the granite cap and these intersections offer the potential for significant enlargement of the gold zones on the Carscallen property.

CAR-80-2012 was drilled at an azimuth of 265^{o} and a dip of -65^{o} with a final depth of 668 metres.

	-437.60 – 439.50 m	1.90 m	@	7.12 g/t Gold
incl.	-437.60 – 438.80 m	1.20 m	@	1.25 g/t Silver
incl.	-438.20 – 439.50 m	1.30 m	@	0.73 % Copper
	-533.00 – 536.70 m	3.70 m	@	51.92 g/t Gold
incl.	-533.70 – 535.70 m	2.00 m	@	6.40 g/t Silver and 2871 ppm Copper
	-601.70 – 603.00 m	1.30 m	@	5.09 g/t Gold
	-618.00 – 619.00 m	1.00 m	@	1.08 g/t Gold
	-625.65 – 626.35 m	0.70 m	@	1.98 g/t Gold
	-642.25 – 642.75 m	0.50 m	@	5.19 g/t Gold
incl.	-642.25 – 642.75 m	0.50 m	@	1.5 g/t Silver and 2490 ppm Copper

Hole CAR-80-2012 confirmed the extension of gold mineralization at depth and also laterally on the Shenkman zone. Several gold zones have been encountered up to a vertical depth of 580 metres. These zones have been systematically drilled from surface and are open at depth and along strike. The true width of the above intersections has not yet been determined. Down hole electromagnetic surveying demonstrated the very likely presence of a VMS copper-gold situation in the vicinity of hole CAR-79-2012.

Investing activities (Cont'd)

In June 2012, a major forest fire in the Timmins area was burning south of the property for several days and fire restrictions forced Melkior to put its current drilling program on hold. The fire finally stopped less than 5 km away from the property and core storage area. The fire did not affect Melkior's Carscallen property and the fire restriction was lifted.

Melkior completed 1566 metres of drilling on Carscallen in July 2012. The program included two deep holes and the extension of an already existing hole. Partial assays have been received for extended hole CAR-61X-2012. The assays for CAR-81-2012, CAR-82-2012 and remainder of CAR-61X-2012 will be reported once they are available.

CAR-61X-2012 was drilled at an azimuth of 240o and a dip of -75o extended from a depth of 350 metres to the final depth of 625 metres. The contact between the granite and the mafic volcanic rocks occurs between 360.80 and 367 metres and consisted of alternating small granite injections and hematized mafic volcanic rocks. Ankerite alteration and disseminated pyrite and quartz veins are present in the volcanics between 429.00 and 439.70 metres; a quartz feldspar porphyry dyke was also encountered between 400.10 and 413.33 metres. Hole 61 was originally terminated in granite at 350 metres after intersecting the Shenkman gold zone assaying 13.3 metres of 4.84 g/t gold from 272 to 285.3 metres (see Press Release January 11th, 2011). At the time of the original drilling, Melkior was not aware that the granite – mafic volcanic contact was a target for gold mineralization. The hole was extended to investigate the thickness of the granite and the nature of the underlying volcanics. The granite – volcanic contact intersected gold from 364 to 366 metres grading 5.87 g/t Au. A number of anomalous background gold values were also encountered from 399 to 409 metres grading 0.27 g/t (on 10 metres, which consist of a quartz porphyry dyke); from 511 to 514.7 metres grading 0.66 g/t Au (on 3.7 metres, which consist of mafic volcanic rocks with 1% disseminated pyrite); and from 538 to 540.5 metres grading 0.7 g/t Au (2.5 metres, consisting of local pyrite stringers). Thirty three assays are still pending. Results reported in this press release are from intersections between 350 metres to 566 metres core length.

Holes CAR-81-2012 and CAR-82-2012 were drilled to intersect and expand the newly discovered gold zones in volcanics underlying the Shenkman zone encountered by hole CAR-79-2012 and CAR-80-2012, grading respectively 2.54 g/t Au over 10 metres and 51.92 g/t Au over 3.70 metres (see Press Release March 26th, 2012 and April 12th, 2012).

CAR-81-2012 was drilled at an azimuth of 240o and a dip of -80o with a final depth of 602 metres. Several fault zones were intersected below 200 metres. The contact between the granite and the mafic volcanic was encountered at 390.80 metres. Mineralization was also encountered between 409 and 417 metres consisting of pyrite veinlets and stringers as well as zones of semi-massive pyrite (results are pending).

CAR-82-2012 was drilled at an azimuth of 265o and a dip of -75o with a final depth of 689 metres. The granite – mafic volcanic contact was encountered at 378.50 metres. No Mineralization was encountered at the contact; however previous holes in the area have revealed gold concentration at or near the contact zone. Mineralized zones were encountered from 408.30 to 426.60 metres; from 501.33 to 540.90; and from 554.15 and 562.55 metres. These zones consist of pyrite mineralization in form of veins, veinlets and stringers along with carbonate.

On November 7, 2012, Melkior announced the assay results from its recent 1616 metre drill program. Gold mineralization grading 1.46 g/t gold over 15 metres, including 6.55 g/t gold over 2.8 metres, was intersected in granite and in quartz-feldspar-porphyry (QFP) dykes near surface. Significant synvolcanic alteration, thick units of iron formation and coarse volcanic breccias were also encountered at depth in holes CAR-84-2012 and CAR-68X-2012. Anomalous gold values were associated with these rocks; it is the first time that Melkior has encountered a prospective volcanic environment with a significant thickness (several dozen metres).

Going forward Melkior's plan is to delineate a near surface gold resource within a 300 m x 10 m corridor by drilling a grid of 25 metre spaced shallow holes which could lead to an eventual near surface resource calculation. This corridor is located on the ZamZam zone (north of Shenkman) and it has the most promising near surface gold values based on compilation of holes from the 2007 -2012 drilling programs (see Table 2). This series of proposed holes is designed to encounter the mineralized zone between the 75 and 100 metres depth.

Investing activities (Cont'd)

In 2007, surface grab samples included 601.60 g/t Au and 843.72 g/t Au; additional channel sampling is required to integrate more continuous data for the surface gold occurrence. A channel sampling and mechanical stripping program began November 6th, 2012 in preparation for the next phase of drilling. Results will be integrated into an eventual resource calculation.

On November 26, 2012, Melkior announced the completion of channel sampling on the ZamZam Zone. To date drilling at Carscallen has defined a corridor of significant gold values within a 300 to 400 metre thick, subhorizontal granite cap for a total length of approximately 1000 metres and to a depth of approximately 400 metres. The average width of the zone appears to be about 6 metres. Near-surface holes previously drilled on the ZamZam portion of the corridor suggest the possibility of defining an important near-surface gold resource (see press release November 7th, 2012). Previous surface grab samples recorded up to 843.72 g/t gold.

The objective of the channeling is to obtain controlled surface values that can be integrated into a 43-101 resource calculation. The ZamZam portion of the zone represents the outcropping portion of the gold system. Based on this work and on previous drilling a systematic grid of additional holes will be planned. The ZamZam zone was trenched and exposed over approximately 240 metres. 13 channels were completed on the ZamZam zone and 5 on the Jowsey zone. Several historical pits and shafts dating from the early 20th century are present at the Jowsey zone. The ZamZam zone was a new discovery by Melkior. The Zam-Zam and Jowsey zones are sub-parallel and about 100 metres apart. They merge at depth to form one wider zone. A total of 72 samples have been submitted for assays plus two blanks and two standards. Limited deeper drilling into the volcanic rocks below the granite cap has revealed a large alteration system suggesting potential for an important volcanogenic and gold mineral deposit. This potential will be explored at a later time. Melkior also believes the gold system originates from, or extends into the underlying volcanic rocks, representing a significant target. Timmins mines typically began at surface and improved with depth. The sampling results are anticipated in December 2012.

It is anticipated that additional exploration, including drilling will be undertaken in 2012 with a budget of $250,000.

McFaulds
(Rim Nickel East 100%)

East Rim
Property description
Melkior owns 100% interest in 1,200 claim units or 19,200 hectares in the East Rim Property in the “Ring of Fire” discovery area of North Central Ontario. The property is subject to a 2% NSR royalty half (1%) of which can be repurchased by the Company for $2,000,000.

Some claims were dropped and therefore the cost of the property was written down by $163,400 in August 2012.

The property covers a large, significant regional gravity feature. The property is interpreted to be 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 discoveries by Noront and Freewest Resources Canada Inc., and 30 kilometres from the nickel discovery by Noront. The property is 238 square kilometers in size.

Recent exploration

Eight holes totalling 1768.8 metres were drilled in 2011 to test a series of electromagnetic and magnetic anomalies. The eight holes were widely spaced ranging from 3 km up to 12 km apart.

Investing activities (Cont'd)

Although Melkior's drill program did not encounter economic mineralization, the eight holes were the first phase of drilling ever conducted by any exploration company on the property and the program provided valuable information to assist Melkior in prioritizing anomalies for a future drill program. Elevated zinc and copper values were detected in holes MMF-02-2011 and MER-01-2011. The values were not in an economic range (~1000 ppm) however the presence of base metals is considered significant for future work. In addition hole MER-01-2011 indicated wide intersections of Scandium (~30 ppm) and Arsenic (> 1000 ppm) due to the presence of arsenopyrite, which could be a good indicator for gold.

The East Rim property is a large area which contains several gravity highs, as well as conductive and magnetic anomalies. The eight holes drilled were scattered and represent a very small proportion of the gravity high that was targeted. A number of areas and targets remain to be tested. Nevertheless, these eight holes provided important information on geology, especially on lithological units (which are hidden by at least ~ 30 metres of Paleozoic rocks) and geochemistry which could be used for future drill programs.

Drilling revealed thick units of mafic volcanic rock (breccia flow and hyaloclastic) which represent favourable porous and permeable units for syn-volcanic and/or syn-tectonic fluid circulation. Locally, such hyaloclastic rocks are pervasively altered into sericite with anomalous Arsenic values (hole MER-01-2011). Sulphides (mainly pyrrhotite, pyrite and locally chalcopyrite) are found in every hole. Such occurrence of sulphides is a crucial ingredient for base metal mineralization. Gabbro was also encountered in hole MMF-02-2011 and MMF-08-2011; this gabbro is associated with a gravity high and could be related to ultramafic rocks, hence the potential for PGE, chromite and possible Ni-Cu. At the district scale, several showings/deposit types occur involving either ultramafic/mafic intrusions or mafic volcanic rocks. The presence of mafic volcanic hyaloclastite locally altered and the gabbro with horizons containing high proportions of sulphides are all favourable elements.

The initial drilling represents one hole per 20 square kilometres. Several holes encountered geological formations that could be indicator of a layered intrusion. If confirmed, this is a highly promising environment.

All drill core from the 2011 drill program at McFaulds was logged, split and sampled at Billiken McFaulds camp. The samples were sent to Actlabs in Thunder Bay, Ontario and were assayed using Aqua Regia - Inductively Coupled Plasma Mass Spectroscopy (ICP-MS) on 25 g sub-samples. Standards, which were inserted randomly within the sample sequence, were also assayed; the assay technique selected was appropriate for assaying low base metal values, however it was not designed to detect gold. Some samples were re-assayed using a Fire Assay technique for gold however did not encounter economic mineralization.

The East Rim property comprises 90 claims totalling 164 square kilometres, located in the Ring of Fire, McFaulds, James Bay Lowlands in northern Ontario. It covers a large gravity anomaly similar to the anomaly coincident with the nearby nickel and chromite deposits.

Riverside
Property description
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.

West Rim
Property description
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 $458,796 in March 2011.

Investing activities (Cont'd)

Broke Back and Riverbank
Property description
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. Melkior 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. Geotest received reimbursement of staking costs without profit or markup.

In December 2011, The Company closed the transaction with Green Swan Capital Corp. ("Green Swan") which consists of granting Green Swan the option to acquire up to an undivided 70% interest in the Riverbank and Brokeback properties and constitutes Green Swan's qualifying transaction.

Following the execution of a letter of intent on July 14, 2011, the parties subsequently executed a formal option agreement on August 18, 2011, as amended on December 16, 2011 (collectively, the "Option Agreement"). Under the Option Agreement, Green Swan can acquire an initial 51% undivided interest in the Riverbank and Brokeback properties by paying the Company the sum of $25,000, issuing 2,000,000 common shares of Green Swan and 1,000,000 share purchase warrants and by incurring $1,600,000 in work expenditures on the properties by no later than December 2014.

Following the exercise of the first option, should the Company not elect to form a joint venture on the Riverbank and Brokeback properties, Green Swan will have the option to acquire an additional 19% interest (for a total 70% undivided interest in the Riverbank and Brokeback properties) by incurring an additional $1,000,000 in work expenditures within a delay of twenty-four months.

Following the issuance of the Exchange's final bulletin approving the qualifying transaction on January 13, 2012, Green Swan issued to the Company 2,000,000 common shares at a price of $0.10 per share (the fair value being $200,000) and 1,000,000 share purchase warrants as per the Option Agreement in addition to pay the $25,000 in cash. Each warrant entitles the Company to acquire an additional common share of Green Swan at a price of $0.15 for a twelve month period and at a price of $0.25 per share for the following twelve month period. In accordance with Exchange policies, the securities are subject to an escrow and will be released to the Company over a period of thirty-six months.

On January 13, 2012, the 1,000,000 warrants have been valued with the Black-Scholes model with the following average assumptions: weighted risk-free interest rate of 0.86%, projected volatility of 100%, predicted average life of warrants of 2 years and no dividend yield. As of August 31, 2012, these warrants were revaluated to $24,000 with the Black-Scholes model with the following average assumptions: weighted risk-free interest rate of 1.06%, projected volatility of 100%, predicted average life of warrants of 1.375 years and no dividend yield.

On June 21, 2012, Green Swan sold its interest in the Brokeback and Riverbank properties to Winston Resources Inc.

The Broke Back property has 256 claim units over 40.96 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 River and are within the regional gravity high and adjacent to the Probe Mines Ltd Tamarack project.

Recent exploration

Melkior is confident that owning a very large land position in Canada's newest emerging mining camp will be important in the future advancement of Melkior. The value is considerably enhanced by the world class chromite discoveries and potential mine developments anticipated in the area. The exploration budget for Fiscal 2013 is the responsibility of Winston Resources Inc.

Investing activities (Cont'd)

Long Lac
(100% owned – gold copper)

Property description
The Beardmore property is located in northern Ontario, approximately 20 km east of the town of Longlac. It consists of 146 unpatented claims, covering 28.16 km². 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.

Recent exploration
In August 2009, a 10 day mapping and prospecting campaign was carried out over the anomalous sector identified in 2008. 134 rock samples were collected, highlighting two interesting areas. The first area, followed for 20 meters, returned gold values of 3.43 g/t and 2.37 g/t. The gold is hosted in a silicified amphibolite and is associated with high values of arsenic. The second area returned values of 1.47 g/t; 1.15 g/t gold and 4.09 g/t silver in a gold bearing iron formation injected with quartz veins.

All gold deposits, in the Beardmore-Geraldton gold camp, are associated with high contents of arsenopyrite (H.S. Armstrong, 1943). More prospecting and sampling, in association with ground geophysics will permit a better understanding of the economic potential of the discoveries.

The property consists of two blocks LL-1 where an IP survey has been completed fall 2011 on a gold bearing trend where Melkior has identified significantly anomalous gold values.

The exploration budget for Fiscal 2013 is $50,000 and the objective of this work is to maintain the claims in good standing.

Launay
(100% owned - gold)

Property description
Melkior holds 123 claims covering 5,377 hectares. The property is located 80 kilometres north west of Val-D'Or, Quebec. Certain claims are subject to a 1% Net Smelter Return ("NSR") royalty.

On April 27, 2012, the Company signed a letter agreement were it sold to Lakeside Minerals Corp. (the "Acquirer"), a subsidiary of Lakeside Minerals Inc. ("Lakeside"), 6 claims from the Launay property and the 15 claims composing the Launay-Trojan block. The Acquirer will assume the NSR royalties of those claims. The Company received 750,000 shares of Lakeside valued at $52,500 according to the value of Lakeside shares at the closing on April 27, 2012. Of the $52,500, $15,000 was attributed to Launay and $37,500 was attributed to the Launay-Trojan block. A loss on disposal of exploration and evaluation assets was recorded for $128,685 on the Launay-Trojan block.

Some claims were dropped and therefore the cost of the property was written off by $19,000 in August 2012.

Recent exploration
Previous work has identified two gold zones with large tonnage low grade potential. Historical assays reported by the previous operator 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.

Investing activities (Cont'd)

An induced polarization survey of approximately 30 kilometres was completed in 2010 over the central portion of the property which hosts the known gold zones. The initial plan is to re-survey existing drill collars to integrate into a 3D model. Melkior will contract a surveyor to survey the previous diamond drill holes in order to construct a model and plan more drilling with the hopes of defining a gold resource.

In August 2012, Melkior received assay results from its recent 990 metre drill program. Results for diamond drill holes LAY-01-2012 to LAY-10-2012 were received with intersections of up to 46.35 metres averaging 1.83 grams per tonne (g/t) gold (Au) and 1.14 g/t silver (Ag). Several mineralized zones were encountered near surface and above the 100 metre vertical level. In addition, surface channel sampling results are announced.

The current program was undertaken in the vicinity of a historical showing on the property called "Zone 75". The objective of the 2012 drill program was to gain a new perspective on the historical showing using surface geology. Previous drilled holes were not duplicated (twinned). The 2012 program was drilled to intersect the vein patterns and the alteration zones as mapped on surface and also to define the mineralized granite in three dimensions. Several generations of granites and alteration were intersected with gold and silver mineralization being primarily associated with a potassic feldspar-rich granite (pink colour). The presence of pyrite and chloritic alteration seems to be closely associated with the gold. Assay results are summarized in the following table.

2012 Launay Drill Results:

Hole number	From (m)	To (m)	Interval* (m)	Gold (g/t)	Silver (g/t)
Channel-01-2012	0.00	8.00	8.00	0.62	0.95
Channel-02-2012	0.00	8.00	8.00	0.52	1.73
Channel-03-2012	0.00	5.00	5.00	0.13	0.50
LAY-01-2012	37.70	40.35	2.65	1.50	0.68
LAY-01-2012	48.30	51.50	3.20	0.47	-
LAY-01-2012	66.00	70.70	4.70	2.95	4.64
LAY-02-2012	4.20	18.08	13.88	0.31	1.13
LAY-03-2012	7.00	14.00	7.00	0.58	3.29
LAY-03-2012	80.00	94.00	14.00	0.35	1.33
LAY-05-2012	56.00	57.75	1.75	1.92	1.87
LAY-06-2012	2.60	45.90	43.30	0.32	0.95
LAY-07-2012	50.65	77.00	26.35	0.22	-
LAY-08-2012	1.65	48.00	46.35	1.83	1.14
including	36.00	48.00	12.00	4.94	
LAY-08-2012	77.75	90.65	12.90	3.36	1.90
LAY-09-2012	60.60	79.00	18.40	2.49	1.47
LAY-09-2012	92.00	102.00	10.00	0.41	-
LAY-10-2012	57.50	61.65	4.15	1.11	1.37
LAY-10-2012	65.00	66.70	1.70	0.94	2.30
LAY-10-2012	90.20	91.30	1.10	2.60	1.90

* Note: Reported drill intercepts are not true widths. At this time, there is insufficient data with respect to the shape of the mineralization to calculation true orientations in space.

Drill holes LAY-02-2012 to LAY-05-2012 were drilled on the north extension of the Zone 75; holes LAY-06-2012 to LAY-10-2012 were drilled in the approximate central portion of Zone 75 and were collared approximately 30 metres west of the historical drilling. Hole LAY-01-2012 was drilled in the south part of Zone 75. A map showing the locations on the holes can be found on Melkior's website.

Analysis for arsenic revealed values below the detection limit of 2 parts per million (ppm). The lack of arsenic is a positive feature for environmental issues and mine-mill processing. The pink granite had a significantly anomalous background of gold (~0.5 g/t Au) with wide, higher grade sections. The holes of the present program were drilled at 25 metre intervals over a 200 metre strike length. All drilling was above 100 metres vertical.

Investing activities (Cont'd)

The above results are being compiled and a model of the mineralization will be developed. It is anticipated that a drill program to better define the gold zone will be undertaken in 2013. This however is dependant on financing.

Eldorado
(100% owned - nickel)

Property description
The Eldorado property was staked by the Company in 2006 and is composed of 198 claim units covering 3,168 hectares in Eldorado and Shaw Township located approximately 20 kilometres southeast of Timmins. The property is road accessible and adjoins Liberty Mines Inc (TSX: LBE) which, following a recent financing by Jilin Jien Nickel Industry Co., Ltd, which according to reports plans to resume nickel production at its Redstone, Hart and McWatters Mines. Redstone is approximately one kilometre south of Melkior's claims.

Recent exploration
A detailed VTEM survey by Geotech was completed in 2009. This led to the discovery of a series of conductors with the potential for locating massive sulphide nickel bearing deposits.

The property is situated within a geological entity known as the Shaw Dome, a southeast-trending anticline with a shallow southeast plunge. The Shaw Dome is recognized as having potential for komatiite-hosted nickel, VMS style mineralization, and mesothermal gold mineralization.

In January 2011, Melkior drilled six diamond holes totalling 910.8 metres to test three discrete electromagnetic anomalies and fulfill assessment requirements to keep the claims in good standing. Most of the holes encountered mafic to intermediate flows and volcaniclastics presumably of the Deloro Assemblage. Locally interbedded sediments with minor sulphides likely account for at least two of the VTEM anomalies. Ultramafic rocks were intersected in one area. Anomalous base metals were encountered in two target areas (best values of 1 metres of 2200 ppm Zinc, Ni up to 863 ppm and Cu up to 440ppm) associated with an intermixed volcanic/sedimentary stratigraphy. Anomalous gold (best value 3 metres of 650 ppb Gold) occurs in two holes in one target area. The initial values encountered are low; however, they are indicative of mineralization in the system and confirm exploration potential in an area of limited previous exploration.

At this stage Melkior has not planned any exploration for 2013.

Shaw Gold
(100% - gold - nickel)

Property description
The property is located approximately 13 kilometres south-east of the City of Timmins. Some claims are subject to two 1% NSR royalty, half (0.5%) of which can be repurchased for $1,000,000. This property is contiguous with Eldorado.

Some claims were dropped and therefore the cost of the property was written off by $10,900 in August 2012.

Recent exploration
In 2009, a three day reconnaissance program was undertaken on the newly staked Shaw property The property consists of 78 unpatented claims covering 12.5 km², located in the Timmins district of Ontario, approximately 13 kilometers south-east of the city of Timmins, in an area actively being explored by others. The objectives of the field work were to determine the best access to the property and to sample known outcrops in the northern part. Three old exploration pits and a number of old trenches were located and sampled. 40 samples were collected. The best assay obtained, was from material hosted in an ankeritized magnetic basalt and graded 2.7 g/t Silver. A second sample returned assays of 1.3% Zinc and 0.6% Lead 236 ppb Au in a pyrite rich basalt. Outcrop is very limited representing only about one percent of the property. An airborne geophysical survey has been completed on the property in 2011. At present, there is no exploration budget planned for 2013.

Investing activities (Cont'd)

Big Marsh
(100% owned – base metals)

Property description
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 base metals by a subsidiary of San Gold Corp.

Recent exploration

The exploration budget for Fiscal 2013 is $35,000. The objective of this work is to maintain the claims in good standing.

Loveland
(100% owned - or copper nickel)

Property description
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.

No further exploration work was budgeted, therefore the property was written off in August 2012 for $132,760.

Recent exploration
Geophysics was carried out and one hole was drilled in 2010 without positive results. Bold completed $120,158 of exploration work under the agreement.

Fripp
(100% owned – gold)

Property description
The Fripp property is located 25 kilometres south southwest of the City of Timmins.

Recent exploration
Exploration is planned to maintain the claims in good standing. The budget for this work is $25,000 for Fiscal 2013.

Bristol
(100% owned - gold)

Property description
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 share 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.

Investing activities (Cont'd)

The Melkior claims are located between two Northcore claim groups in Bristol Township. Regional airborne geophysics suggests exploration targets that extend from the Melkior claims onto the Northcore properties.

No work is planned for this property in 2013.

Troilus
(50% earn-in - copper zinc gold)

<u>Property description</u>
As per an agreement signed on October 20, 2008 and amended August 24, 2011, the Company had the option to earn a 50% interest in some claims located north of Chibougamau in Quebec from Beaufield Resources Inc. ("Beaufield") by spending $500,000 on exploration over a four year period. The President of the Company is also the President of Beaufield. The Boards of Directors of both companies have approved this transaction. Beaufield was the operator and the Company spent an amount of $463,137 since the beginning of the agreement.

On August 23, 2012, the Company terminated the agreement with Beaufield and consequently wrote off the property for $399,934.

Ungava Quebec
(49% owned copper-nickel-platinum group)

<u>Property description</u>
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 is considered highly promising for expanding a resource on the property.

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 $1,754 in 2012 and $800 in 2011.

<u>Recent exploration</u>
Melkior undertook a detailed evaluation of previous airborne geophysics and related this to drilling. The work was carried out by professional geologists familiar with the Raglan nickel camp. The updated interpretation suggests the strong potential to locate new mineralization zones to complement the previous calculations.

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.

Melkior intends to discuss future exploration plans for the property with Xstrata.

Investing activities (Cont'd)

Mont Otish
(100% Molybdenum – Diamond exploration rights)

Property description
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. The Company does minimal work on the property and continues to write them off for $205 in 2012 and $12,651 in 2011.

The property adjoins the McLeod Lake copper molybdenum deposit of Western Troy Capital Resources where a 43-101 report has been completed.

No work is planned for this property which will be permitted to expire at the next renewal date.

Henderson
(100% – Uranium, nickel)

Property description
The Henderson property consists of 20 claim units, covering 3.2 km^2. On February 5, 2007, the Company acquired the Henderson property by staking claims in the Raglan Township in south-eastern Ontario. The claims were part of the agreement with Santoy Resources Ltd (now called Virginia Energy Resources Inc) but they opted out of the agreement in 2009.

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.

FNI has not yet proposed a budget for 2013.

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.

No work is planned for these claims.

Financing activities

In Fiscal 2012, Melkior raised $1,176,500 through flow-through private placements. Melkior has to dedicate these funds to exploration work. Melkior has to spend $60,518 by December 31, 2012 and $452,275 by December 31, 2013. In Fiscal 2011, 1,470,000 options were exercised for a net proceed of $153,750.

Working capital

The Company has a working capital of $1,487,243 of at August 31, 2012 compared to $1,630,652 as at August 31, 2011. 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. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve.

Summary of quarterly results

For the eight most recent quarters

	August 31, 2012	May 31, 2012	February 28, 2012	November 30, 2011
	$	$	$	$
Income	4,130	2,650	989	3,737
Net loss for the period	(797,482)	(460,652)	(28,164)	(195,833)
Net loss per share	(0.01)	-	-	-
Total assets	13,047,071	13,219,383	13,735,164	13,177,696

	August 31, 2011	May 31, 2011	February 28, 2011	November 30, 2010
	$	$	$	$
Income	9,946	13,446	11,183	14,403
Net income (loss) for the period	(194,665)	(333,481)	(724,931)	6,983
Net loss per share	-	-	(0.01)	-
Total assets	14,273,441	13,733,520	13,823,019	14,582,453

Fourth quarter

The Company reported a net loss of $797,482 for the quarter ended August 31, 2012 (“Q4 2012”) compared to $194,665 for the quarter ended August 31, 2011 (“Q4 2011”).

Total expenses were higher in Q4 2012 at $828,799 compared to $189,861 in Q4 2011 mainly due to following:

- Write-offs for $725,994 in Q4 2012 of exploration and evaluation assets relating to Troilus, Rim Nickel McFaulds East and Loveland ($14,403 relating to Riverside in Q4 2011);
- A $4,654 stock-based compensation expense was recorded in Q4 2012 ($69,952 in Q4 2011). This expense is recorded over the vesting period for directors, officers and employees and over the performance period for consultants. In Fiscal 2011, 2,400,000 options were granted while there was 3,225,000 granted in Fiscal 2010;

The Company expensed $370,147 in exploration in Q4 2012 mostly on Timmins Carscallen and Launay ($1,460,160 in Q4 2011 mostly on Rim Nickel East – McFaulds).

Related party transactions

In the normal course of operations for fiscal 2012:

a) A company controlled by Jens E. Hansen (president and director) charged:
   i) Professional fees relating to qualified exploration work amounting to $29,000 ($48,270 in Fiscal 2011) capitalised in exploration and evaluation expenses;
   ii) Management fees amounting to $67,250 ($56,400 in Fiscal 2011) expensed in professional and consulting fees;
   iii) Rent totalling $33,000 ($36,000 in Fiscal 2011) expensed in office expenses;
b) A company controlled by Ingrid Martin (CFO and secretary) charged professional fees of $91,743 of which $87,403 was expensed and $4,340 was recorded as share issue expenses ($75,823 was expensed in Fiscal 2011);
c) Nathalie Hansen (director) charged:
   i) $32,900 ($10,000 in Fiscal 2011) of exploration work capitalized in exploration and evaluation expenses and $10,300 ($2,000 in Fiscal 2011) of administration work expensed in professional and consulting fees;
   ii) Nathalie Hansen was on the payroll from January 1, 2010 to April 2011.
d) As at August 31, 2012, the balance due to the related parties amounted to $25,275 (August 31, 2011 – $22,051) and was recorded in accounts payable and accrued liabilities.

During the year ended August 31, 2011, Jens Hansen exercised 800,000 options at $0.10, Norman Farrell exercised 400,000 options at $0.10 and Ingrid Martin exercised 270,000 options at $0.125.

During the year ended August 31, 2012, Jens Hansen participated for $40,000 in the private placement closed on December 7, 2011 and Jens Hansen, Norman Farrell and Nathalie Hansen participated for $50,000, $20,000 and $10,000 respectively in the private placement closed on June 28, 2012.

Subsequent event

On November 16, 2012, the Company announced the extension for one year the term of the 2,845,000 warrants expiring December 7, 2012.

Outstanding share data

	As of December 3, 2012
	Number
Common shares	119,522,870
Options	8,200,000
Warrants	15,348,999
	143,071,869

Stock option plan

The purpose of the Plan is to serve as an incentive for the directors, officers and service providers who will be motivated by the Company's success as well as to promote ownership of common shares of the Company by these people. There is no objective attached to the plan and no relationship to manage the Company's risks.

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;

Stock option plan (Cont'd)

- 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.

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.

Off-balance sheet arrangements

During Fiscal 2012, the Company did not set up any off-balance sheet arrangements.

Critical accounting estimates, judgments and assumptions

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment of exploration and evaluation assets
Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

The total write-off of the exploration and evaluation assets amounts to $727,953 for the year ended August 31, 2012 ($486,650 for the year ended August 31, 2011). No reversal of impairment losses has been recognized for the reporting periods.

Share-based payments
The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

Critical accounting estimates, judgments and assumptions (Cont'd)

Recognition of deferred income tax assets and measurement of income tax expense
Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

IFRS Convergence

In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the August 31, 2012 year end financial statements have been prepared in accordance with IFRS.

The IFRS project team has completed the conversion implementation. Post-implementation will continue in future periods. A detailed discussion of accounting policies under IFRS is included in Note 2 and the quantitative impact of adopting IFRS is further discussed in Note 14 of the financial statements for August 31, 2012.

As a result of the accounting policy differences on conversion from Canadian GAAP to IFRS, the Company has recorded changes in other liabilities, capital stock and deficit in addition to the corresponding changes in the statements of loss and comprehensive loss for year ended August 31, 2011 discussed in Note 14 of the financial statements for August 31, 2012.

Financial statements presentation changes
The transition to IFRS has resulted in financial statement presentation changes, most significantly the creation of a statement of change in equity. There were no changes to the Company's cash flow statement as a result of the implementation of IFRS.

The following is a summary of the significant changes to the Company's statement of comprehensive income:
- Deferred income tax expense under IFRS reflects the amortization of the liability that was established for a portion of the flow-through shares.

Controls and procedures
The conversion to IFRS does not have a significant impact on the Company's internal controls (including information technology systems), and accounting processes.

Business activities and key performance measures
The Company is not subject to any financial covenants or key ratios, therefore the transition had no impact in this regard.

Information technology and systems
The IFRS transition project did not have a significant impact on the Company's information systems for the convergence periods. Significant changes are also not expected in the post-convergence periods.

Ongoing activities
The completion of the implementation and commencement of post-implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of IFRS financial reporting. In particular, there may be additional new or revised IFRS or IFRIC in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Company also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. There are processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS and IFRIC Interpretations will be evaluated as they are drafted and published.

Financial instruments

Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

	August 31, 2012		August 31, 2011		September 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$	$	$
Financial assets						
At amortized cost						
Cash	23,495	23,495	50,092	50,092	117,421	117,421
Short-term investments	1,279,370	1,279,370	2,226,396	2,226,396	5,695,330	5,695,330
Due from partners	-	-	29,794	29,794	8,337	8,337
Other receivables	-	-	-	-	17,129	17,129
At fair value through profit or loss						
Listed share	271,125	271,125	146,750	146,750	218,625	218,625
Financial liabilities						
At amortized cost						
Accounts payable and accrued liabilities	160,520	160,520	1,057,635	1,057,635	738,643	738,643
Due to partners	-	-	4,894	4,894	20,000	20,000

The carrying value of cash, short-term investments, due from partners, other receivables, accounts payable and accrued liabilities and due to partners are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Listed shares in quoted mining exploration companies measured at fair value as at August 31, 2012 and 2011 and September 1, 2010 are classified in Level 1.

Financial instrument risk

The Company is exposed to various risks in relation to financial instruments. The main types of risks the Company is exposed to are market risk, credit risk and liquidity risk.

Financial instruments (Cont'd)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to the following types of market risk: interest rate risk and other price risk. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial instruments for speculative purposes.

The most significant financial risks to which the Company is exposed are described below.

Market risk

Interest rate risk sensitivity
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. As at August 31, 2012, the short-term investments were at fixed interest rates. Interest rate movements may affect the fair value of the fixed interest financial assets. Because these financial assets are recognized at amortized cost the fair value variation has no impact on profit or loss.

Other price risk sensitivity
The Company is exposed to fluctuations in the market prices of its listed shares in quoted mining exploration companies. The fair value of the listed shares represents the maximum exposure to price risk. If the quoted stock price for these securities had changed by ±20% as at August 31, 2012, August 31, 2011 and September 1, 2010, net loss and equity would have changed by $54,225, $29,350 and $43,725 respectively.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at August 31, 2012, August 31, 2011 and September 1, 2010, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	August 31, 2012		**August 31, 2011**		**September 1, 2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**	**$**	**$**
Cash	23,495	23,495	50,092	50,092	117,421	117,421
Short-term investments	1,279,370	1,279,370	2,226,396	2,226,396	5,695,330	5,695,330
Due from partners	-	-	29,794	29,794	8,337	8,337
Other receivables	-	-	-	-	17,129	17,129
Carrying amounts	1,302,865	1,302,865	2,306,282	2,306,282	5,838,217	5,838,217

The other receivables are mainly receivables from other exploration companies sharing exploration camp facilities. The exposure to credit risk for the Company's receivables has to be monitored continuously. In 2012, the Company recorded impairment on a due from partners for $28,375 due to liquidity challenges one of its partners.

As at August 31, 2012, the Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The credit risk for cash and cash equivalents, and guaranteed investment certificates is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Financial instruments (Cont'd)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount. Over the past period, the Company has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through private and flow-through financings.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

	August 31, 2012	August 31, 2011	September 1, 2010
	Carrying amount	Carrying amount	Carrying amount
	$	$	$
Within three months:			
Accounts payable and accrued liabilities	160,520	1,057,635	738,643
Due to partners	-	4,894	20,000
Total	160,520	1,062,529	758,643

The Company's existing cash and short-term investments significantly exceed the current cash outflow requirements.

Risk factors

The following discussion reviews a number of important risks which management believes could impact the Company's business. There are other risks, not identified below, which currently, or may in the future exist in the Company's operating environment.

Exploration and Mining Risks
The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, there are no known bodies of commercial ore on the mineral properties of which the Company intends to acquire an interest and the proposed exploration program is an exploratory search for ore. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labor are other risks involved in the conduct of exploration programs. The Company from time to time augments its internal exploration and operating expertise with due advice from consultants and others as required. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variation of the grade of ore mined and fluctuations in the price of any minerals produced. There are no underground or surface plants or equipment on the Company's mineral properties, or any known body of commercial ore.

Titles to Property
While the Company has diligently investigated title to the various properties in which it has interest, and to the best of its knowledge, title to those properties are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfer, or native or government land claims, and title may be affected by undetected defects.

Permits and Licenses
The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Risk factors (Cont'd)

Metal Prices
Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect marketability of any minerals discovered. Metals prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Competition
The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employee. The current markets put additional pressure on the availability of contract suppliers, equipment and personnel.

Environmental Regulations
The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner, which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

First Nations
First Nations are increasingly making lands and rights claims in respect of existing and prospective resource projects on lands asserted to be First Nation traditional or treaty lands. Should a First Nation make such a claim in respect of Melkior's properties and should such claim be resolved by government or the courts in favour of the First Nation, it could materially adversely affect the business of the Company.

Many of Melkior's contractors and suppliers live and work in the local communities. The Company regularly consults with communities proximal to the Company's exploration activities to advise them of plans and answer any questions they may have about the activities.

Conflicts of Interest
Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Stage of Development
The Company's properties are in the exploration stage and to date none of them have a proven ore body. The Company does not have a history of earnings or the provision of return on investment, and in future there is no assurance that it will produce revenue, operate profitably or provide a return on investment.

Risk factors (Cont'd)

Industry Conditions
Mining and milling operations are subject to government regulations. Operations may be affected in varying degrees by government regulations such as restrictions on production, price controls, tax increase, expropriation of property, pollution controls or changes in conditions under which minerals may be mined. Milled or marketed. The marketability of minerals may be affected by numerous factors beyond the control of the Company, such as government regulations. The Company undertakes exploration in areas that are or could be the subject of native land claims. Such claims could delay work or increase exploration costs. The effect of these factors cannot be accurately determined.

Uninsured Hazards
Hazards such as unusual geological conditions are involved in exploring for and developing mineral deposits, The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

Future Financing
Completion of future programs may require additional financing, which may dilute the interests of existing shareholders. Access to future financing is not a certainty. The ongoing international financial crisis could have an impact.

Key Employees
Management of the Company rests on a few key officers, the loss of any of whom could have a detrimental effect on its operations.

Canada Revenue Agency and provincial agencies
No assurance can be made that Canada Revenue Agency or provincial agencies will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expense or the eligibility of such expenses as Canadian exploration expense under the Income Tax Act (Canada) or any provincial equivalent.

Cost Increases
Costs for purchased services are constantly increasing and new regulations can represent an unanticipated cost increase.

Forward looking information

This management's discussion and analysis contains forward looking statements reflecting Melkior's objectives, estimates and expectations. These statements are identified by the use of verbs such as ''believe'', ''anticipate'', ''estimate'', and ''expect''. As well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

December 3, 2012

(s) Jens E. Hansen	*(s) Ingrid Martin*
Jens E. Hansen	Ingrid Martin
President	CFO and secretary

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Melkior Resources Inc.

We have audited the accompanying financial statements of Melkior Resources Inc., which comprise the statements of financial position as at August 31, 2012 and 2011 and as at September 1, 2010 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended August 31, 2012 and 2011 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 International Financial Reporting Standards 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 in our audits 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, 2012 and 2011 and September 1, 2010 and its financial performance and its cash flows for the years ended August 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has not generated any income or cash flows from operations and the Company's deficit amount to $33,501,379 as at August 31, 2012. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Raymond Chabot Grant Thornton LLP [1]

Val-d'Or
December 3, 2012

[1] CPA auditor, CA public accountancy permit no. A109964

Melkior Resources Inc.

Statement of Financial Position
August 31, 2012
(In Canadian dollars)

	August 31, 2012	August 31, 2011	September 1, 2010
	$	$	$
Assets			
Current			
Cash	23,495	50,092	117,421
Short-term investments (Note 5)	1,279,370	2,226,396	5,695,330
Sales tax receivable and other receivables	60,377	185,998	133,806
Due from partners, without interest, on demand	-	29,794	8,337
Taxes credits receivable	48,970	33,684	25,914
Prepaid expenses	15,635	20,467	24,299
Listed shares	271,125	146,750	218,625
	1,698,972	2,693,181	6,223,732
Non-current			
Exploration and evaluation assets (Note 6)			
Mining properties	893,221	1,515,443	1,812,930
Exploration and evaluation expenses	10,454,878	10,064,817	6,714,836
	11,348,099	11,580,260	8,527,766
Total assets	13,047,071	14,273,441	14,751,498
Liabilities			
Current			
Accounts payable and accrued liabilities	160,520	1,057,635	738,643
Due to a partner, without interest, on demand	-	4,894	20,000
Other liabilities	51,209	-	47,307
Total liabilities	211,729	1,062,529	805,950
Shareholders' Equity			
Share capital (Note 7)	42,448,723	41,493,723	41,291,673
Contributed surplus	3,887,998	2,978,022	2,136,614
Deficit	(33,501,379)	(31,260,833)	(29,482,739)
Total equity	12,835,342	13,210,912	13,945,548
Total liabilities and equity	13,047,071	14,273,441	14,751,498

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

These financial statements were approved and authorized for issue by the Board of Directors on December 3, 2012.

(s) Jens E. Hansen	(s) Norman Farrell
Jens E. Hansen	Norman Farrell
President and Director	Director

Melkior Resources Inc.

Statement of Comprehensive Income
August 31, 2012
(In Canadian dollars)

	Year ended August 31, 2012	2011
	$	$
Expenses		
Salaries and employee benefits expense	12,988	54,485
Office expenses	111,518	112,406
Travelling and promotion	11,806	23,916
Investors and shareholders relations	105,615	108,124
Professional and consulting fees	203,843	208,397
Exploration	1,830	3,991
Allowance for losses on a receivable	28,375	-
Stock-based compensation	95,700	283,712
Loss on sale of exploration and evaluation assets	128,685	-
Write-off of exploration and evaluation assets	727,953	486,650
	1,428,313	1,281,681
Operating loss	(1,428,313)	(1,281,681)
Interest income	11,506	44,034
Project management fees	-	4,944
Change in value of listed shares	(158,125)	(60,698)
Loss before income taxes	(1,574,932)	(1,293,401)
Deferred income taxes recovery (Note 8)	92,801	47,307
Net loss and comprehensive loss for the year	(1,482,131)	(1,246,094)
Basic and diluted net loss per share	(0.01)	(0.01)
Weighted average number of outstanding common shares	115,599,447	110,704,342

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

Melkior Resources Inc.
Statement of Changes in Equity
August 31, 2012
(In Canadian dollars)

	Number of common shares outstanding	Share capital	Contributed surplus	Deficit	Total equity
		$	$	$	$
Balance at September 1, 2011	110,950,370	41,493,723	2,978,022	(31,260,833)	13,210,912
Net loss and comprehensive loss	-	-	-	(1,482,131)	(1,482,131)
Private placement for cash – flow-through units	8,572,500	1,176,500	-	-	1,176,500
Benefit related to flow-through shares renunciation	-	(144,010)	-	-	(144,010)
Value attributed to warrants	-	(77,490)	77,490	-	-
Share issue expenses	-	-	-	(79,515)	(79,515)
Stock-based compensation	-	-	153,586	-	153,586
Warrants extension	-	-	678,900	(678,900)	-
Balance at August 31, 2012	**119,522,870**	**42,448,723**	**3,887,998**	**(33,501,379)**	**12,835,342**

Balance at September 1, 2010	109,480,370	41,291,673	2,136,614	(29,482,739)	13,945,548
Net loss and comprehensive loss	-	-	-	(1,246,094)	(1,246,094)
Options exercised	1,470,000	202,050	(48,300)	-	153,750
Stock-based compensation	-	-	357,708	-	357,708
Warrant extension	-	-	532,000	(532,000)	-
Balance at August 31, 2011	**110,950,370**	**41,493,723**	**2,978,022**	**(31,260,833)**	**13,210,912**

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

Melkior Resources Inc.
Statement of Cash Flows
August 31, 2012
(In Canadian dollars)

	Year ended August 31, 2012	2011
	$	$
Operating activities		
Net loss	(1,482,131)	(1,246,094)
Non-cash items:		
Stock-based compensation	95,700	283,712
Change in value of listed shares	158,125	60,698
Loss on sale of exploration and evaluation assets	128,685	-
Write-off of exploration and evaluation assets	727,953	486,650
Interest accrued on short-term investments	5,256	(2,609)
Deferred income taxes recovery	(92,801)	(47,307)
	(459,213)	(464,950)
Changes in non-cash working capital items		
Sales tax receivable and other receivables	125,621	(52,192)
Prepaid expenses	4,832	3,832
Accounts payable and accrued liabilities	(95,523)	(73,399)
	34,930	(121,759)
Cash flows from operating activities	(424,283)	(586,709)
Investing activities		
Purchase of short-term investments	(2,078,000)	(4,076,661)
Disposal of short-term investments	3,019,770	7,548,204
Disposal of listed shares	-	11,178
Additions to mining properties	(29,655)	(77,161)
Disposal of mining properties	25,000	-
Exploration and evaluation expenses	(1,646,440)	(3,079,423)
Due from partners	4,571	(3,644)
Due to a partner	(598)	598
Payments received from partners for exploration costs	-	18,531
Taxes credits received	6,053	24,008
Cash flows from investing activities	(699,299)	365,630
Financing activities		
Issuance of shares and warrants	1,176,500	153,750
Share issue expenses	(79,515)	-
Cash flows from financing activities	1,096,985	153,750
Net changes in cash	(26,597)	(67,329)
Cash, beginning of year	50,092	117,421
Cash, end of year	23,495	50,092

See Note 10 on supplemental disclosure of cash flow information

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

1. General information, nature of operations and going concern

Melkior Resources Inc. (the ''Company''), incorporated under the Canada Business Corporations Act, is a junior mining exploration company operating in Canada. The address of registered office is 1801, McGill College avenue, suite 1325, Montreal, Quebec, H3A 2N4. The principal place of business is 3208 Richmond Road, Ottawa, Ontario, K2H 5B6, Canada. The Company's shares are listed on the TSX Venture Exchange under the symbol MKR.

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not yet generated income nor cash flows from its operations. As at August 31, 2012, the Company has a deficit of $33,501,379 ($31,260,833 as at August 31, 2011). These material uncertainties cast a significant doubt regarding the Company's going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

The carrying amounts of assets, liabilities and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate.

2. Summary of accounting policies

The significant accounting policies used in the preparation of these financial statements are described below.

a) Basis of preparation and compliance with IFRS

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Previous GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these year end financial statements have been prepared in accordance with IFRS. In the financial statements, the term "Previous GAAP" refers to Canadian GAAP before the adoption of IFRS.

The financial statements have been prepared using accounting policies specified by those IFRS that are in effect at August 31, 2012.

These accounting policies have been used throughout all periods presented in the financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 14.

b) Presentation of financial statements in accordance with IAS 1

The financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements*. The Company has elected to present the statement of comprehensive income in a single statement.

2. Summary of significant accounting policies (Cont'd)

In accordance with IFRS 1, *First-time adoption of international financial reporting standards*, the Company presents three statements of financial position in its first IFRS financial statements. In future years, IAS 1 requires two comparative periods to be presented for the statement of financial position only in certain circumstances.

c) Basis of evaluation

These financial statements are prepared using the historical cost method, except for the listed shares which are measured at fair value.

d) Standards issued that are not yet effective but have been early adopted by the Company

In the current year, the Company has applied *IFRS 9 Financial Instruments* ("IFRS 9") (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of their effective dates. The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities) is September 1, 2010. The Company has applied IFRS 9 in accordance with the transitional provisions set out in IFRS 9; the Company has applied the requirements of IFRS 9 to instruments that have not been derecognized as at September 1, 2010 and has not applied the requirements to instruments that have already been derecognized as at September 1, 2010. Comparative amounts in relation to instruments that have not been derecognized as at September 1, 2010 have been restated, where applicable.

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by IFRS 9, financial assets are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial assets are classified as at fair value through profit or loss ("FVTPL").

However, the Company may choose at initial recognition to designate a financial asset that meets the amortized cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current year, the Company has not elected to designate any financial instruments to be classified as at FVTPL.

Financial instruments that are subsequently measured at amortized cost are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Company as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except dividend income that is generally recognized in profit or loss in accordance with IAS 18, Revenue, are recognized in other comprehensive income and are not subsequently reclassified to profit or loss.

2. Summary of significant accounting policies (Cont'd)

IFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

As at September 1, 2010, the directors have reviewed and assessed the Company's existing financial assets and liabilities. The initial application of IFRS 9 has had no impact on financial assets and liabilities.

e) Functional and presentation currency

The financial statements are presented in Canadian currency which is also the functional currency of the Company.

f) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and liabilities are initially measured and recognized at their fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial asset and liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost less impairment loss (except for financial assets that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

2. Summary of significant accounting policies (Cont'd)

Amortized cost and effective interest method
Income is recognized on an effective interest basis for financial assets measured subsequently at amortized cost. Interest income is recognized in profit or loss and is included in the interest income line item. Discounting is omitted where the effect of discounting is immaterial.

Cash, short term investments, other receivables and due from partners are measured at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss is included in the 'fair value variation on financial instruments' line item. Fair value of listed shares is based on the last bid price on the stock market at the end of the year.

Financial assets are reclassified from amortized cost to FVTPL when the business model is changed such that the amortized cost criteria are no longer met. Reclassification of financial assets that are designated as at FVTPL on initial recognition is not allowed.

Dividend income on investments in equity instruments at FVTPL is recognized in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18, Revenue, and is included in dividend income line.

The Company's listed shares fall into this category of financial instruments.

Financial liabilities
Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognizing or when the continuing involvement approach applies.

Accounts payable and accrued liabilities and due to partners are measured at amortized cost using the effective interest method.

Impairment of financial assets
All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer of counterparty;
- default or delinquency in interest of principal payments; or
- it becoming probable that the borrower will enter in bankruptcy or financial reorganization.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables are presented in profit or loss within allowance for losses on receivable if applicable.

2. Summary of significant accounting policies (Cont'd)

g) Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares which include options and warrants. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the average market price at the beginning of the year or, if later, at the date of issue of the potential ordinary shares.

h) Taxes credits receivable

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred and refundable credit on duties for losses under the Mining Tax Act. These tax credits are recognized as a reduction of the exploration costs incurred.

i) Exploration and evaluation assets

Exploration and evaluation ("E&E") expenses are costs incurred in the course of initial search for mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the legal right to undertake E&E activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake E&E activities has been obtained, all costs of acquiring mineral rights, expenses related to the E&E of mining properties less refundable tax credits related to these expenses are recognized as E&E assets. Expenses related to E&E include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the E&E phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts; the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, E&E assets related to the mining property are transferred to property and equipment in mining assets under construction. Before the reclassification, E&E assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

To date, neither the technical feasibility nor the commercial viability of a mineral resource has been demonstrated.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, however these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2. Summary of significant accounting policies (Cont'd)

On the disposal of interest in connection with options agreement, the Company does not recognize expenses related to E&E performed on the property by the acquirer. Proceeds on the sale of exploration properties are applied by property in reduction of the mining properties, then in reduction of the E&E expenses and any residual is recorded in the statement of comprehensive income unless there is contractual work required in which case the residual gain is deferred and will reduce the contractual disbursements when done.

Funds received from partners on certain properties where the Company is the operator in order to perform exploration work as per agreements, are accounted for in the statement of financial position as advances received for exploration work. These advances are reduced gradually when the exploration works are performed. The project management fees received when the Company is the operator are recorded in the statement of comprehensive income. When the partner is the operator, the management fees are recorded in the statement of financial position as E&E expenses.

j) Operating lease agreements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the statement of comprehensive income or capitalized in the exploration and evaluation assets on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged as incurred.

k) Impairment of exploration and evaluation assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

Impairment reviews for exploration and evaluation assets are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances apply:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount. All impairment charges (or reversals, if any) are included within write-off (recovery) of E&E assets in profit or loss.

2. Summary of significant accounting policies (Cont'd)

l) Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

m) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

However, since the Company is in exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprised only of deferred tax.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

2. Summary of significant accounting policies (Cont'd)

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax liabilities are always provided for in full. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

n) Equity

Share capital represents the amount received on the issue of shares. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus. In addition, if shares were issued as consideration for the acquisition of a mineral property or some other form of non-monetary assets, they were measured at their fair value according to the quoted price on the day of the conclusion of the agreement.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Flow-through placements

Issuance of flow-through units represents in substance an issue of common shares, warrants and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through units are allocated between share capital, warrants and the liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and then to warrants according to the fair value of the warrants at the time of issuance and any residual in the proceeds is allocated to the liability. The fair value of the warrants is established using the Black-Scholes valuation model. When eligible expenses are incurred and the Company has the intention to renounce its right to tax deductions to the investors, the amount recognized in other liabilities is reversed and is recognized in profit or loss in reduction of deferred income tax expense. A deferred tax liability is also recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax basis.

2. Summary of significant accounting policies (Cont'd)

Other elements of equity

Contributed surplus includes charges related to share options and warrants. When share options and warrants are exercised, the related compensation cost is transferred to share capital. Retained deficit includes all current and prior period retained profits or losses, less issuance costs, net of any underlying income tax benefit from these issuance costs.

o) Equity-settled share-based payments

The Company operates equity-settled share-based remuneration plan (share options plan) for its eligible directors, officers, employees and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or service received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except warrants to brokers) are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to contributed surplus, in equity. Warrants to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus, in equity.

The expense is allocated over the vesting year, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

p) Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the president and the Board of Directors. The president and the Board of Directors have joint responsibility for allocating resources and assessing performance. The Company is of the opinion that there is only a single segment of business being the exploration and evaluation of mineral resources in Canada.

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's financial statements.

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (Cont'd)

IFRS 11, Joint Arrangements, ("IFRS 11")
IFRS 11 replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. IAS 28, Investments in Associates and Joint Ventures, was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12, Disclosure of Interest in Other Entities, ("IFRS 12")
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11.

IFRS 13, Fair Value Measurement, ("IFRS 13")
IFRS 13 provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

IFRS 10 to 13 were issued by the IASB on May 12, 2011 and are effective for annual periods beginning on or after January 1, 2013. The Company has not completed its assessment of the impact of these pronouncements on the results, financial position or cash flows of the Company.

4. Critical accounting estimates, judgments and assumptions

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment of exploration and evaluation assets
Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

The total write-off of the exploration and evaluation assets amounts to $727,953 for the year ended August 31, 2012 ($486,650 for the year ended August 31, 2011). No reversal of impairment losses has been recognized for the reporting periods.

(In Canadian dollars)

4. Critical accounting estimates, judgments and assumptions (Cont'd)

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

5. Short-term investments

As of August 31, 2012, short-term investments include guaranteed investments from Canadian financial institutions totalling $1,279,370 ($2,226,396 on August 31, 2011, $5,695,330 on September 1, 2010) cashable at any time without penalties, maturing between July 9, 2013 and August 20, 2013 (between February 9, 2012 and August 17, 2012 on August 31, 2011 and between August 10, 2011 and August 17, 2011 on September 1, 2010) and bearing interest rates between 1.15% and 1.40% (between 1% and 1.1% on August 31, 2011 and between 0.90% and 0.95% on September 1, 2010).

On August 31, 2012, the balance on flow-through financing not spent according to the restrictions imposed by this financing arrangement represents $512,793 (none as of August 31, 2011 and $638,342 as of September 1, 2010) and is included in the short term investments. The Company has to dedicate these funds to Canadian mining properties exploration.

6. Exploration and evaluation assets

Mining properties	August 31, 2011	Acquisitions	Write-offs	Disposal	August 31, 2012
	$	$	$	$	$
Quebec					
Launay	400,734	4,289	(19,000)	(145,210)	240,813
Ungava	-	615	(615)	-	-
Otish	-	205	(205)	-	-
Troilus	4,279	826	(5,105)	-	-
Ontario					
Timmins	325,071	16,950	(143,460)	-	198,561
Henderson	5,375	-	-	-	5,375
Long Lac	19,885	-	-	-	19,885
Eldorado	28,134	400	-	-	28,534
Rim Nickel – McFaulds	731,965	400	(163,400)	(168,912)	400,053
	1,515,443	23,685	(331,785)	(314,122)	893,221

(In Canadian dollars)

6. Exploration and evaluation assets (Cont'd)

Mining properties	August 31 2010	Acquisitions	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
	1,812,930	79,558	(377,045)	1,515,443

Exploration and evaluation expenses	August 31, 2011	Expenditures	Tax credits	Write-offs	Disposal	August 31, 2012
	$	$	$	$		$
Quebec						
Launay	459,958	205,823	(21,339)	-	(35,975)	608,467
Ungava	-	1,139	-	(1,139)	-	-
Troilus	394,829	-	-	(394,829)	-	-
Ontario						
Timmins	5,550,052	557,667	-	(200)	-	6,107,519
Henderson	55,830	-	-	-	-	55,830
Long Lac	266,830	61,690	-	-	-	328,520
Eldorado	336,649	52,834	-	-	-	389,483
Rim Nickel – McFaulds	3,000,669	50,479	-	-	(86,089)	2,965,059
	10,064,817	929,632	(21,339)	(396,168)	(122,064)	10,454,878

Deferred exploration expenses	August 31 2010	Expenditures	Tax credits	Write-offs	August 31 2011
	$	$	$	$	$
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
	6,714,836	3,491,866	(32,280)	(109,605)	10,064,817

6. Exploration and evaluation 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.

On April 27, 2012, the Company signed a letter agreement where it sold to Lakeside Minerals Corp. ("Acquirer"), a subsidiary of Lakeside Minerals Inc. ("Lakeside"), 6 claims from the Launay property and the 15 claims composing the Launay-Trojan block. The Acquirer will assume the NSR royalties of those claims. The Company received 750,000 shares of Lakeside valued at $52,500 according to the value of Lakeside shares at the closing on April 27, 2012. Of the $52,500, $15,000 was attributed to Launay and $37,500 was attributed to the Launay-Trojan block. A loss on disposal of E&E assets was recorded for $128,685 on the Launay-Trojan block.

Some claims were dropped and therefore the cost of the property was written off by $19,000 in August 2012.

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 $1,754 in 2012 and $800 in 2011.

c) *Mont Otish*

In April 2007, the Company acquired claims located 30km 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. The Company does minimal work on the property and continues to write them off for $205 in 2012 and $12,651 in 2011.

d) *Troilus*

As per an agreement signed on October 20, 2008 and amended August 24, 2011, the Company had 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. The President of the Company is also the President of Beaufield. The Boards of Directors of both companies had approved this transaction. Beaufield was the operator and the Company spent an amount of $463,137 since the beginning of the agreement.

On August 23, 2012, the Company terminated the agreement with Beaufield and consequently wrote off the property for $399,934.

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.

6. Exploration and evaluation assets (Cont'd)

Ontario

f) Timmins

i) Carscallen

The Company holds a 100% interest in the Carscallen property, west of Timmins. Some claims are subject to a 1.5% NSR royalty while another group 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.

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.

No further exploration work was budgeted, therefore the property was written off in August 2012 for $132,760.

iii) 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, 2012, $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 13km south-east of the City of Timmins and was staked in 2009. Some claims are subject to two 1% NSR royalty, half (0.5%) of which can be repurchased for $1,000,000 each. Some claims were dropped and therefore the cost of the property was written off by $10,900 in August 2012.

vi) Fripp

The Fripp property is located approximately 25km southwest of Timmins.

6. Exploration and evaluation assets (Cont'd)

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.

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 is located approximately 20km southeast of Timmins.

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.

Some claims were dropped and therefore the cost of the property was written off by $163,400 in August 2012.

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 $458,796.

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 Rim Nickel East property.

6. Exploration and evaluation assets (Cont'd)

iv) 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. 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.

In December 2011, the Company closed the transaction with Green Swan Capital Corp. ("Green Swan") which consists of granting Green Swan the option to acquire up to an undivided 70% interest in the Riverbank and Broke Back properties and constitutes Green Swan's qualifying transaction.

Following the execution of a letter of intent on July 14, 2011, the parties subsequently executed a formal option agreement on August 18, 2011, as amended on December 16, 2011 (collectively, the "Option Agreement"). Under the Option Agreement, Green Swan can acquire an initial 51% undivided interest in the Riverbank and Broke Back properties by paying the Company the sum of $25,000, issuing 2,000,000 common shares of Green Swan and 1,000,000 share purchase warrants and by incurring $1,600,000 in work expenditures on the properties by no later than December 2014.

Following the exercise of the first option, should the Company not elect to form a joint venture on the Riverbank and Broke Back properties, Green Swan will have the option to acquire an additional 19% interest (for a total 70% undivided interest in the Riverbank and Broke Back properties) by incurring an additional $1,000,000 in work expenditures within a delay of twenty-four months.

Following the issuance of the Exchange's final bulletin approving the qualifying transaction on January 13, 2012, Green Swan issued to the Company 2,000,000 common shares at a price of $0.10 per share (the fair value being $200,000) and 1,000,000 share purchase warrants as per the Option Agreement in addition to pay the $25,000 in cash. Each warrant entitles the Company to acquire an additional common share of Green Swan at a price of $0.15 for a twelve month period and at a price of $0.25 per share for the following twelve month period. In accordance with Exchange policies, the securities are subject to an escrow and will be released to the Company over a period of thirty-six months.

On January 13, 2012, the 1,000,000 warrants have been valued with the Black-Scholes model with the following average assumptions: stock price at the date of grant of $0.10, exercise price at the date of grant $0.15, weighted risk-free interest rate of 0.86%, projected volatility of 100%, predicted average life of warrants of 2 years and no dividend yield. As of August 31, 2012, these warrants were revaluated to $24,000 with the Black-Scholes model with the following average assumptions: weighted risk-free interest rate of 1.06%, projected volatility of 100%, predicted average life of warrants of 1.375 years and no dividend yield. The underlying expected volatility was determined by reference to historical data of comparable mining exploration companies' share on the TSX Venture Exchange over the expected average life of the warrants.

As of June 21, 2012, Green Swan sold its interest in the Broke Back and Riverbank properties to Winston Resources Inc.

7. Share capital

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

a) Private placement

On December, 7, 2011, the Company closed a non-brokered private placement for aggregate proceeds of $569,000 consisting of the issuance of 5,690,000 units at a price of $0.10 per unit. Each unit is comprised of one flow-through common share and one-half a common share purchase warrant. Each full warrant entitles its holder to purchase one additional common share at a price of $0.25 for a period of 12 months following the closing. The Company paid cash commissions totaling $10,200. On December 7, 2011, the Company's share closed at $0.09 on the TSX Venture and the residual value of $0.01 was entirely allocated to the benefit related to flow-through shares renunciation for a total value of $56,900 credited to other liabilities since the warrant valuation was considered non material.

In June and July 2012, the Company closed private placements for aggregate proceeds of $607,500 consisting of the issuance of 2,262,500 units at a price of $0.20 per unit ("Unit A") and 620,000 units at a price of $0.25 per unit ("Unit B").

Of the 2,262,500 Unit A, 1,550,000 were issued on June 28, 2012 and 712,500 were issued on July 9, 2012. Each Unit A is comprised of one flow-through common share and one common share purchase warrant. Each Unit A warrant entitles its holder to purchase one additional common share at a price of $0.25 for a period of 12 months following the closing.

The 620,000 Unit B were issued on June 28, 2012. Each Unit B is comprised of one flow-through common share and one common share purchase warrant. Each Unit B warrant entitles its holder to purchase one additional common share at a price of $0.30 for a period of 18 months following the closing. If at any time after 4 months and one (1) day after the closing date, the trading price on the TSX Venture Exchange of the common share of the Company is equal or exceeds $0.35 for a period of 20 consecutive trading days, the Company shall be entitled to notify the holders of the warrants of its intention to force the exercise of the warrants of the Unit B. Upon receipt of such notice, the holders of the warrants shall have 30 days to exercise the warrants.

In conjunction with the private placements, insiders have subscribed for aggregate proceeds of $120,000. The Company paid cash commissions totaling $15,450 in relation to the private placement. In addition to commissions paid, the Company also paid other issuance cost in the amount of $53,565 for a total share issue expenses of $79,515 accounted into the deficit.

On June 28, 2012, the Company's share closed at $0.145 on the TSX Venture. Of the $0.055 residual value relating to the Unit A, $0.029 was allocated to the benefit related to flow-through shares renunciation for a value of $44,950 credited to other liabilities and $0.026 was allocated to the warrants for a value of $40,300. The $0.026 of the warrants was valued with the Black-Scholes model with the following average assumptions: stock price at date of grant of $0.145, exercise price at date of grant of $0.25, weighted risk-free interest rate of 1.06%, projected volatility of 87.5%, predicted average life of warrants of 1 year and no dividend yield. The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the warrants.

7. Share capital (Cont'd)

Of the $0.105 residual value relating to the Unit B closed on June 28, 2012, $0.068 was allocated to the benefit related to flow-through shares renunciation for a value of $42,160 credited to other liabilities and $0.037 was allocated to the warrants for a value of $22,940. The $0.037 of the warrants was valued with the Black-Scholes model with the following average assumptions: stock price at date of grant of $0.145, exercise price at date of grant of $0.30, weighted risk-free interest rate of 1.18%, projected volatility of 95.4%, predicted average life of warrants of 1,5 years and no dividend yield. The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the warrants.

On July 9, 2012, the Company's share closed at $0.18 on the TSX Venture. Of the $0.02 residual value relating to the Unit A, none was allocated to the benefit related to flow-through shares renunciation and $0.02 was allocated to the warrants for a value of $14,250. A $0.043 value of the warrants was calculated with the Black-Scholes model and therefore 100% of the $0.02 residual value was attributed to the warrant. The Black-Scholes model used the following average assumptions: stock price at date of grant of $0.18, exercise price at date of grant of $0.25, weighted risk-free interest rate of 1.06%, projected volatility of 87.6%, predicted average life of warrants of 1 year and no dividend yield. The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the warrants.

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.

(In Canadian dollars)

7. 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:

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of year	9,700,000	0.32	9,270,000	0.29
Granted	-		2,400,000	0.27
Exercised	-		(1,470,000)	0.10
Cancelled	-		(300,000)	0.35
Expired	(1,400,000)	0.30	(200,000)	0.20
Balance at end	8,300,000	0.32	9,700,000	0.31
Exercisable at the end of year	8,300,000	0.32	8,100,000	0.32

The weighted average share price at the date of exercise was $0.25.

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
Stock price	$0.255	$0.225
Estimated fair value per option	$0.18	$0.15
Estimated fair value	$396,000	$30,000

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the options.

(In Canadian dollars)

7. Share capital (Cont'd)

In 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 day of the grant. The total fair value of these options amounts to $426,000 of which $351,540 are accounted for in stock-based compensation expenses ($265,608 as of August 31, 2011 and $85,932 as of August 31, 2012) and $74,460 are capitalized in the deferred exploration expenses ($35,492 as of August 31, 2011 and $30,468 as of August 2012).

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2012:

Number of options	Exercise price	Expiry date
	$	
100,000	0.35	October 26, 2012
1,900,000	0.50	December 17, 2012
200,000	0.25	February 25, 2013
300,000	0.10	November 7, 2013
400,000	0.40	August 7, 2014
900,000	0.36	December 30, 2014
1,900,000	0.20	July 16, 2015
200,000	0.20	July 28, 2015
2,200,000	0.27	December 23, 2015
200,000	0.27	February 16, 2016
8,300,000		

c) Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares as follow:

	2012		2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance at beginning	21,112,599	0.39	21,112,599	0.39
Issued	5,727,500	0.26	-	-
Expired 1)	(11,491,100)	0.41	-	-
Balance at end	15,348,999	0.36	21,112,599	0.39

(In Canadian dollars)

7. Share capital (Cont'd)

1) On June 21, 2011, the Corporation had 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: stock price at date of grant of $0.30, exercise price at date of grant of $0.35, risk-free interest rate of 1.76%, projected volatility of 112%, predicted average life of warrants of 1.027 year and no dividend yield. Those warrants expired on June 30, 2012. The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the warrants.

Warrants outstanding as at August 31, 2012 are as follows:

Number of warrants	Exercise price	Expiry date
	$	
2,845,000	0.25	December 7, 2012
5,000,000	0.35	June 9, 2013
1,550,000	0.25	June 28, 2013
712,500	0.25	July 9, 2013
4,496,499	0.50	December 15, 2013 [1)]
125,000	0.50	December 17, 2013 [1)]
620,000	0.30	December 28, 2013
15,348,999		

1) On November 18, 2011, the Corporation extended the life of 4,496,499 existing warrants expiring on December 15, 2011 to December 15, 2013 as well as 125,000 existing warrants expiring on December 17, 2011 to December 2013. The increase in the weighted average fair value on the extension date of the warrants awarded was $0.1469 per warrant or $678,900 estimated using the Black-Scholes model and the following average assumptions: stock price at date of grant of $0.31, exercise price at date of grant of $0.50, risk-free interest rate of 1.32%, projected volatility of 113%, predicted average life of warrants of 2.077 years and no dividend yield. The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX Venture Exchange over the expected average life of the warrants.

d) Warrants issued as compensation

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

	2012		2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance of year	1,656,605	0.32	1,803,167	0.31
Expired	(1,656,605)	0.32	(146,562)	0.25
Balance of year	-		1,656,605	0.32

(In Canadian dollars)

7. Share capital (Cont'd)

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of $12,835,342 as of August 31, 2012 ($13,210,912 as of August 31, 2011). 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. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve. 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.

8. Income taxes

The relationship between the expected tax expense (recovery) based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the statement of comprehensive income can be reconciled as follows:

	2012	2011
	$	$
Loss before income taxes	(1,574,932)	(1,293,401)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 27,4% (28.9% in 2011)	(431,531)	(373,793)
Adjustments for the following items:		
Difference between deferred tax and statutory rates	7,009	18,988
Changes in temporary differences not recorded	206,658	147,607
Tax effect of issuance of flow-through shares	117,865	96,199
Reversal of the other liabilities attributable to issuance of flow-through shares	(92,801)	(47,307)
Stock-based compensation	26,222	81,993
Fair value variation non deductible	21,663	8,771
Realization of a deferred tax liability not previously recorded on mining property	54,204	19,742
Non deductible items and others	(2,090)	493
Deferred income tax expense (recovery)	(92,801)	(47,307)

The 2012 effective tax rate is lower than the 2011 effective tax rate following a decrease in the federal statutory tax rate as of January 1, 2012.

The major components of deferred tax expense (recovery) are outlined below:

	2012	2011
	$	$
Origination and reversal of temporary differences	(331,532)	(262,794)
Tax effect of issuance of flow-through shares	117,865	96,199
Reversal of the other liabilities attributable to issuance of flow-through shares	(92,801)	(47,307)
Difference between deferred tax and statutory rates	7,009	18,988
Changes in temporary differences not recorded	206,658	147,607
Total deferred tax expense (recovery)	(92,801)	(47,307)

(In Canadian dollars)

8. Income taxes (Cont'd)

Available temporary differences for which no deferred tax asset were recorded:

	August 31, 2012		August 31, 2011	
	Federal	Quebec	Federal	Quebec
	$	$	$	$
E&E assets	2,631,471	7,710,902	2,634,263	7,205,782
Property and equipment	20,530	20,530	20,530	20,530
Listed shares	1,319,375	1,319,375	1,154,624	1,154,624
Share issue expenses	267,179	267,179	336,556	336,556
Non-capital losses	3,966,000	3,883,000	3,356,000	3,274,000
Capital losses	92,739	92,739	92,739	92,739
	8,297,294	13,293,725	7,594,712	12,084,231

The Company has non-capital losses which are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded in the statement of financial position, that can be carried over the following years:

	Federal	Quebec
	$	$
2014	387,000	368,000
2015	226,000	215,000
2026	222,000	190,000
2027	263,000	245,000
2028	292,000	292,000
2029	470,000	469,000
2030	820,000	819,000
2031	676,000	676,000
2032	610,000	609,000
	3,966,000	3,883,000

As at August 31, 2012, accumulated capital losses of $92,739 ($92,739 in 2011) are available to be applied against future capital gains. These losses may be carried forward indefinitely.

The Company has unrecorded investment tax credits of $636,052 ($616,986 in 2011) which are available up to 2027 to reduce the federal income taxes.

The Company has unrecorded resources tax credits of $50,763 ($50,763 in 2011) which are available up to 2017 to reduce the Quebec income taxes.

(In Canadian dollars)

9. Loss per share

In calculating the diluted loss per share, dilutive potential common shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Note 7.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator, i.e. no adjustment to the net loss was necessary in 2012 and 2011.

	2012	2011
	$	$
Net loss for the year	(1,482,131)	(1,246,094)
Weighted average number of shares in circulation	115,599,447	110,704,342
Basic and diluted loss per share	(0.01)	(0.01)

There have been no other transactions involving common shares between the reporting date and the date of authorization of these financial statements.

10. Statement of cash flows

	2012	2011
	$	$
Exercise of options credited to share capital	-	48 300
Tax credits receivable applied against E&E expenses	20,897	31 276
Additions of mining properties included in accounts payable and accrued liabilities	-	4,381
Additions of E&E expenses included in accounts payable and accrued liabilities	96,359	893,568
Due from partners included in E&E assets	-	25 223
Due to partners included in E&E assets	-	4,296
Listed shares received on disposal of E&E assets	282,500	-
Stock-based compensation included in E&E expenses	57,886	73,996

11. Compensation to key management and related party disclosures

a) Compensation to key management

The Company's key management personnel are members of the board of directors (of which the president of the Company is a member) as well as the chief financial officer. Key management compensation is as follows:

	Years ended August 31,	
	2012	2011
	$	$
Short-term benefits		
Salaries including benefits	12,988	54,485
Professional and consulting fees	139,110	112,707
Salaries capitalized in E&E expenses	-	47,574
Professional fees capitalized in E&E expenses	61,900	58,270
Total short-term benefits	213,998	273,036
Stock-based compensation	94,213	265,792
Total compensation	308,211	538,828

(In Canadian dollars)

11. Compensation to key management and related party disclosures (Cont'd)

During the year ended August 31, 2011, 1,200,000 and 270,000 shares options where exercised at a price of $0.10 and $0.125 respectively by a director and officers.

During the year ended August 31, 2012, an officer participated for $40,000 in the private placement closed on December 7, 2011 and an officer and directors participate for $80,000 in the private placement closed on June 28, 2012 (see Note 7a).

b) Transactions with other related party

In the normal course of operations in 2012 and 2011, in addition to the amounts listed above in the compensation to key management (Note 11a):

a) A company controlled by an officer charged rent totaling $33,000 ($36,000 in 2011) expensed in office expenses;
b) A company controlled by an officer charged professional fees of $25,843 ($21,516 in 2011);

As at August 31, 2012, the balance due to the related parties amounted to $25,275 (August 31, 2011 – $22,051) and was recorded in accounts payable and accrued liabilities.

12. Financial Instruments

a) Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statement of financial position are as follows:

	August 31, 2012		August 31, 2011		September 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$	$	$
Financial assets						
At amortized cost						
Cash	23,495	23,495	50,092	50,092	117,421	117,421
Short-term investments	1,279,370	1,279,370	2,226,396	2,226,396	5,695,330	5,695,330
Due from partners	-	-	29,794	29,794	8,337	8,337
Other receivables	-	-	-	-	17,129	17,129
At fair value through profit or loss						
Listed share	271,125	271,125	146,750	146,750	218,625	218,625
Financial liabilities						
At amortized cost						
Accounts payable and accrued liabilities	160,520	160,520	1,057,635	1,057,635	738,643	738,643
Due to partners	-	-	4,894	4,894	20,000	20,000

The carrying value of cash, short-term investments, due from partners, other receivables, accounts payable and accrued liabilities and due to partners are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

12. Financial Instruments (Cont'd)

b) Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Listed shares in quoted mining exploration companies measured at fair value as at August 31, 2012 and 2011 and September 1, 2010 are classified in Level 1.

c) Financial instrument risk

The Company is exposed to various risks in relation to financial instruments. The main types of risks the Company is exposed to are market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to the following types of market risk: interest rate risk and other price risk. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial instruments for speculative purposes.

The most significant financial risks to which the Company is exposed are described below.

Market risk

Interest rate risk sensitivity
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. As at August 31, 2012, the short-term investments were at fixed interest rates. Interest rate movements may affect the fair value of the fixed interest financial assets. Because these financial assets are recognized at amortized cost the fair value variation has no impact on profit or loss.

Other price risk sensitivity
The Company is exposed to fluctuations in the market prices of its listed shares in quoted mining exploration companies. The fair value of the listed shares represents the maximum exposure to price risk. If the quoted stock price for these securities had changed by ±20% as at August 31, 2012, August 31, 2011 and September 1, 2010, net loss and equity would have changed by $54,225, $29,350 and $43,725 respectively.

(In Canadian dollars)

12. Financial Instruments (Cont'd)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at August 31, 2012, August 31, 2011 and September 1, 2010, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	August 31, 2012		August 31, 2011		September 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$	$	$
Cash	23,495	23,495	50,092	50,092	117,421	117,421
Short-term investments	1,279,370	1,279,370	2,226,396	2,226,396	5,695,330	5,695,330
Due from partners	-	-	29,794	29,794	8,337	8,337
Other receivables	-	-	-	-	17,129	17,129
Carrying amounts	1,302,865	1,302,865	2,306,282	2,306,282	5,838,217	5,838,217

The other receivables are mainly receivables from other exploration companies sharing exploration camp facilities. The exposure to credit risk for the Company's receivables has to be monitored continuously. In 2012, the Company recorded impairment on a due from partners for $28,375 due to liquidity challenges one of its partners.

As at August 31, 2012, the Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The credit risk for cash and cash equivalents, and guaranteed investment certificates is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount. Over the past period, the Company has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through private and flow-through financings.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

	August 31, 2012 Carrying amount	August 31, 2011 Carrying amount	September 1, 2010 Carrying amount
	$	$	$
Within three months:			
Accounts payable and accrued liabilities	160,520	1,057,635	738,643
Due to partners	-	4,894	20,000
Total	160,520	1,062,529	758,643

The Company's existing cash and short-term investments significantly exceed the current cash outflow requirements.

13. Leases

The Company leases its offices under a lease of one year, renewable automatically for one year, unless one of the parties gives a 3 month cancellation notice. The lease has been renewed automatically till August 2013 and the minimum operating lease payments within one year are $24,000.

The minimum lease payments recognized as an expense during the year ended August 31, 2012 amount to $33,000 ($36,000 for the year ended August 31, 2011).

14. First-time adoption of IFRS

These are the Company's first year end financial statements prepared in accordance with IFRS. The date of transition for the Company to IFRS is September 1, 2010.

The Company's IFRS accounting policies presented in Note 2 have been applied in preparing the financial statements for the reporting period ended August 31, 2012, the comparative information and the opening statement of financial statement at the date of transition. The Company has applied *IFRS 1, first time adoption of International Financial Reporting Standards* in preparing these first IFRS year end financial statements.

The effect of the Company's transition from Canadian GAAP to IFRS, as described in Note 2, is summarized in this note as follows:
a) Transition elections;
b) Reconciliation of balance sheet, equity, loss and comprehensive loss as previously reported under Previous GAAP to IFRS and explanatory notes.

a) Transition elections

IFRS 1, First Time Adoption of IFRS, offers the possibility to utilize certain exemptions from full retrospective application of IFRS. The Company evaluated the options available and elected to adopt the following transition exemptions:

Mandatory exceptions:
1. The estimates established by the Company in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Previous GAAP, after adjustments to reflect any difference in accounting principles, if applicable.
2. Financial assets and liabilities that were derecognized before September 1, 2010 pursuant to Previous GAAP were not recognized under IFRS. The Company has early applied the change in IFRS 1 in this respect regarding the application date of the exception, i.e. September 1, 2010.

Optional exemptions:
3. The Company has chosen not to apply IFRS 2, *Share-based payment*, retrospectively to options granted on or before November 7, 2002 or granted after November 7, 2002 and not vested before the date of transition to IFRS.
4. The Company has elected not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition. See Note 14b) for an explanation of the effect of the exemption.

(In Canadian dollars)

14. First-time adoption of IFRS (Cont'd)

b) Reconciliation of the Statement of financial position, equity, loss and comprehensive loss and explanatory notes

The following table shows the total effect of the transition on the statement of financial position:

		September 1, 2010			August 31, 2011			
Canadian GAAP description	**Notes**	**Previous GAAP**	**Effect of transition to IFRS**	**IFRS**	**Previous GAAP**	**Effect of transition to IFRS**	**IFRS**	**IFRS description**
ASSETS								**ASSETS**
Current assets								*Current*
Cash		117,421	-	117,421	50,092	-	50,092	Cash
Short-term investments	2	5,056,988	638,342	5,695,330	2,226,396	-	2,226,396	Short-term investments
Sales tax receivable and other receivables		133,806	-	133,806	185,998	-	185,998	Sales tax receivable and other receivables
Due from partners, without interest, on demand		8,337	-	8,337	29,794	-	29,794	Due from partners, without interest, on demand
Taxes credits receivable		25,914	-	25,914	33,684	-	33,684	Taxes credits receivable
Prepaid expenses		24,299	-	24,299	20,467	-	20,467	Prepaid expenses
Listed shares held for trading		218,625	-	218,625	146,750	-	146,750	Listed shares
		5,585,390	638,342	6,223,732	2,693,181	-	2,693,181	
								Non-current
Exploration funds	2	638,342	(638,342)	-	-	-	-	-
Mining assets								Exploration and evaluation assets
Mining properties		1,812,930	-	1,812,930	1,515,443	-	1,515,443	Mining properties
Deferred exploration expenses		6,714,836	-	6,714,836	10,064,817	-	10,064,817	Exploration and evaluation expenses
		14,751,498	-	14,751,498	14,273,441	-	14,273,441	Total assets
LIABILITIES								**LIABILITIES**
Current								*Current*
Accounts payable and accrued liabilities		738,643	-	738,643	1,057,635	-	1,057,635	Accounts payable and accrued liabilities
Due to a partner, without interest, on demand		20,000	-	20,000	4,894	-	4,894	Due to a partner, without interest, on demand
-	1	-	535,694	47,307	-	535,694	-	Other liabilities
			(488,387)			(535,694)		Total liabilities
	1	758,643	47,307	805,950	1,062,529	-	1,062,529	
SHAREHOLDERS' EQUITY								**SHAREHOLDERS'EQUITY**
Share capital	1	41,827,367	(535,694)	41,291,673	42,029,417	(535,694)	41,493,723	Share capital
Contributed surplus		2,136,614		2,136,614	2,978,022		2,978,022	Contributed surplus
Deficit	1	(29,971,126)	488,387	(29,482,739)	(31,796,527)	488,387	(31,260,833)	Deficit
						47,307		
		13,992,855	(47,307)	13,945,548	13,210,912	-	13,210,912	Total equity
		14,751,498	-	14,751,498	14,273,441	-	14,273,441	Total liabilities and equity

(In Canadian dollars)

14. First-time adoption of IFRS (Cont'd)

The following table shows the total effect of the transition on the statement of comprehensive income:

		Year ended August 31, 2011			
Canadian GAAP description	**Notes**	**Previous GAAP**	**Effect of transition to IFRS**	**IFRS**	**IFRS description**
Expenses					**Expenses**
	4		54,485	54,485	Salaries and employee benefits expense
General and administrative	4	166,891	(54,485)	112,406	Office expenses
Travelling and promotion		23,916	-	23,916	Travelling and promotion
Investors and shareholders relations		108,124	-	108,124	Investors and shareholders relations
Professional and consulting fees		208,397	-	208,397	Professional and consulting fees
General exploration		3,991	-	3,991	Exploration
Stock-based compensation		283,712	-	283,712	Stock-based compensation
Fair value variation on financial instruments held for trading	4	53,807	(53,807)	-	-
Write-off of mining assets		486,650		486,650	Write-off of exploration and evaluation assets
		1,335,488	(53,807)	1,281,681	Operating loss
Other income					**Other income**
Interest income	4	37,146	6,891	44,034	Interest income
Project management fees		4,944	-	4,944	Project management fees
-	4	-	(60,698)	(60,698)	Change in value of listed shares
Loss before income taxes		(1,293,401)	-	(1,293,401)	Loss before income taxes
Future income taxes	1	-	47,307	47,307	Deferred income taxes recovery
Net loss and comprehensive loss		(1,293,401)	47,307	(1,246,094)	**Net loss and comprehensive loss**
Basic and diluted net loss per share		(0.01)	-	(0.01)	Basic and diluted net loss per share
Weighted average number of outstanding common shares		110,704,342	-	110,704,342	Weighted average number of outstanding common shares

14. First-time adoption of IFRS (Cont'd)

1. *Share issued by flow-through placements*
Under Canadian GAAP, the entire proceeds received on the issuance of flow-through shares were credited to share capital. When the renouncement of the tax deductions related to the resource expenditure for income tax purposes, temporary taxable differences were created and a deferred income tax was recorded, and the related charge was treated as share issue costs.

   Under IFRS, issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued, warrants and a liability using the residual method.

   Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to the liability. The accumulation of all these residual proceeds as at September 1, 2010 amount to $535,694, reducing the share capital and creating the other liability benefit related to flow-through shares renunciation.

   This other liability was reversed to deferred income taxes in the statement of comprehensive income when the work is performed. As at September 1, 2010, $488,387 of the other liability was reversed and the remaining $47,307 was revised in the three month period ended November 30, 2010.

   Under IFRS, when the Company has renounced or has the intention to renounce its deductions and has incurred its admissible expenditures, the sale of tax deductions is recognized in profit or loss as a reduction of deferred tax expenses and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of admissible expenditures capitalized as an asset and its tax basis.

   Since the share issue expenses are part of the deficit for the Company, the temporary taxable differences were already recorded in the opening deficit, therefore there is no adjustment needed.

   As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retrospectively.

2. *Cash held for exploration expenses*
Under Canadian GAAP, the cash held for exploration expenses was presented as a long term asset. Under IFRS, the cash held for exploration expenses is presented in short term assets if used within one year.

3. *Business combination*
The Company has elected not to restate business combinations that occurred before the date of transition to IFRS. No difference has been recorded for the acquisitions, i.e. there is no adjustment to the acquired identifiable assets and liabilities.

4. *IFRS reclassifications*
Some reclassifications were done to comply with the IFRS presentation.

15. Contingencies and commitments

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is engaged in realizing mining exploration work.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:
– Two years following the flow-through placements;
– One year after the Company has renounced the tax deductions relating to the exploration work.

Commitments to carry out exploration work that are not respected are subject to a combined tax rate of 27% (Canada and Quebec).

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

During the year, the Company received $1,176,500 following flow-through placements for which the Company has the intention to renounce to tax deductions of $607,212 after December 31, 2012 and has renounced to tax deductions of $568,431 as at February 29, 2012. Management is required to fulfil its commitments within the stipulated deadline of December 31, 2012 for $60,518 and of December 31, 2013 for $452,275.

16. Subsequent event

On November 16, 2012, the Company announced the extension for one year the term of the 2,845,000 warrants expiring December 7, 2012.

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