Melkior Resources Inc.

Annual Financial Statements

Years ended August 31, 2013 and 2012

Melkior Resources Inc.
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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, 2013 and 2012 and the statements of comprehensive loss, the statements of changes in equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates 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, 2013

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

Melkior Resources Inc.
Statements of Financial Position
August 31, 2013
(In Canadian dollars)

	August 31, 2013	August 31, 2012
	$	$
Assets		
Current assets		
Cash (Note 5)	437,185	23,495
Short-term investments (Note 6)	-	1,279,370
Sales tax receivable and other receivables	12,333	60,377
Taxes credits receivable	26,471	48,970
Prepaid expenses	17,443	15,635
Listed shares (Note 7)	156,750	271,125
	650,182	1,698,972
Non-current assets		
Exploration and evaluation assets (Note 8)		
Mining properties	841,401	893,221
Exploration and evaluation expenses	9,965,252	10,454,878
	10,806,653	11,348,099
Total assets	11,456,835	13,047,071
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	16,963	160,520
Other liabilities	-	51,209
Total liabilities	16,963	211,729
Shareholders' Equity		
Share capital (Note 9)	42,448,723	42,448,723
Contributed surplus	4,030,898	3,887,998
Deficit	(35,039,749)	(33,501,379)
Total equity	11,439,872	12,835,342
Total liabilities and equity	11,456,835	13,047,071

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, 2013.

(s) Jens E. Hansen

Jens E. Hansen
President and Director

(s) Norman Farrell

Norman Farrell
Director

Melkior Resources Inc.
Statements of Comprehensive loss
August 31, 2013
(In Canadian dollars)

	Year ended August 31, 2013	2012
	$	$
Expenses		
Salaries and employee benefits expenses	1,137	12,988
Office expenses	98,679	111,518
Travelling and promotion	10,130	11,806
Investors and shareholders relations	66,451	105,615
Professional and consulting fees	172,997	203,843
General exploration expenditures	840	1,830
(Recovery) allowance for loss on a receivable	(28,375)	28,375
Stock-based compensation (Note 9)	96,100	95,700
Loss on sale of exploration and evaluation assets (Note 8)	104,399	128,685
Write-off of exploration and evaluation assets (Note 8)	863,050	727,953
	1,385,408	1,428,313
Operating loss	(1,385,408)	(1,428,313)
Interest and dividend income	7,514	11,506
Other income	3,125	-
Change in value of listed shares	(176,510)	(158,125)
Loss before income taxes	(1,551,279)	(1,574,932)
Deferred income taxes recovery (Note 10)	51,209	92,801
Net loss and comprehensive loss for the year	(1,500,070)	(1,482,131)
Basic and diluted net loss per share	(0.01)	(0.01)
Weighted average number of outstanding common shares	119,522,870	115,599,447

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

Melkior Resources Inc.

Statements of Changes in Equity
August 31, 2013
(In Canadian dollars)

	Number of shares outstanding	Capital stock	Contributed surplus	Deficit	Total Equity
		$	$	$	$
Balance at September 1, 2012	119,522,870	42,448,723	3,887,998	(33,501,379)	12,835,342
Net loss and comprehensive loss	-	-	-	(1,500,070)	(1,500,070)
Warrants extension	-	-	38,300	(38,300)	-
Stock-based compensation	-	-	104,600	-	104,600
Balance at August 31, 2013	**119,522,870**	**42,448,723**	**4,030,898**	**(35,039,749)**	**11,439,872**

	Number of shares outstanding	Capital stock	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**

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

Melkior Resources Inc.
Statements of Cash Flows
August 31, 2013
(In Canadian dollars)

	Year ended August 31, 2013	2012
	$	$
Operating activities		
Net loss	(1,500,070)	(1,482,131)
Non-cash items:		
Stock-based compensation	96,100	95,700
Change in value of listed shares	176,510	158,125
Write-off of exploration and evaluation assets	863,050	727,953
Loss on disposal of exploration and evaluation assets	104,399	128,685
Interest accrued on short-term investments	1,370	5,256
Deferred income taxes recovery	(51,209)	(92,801)
	(309,850)	(459,213)
Changes in non-cash working capital items		
Sales tax receivable and other receivables	48,044	125,621
Prepaid expenses	(1,808)	4,832
Accounts payable and accrued liabilities	(47,198)	(95,523)
Trade credits receivable	(2,660)	-
	(3,622)	34,930
Cash flows used in operating activities	(313,472)	(424,283)
Investing activities		
Purchase of short term investments	-	(2,078,000)
Disposal of short term investments	1,278,000	3,019,770
Disposal of listed shares	5,865	-
Additions to mining properties	(5,559)	(29,655)
Disposal of mining properties	-	25,000
Exploration and evaluation expenses	(597,468)	(1,646,440)
Due from partners	-	4,571
Due to a partner	-	(598)
Tax credits cashed	46,324	6,053
Cash flows used in investing activities	727,162	(699,299)
Financing activities		
Issuance of common shares	-	1,176,500
Share issue expenses	-	(79,515)
Cash flows from financing activities	-	1,096,985
Net changes in cash	413,690	(26,597)
Cash, beginning of period	23,495	50,092
Cash, end of period	437,185	23,495

See note 12 on supplemental disclosure of cash flow information

Cash transactions:		
Interest and dividend received related to operating activities:	6,144	4,880

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

1. General information, nature of operations and going concern assumption

Melkior Resources Inc. (the ‘‘Company’’), incorporated under the Canada Business Corporations Act, is a junior mining exploration company operating in Canada. The Company's operations include the acquisition and exploration of mining properties. The address of registered office is 3208, Richmond Road, Ottawa, Ontario, Canada, K2H 5B6. The Company's shares are listed on the TSX Venture Exchange under the symbol "MKR" and on the OTCQX Exchange in the U.S. under the symbol "MKRIF" and on the Frankfurt Stock Exchange under the symbol "MEK".

The financial statements have been prepared 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 or cash flows from its operations, cast a doubt regarding the Company's ability to continue as a going concern. As at August 31, 2013, the Company has a deficit of $35,039,479 ($33,501,379 as at August 31, 2012). These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a 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.

In October 2013, the Company has completed a private placement for a total of $170,000. See Note 16 for the details.

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 significant accounting policies

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

a) Statement of compliance with IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Functional and presentation currency

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

c) 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.

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

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.

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 and dividend income line item. Discounting is omitted where the effect of discounting is immaterial.

Cash, short term investments and other receivables 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 change in fair value of listed shares 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 the interest and 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.

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

All interest-related charges are reported in the profit or loss within finance costs, if applicable.

Accounts payable and accrued liabilities 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 is presented in profit or loss within allowance for losses on receivable if applicable.

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

e) 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 based on estimates made by management. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Company will comply with conditions associated to them.

f) 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.

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

Once the legal right to undertake E&E activities has been obtained, all costs of acquiring mineral rights or options to acquire such rights (option agreement), 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 (see Note 2g); 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 (see Note 2g) 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.

Disposal of interest with options agreement.

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. In addition, the cash or the share consideration received directly from the acquirer is credited against the carrying amount of costs previously capitalized to the property, and the surplus is recognized as a gain on disposal of E&E assets in profit or loss.

g) 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.

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

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 loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

h) 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, associates 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.

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 the underlying tax loss or deductible temporary differences will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income or expenses and specific limits on the usage of any unused tax loss or credit. 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.

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

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.

i) 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 are 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 other 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.

Other elements of equity
Contributed surplus includes charges related to share options and warrants not exercised. 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. Any revaluation of warrants based on the extension of warrants issued in the prior years are recorded directly in the retained deficit.

j) Equity-settled share-based payments

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

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.

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

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.

If vesting periods or other vesting conditions apply, the expenses are allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. 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 is different from that estimated on vesting.

k) 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.

l) Provisions

Provisions are recognized when present legal and constructive 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.

No liability is recognized if an outflow of economic resources as a result of a present obligation is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

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

3. Standards, amendments and interpretations to existing standards that are not yet effective

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

The Company early adopted IFRS 9, Financial Instruments (IFRS 9). 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.

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 FVTPL) attributable to changes in the credit risk of that liability.

The initial application of IFRS 9 as at September 1, 2010 has had no impact on financial assets and liabilities

3.2 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. Management has determined that the new standards will not have a material impact on the financial statements of the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies 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.

A number of new and revised standards are effective for annual periods beginning on or after January 1, 2013.

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.

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 about the risk to which an entity is exposed from its involvement with structured entities.

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 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.

IAS 28, Investments in Associates and Joint Ventures', ("IAS 28")
IAS 28 (Amendment) 'Investments in Associates and Joint Ventures' prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

4. Judgments, estimates and assumptions

When preparing the financial statements, management makes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

4.1 Significant management judgment

The following are significant management judgments in applying the accounting policies of the Company and have the most significant effect on the financial statements.

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 (Note 2h).

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See note 1 for more information.

4.2 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of exploration and evaluation assets

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses are a subjective process involving judgment and a number of estimates and interpretations in many cases (Note 2g).

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.

4.2 Estimation uncertainty (Cont'd)

In assessing impairment, the Company must make estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expense will be recovered from either future exploration or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

See note 8 for exploration and evaluation assets impairment analysis.

The total write-off of the exploration and evaluation assets recognized in profit or loss amounts to $863,050 for the year ended August 31, 2013 ($727,953 - August 31, 2012). No reversal of impairment losses has been recognized for the reporting periods.

No testing for impairment was conducted on the Fripp, Bristol, Henderson and Rim Nickel properties despite the fact that the carrying value of the Company's net assets is superior to its market capitalization and despite the fact that no significant fieldwork was undertaken on these properties during the year. Management judged that there was no testing for impairment required this year on these properties, because despite unfavorable change of the overall climate of the sector as well as the general situation of the economy that have had an impact on the Company's capacity to raise additional capital in order to pursue its exploration activities, coupled with a decrease in share price, the Company has sufficient funds to respect its short term obligations and has both the intention and capacity to keep these properties until the economic context improves and the Company can thus pursue exploration activities on these properties after raising additional capital.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's 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 (Note 9).

Tax credits receivable

The calculation of the Company's refundable tax credit on qualifying exploration expenditures incurred and refundable credits involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Difference arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit, exploration and evaluation assets, and income tax expense in future periods. See Note 2e for more information.

(In Canadian dollars)

5. Cash

	August 31, 2013	August 31, 2012
	$	$
Cash	**408,367**	23,495
Cash for Canadian mining properties exploration	**28,818**	-
Total Cash	**437,185**	23,495

On August 31, 2013, the balance on flow-through financing not spent according to the restrictions imposed by this financing arrangement represents $28,818 (August 31, 2012 - $512,793 included in short term investments (Note 6)). The Company has to dedicate these funds to Canadian mining properties exploration.

6. Short-term investments

As of August 31, 2012, short-term investments include guaranteed investments from Canadian financial institutions totaling $1,279,370 cashable at any time without penalties, maturing between July 9, 2013 and August 20, 2013 and bearing interest rates between 1.15% and 1.40%.

As at August 31, 2012, the balance on flow-through financing not spent according to the restrictions imposed by this financing arrangement represents $512,793 and is included in the short term investments. The Company has to dedicate these funds to Canadian mining properties exploration. During the year ended August 31, 2013, the guaranteed investments have been redeemed by the Company and the restricted cash included therein has been reclassified as cash.

(In Canadian dollars)

7. Listed shares

As at August 31, 2013, the following securities were included in the listed shares:

	Acquisition Cost	Fair value adjustment	Fair value
Common shares	$	$	$
Arrowhead Gold Corp. - 975,000 common shares	1,248,000	(1,233,375)	14,625
Northcore Resources Inc. - 1,000,000 common shares	60,000	(55,000)	5,000
Green Swan Capital Corp. - 1,800,000 common shares	180,000	(117,000)	63,000
Lakeside Minerals Inc. - 750,000 common shares	52,500	(48,750)	3,750
Zara Resources Inc. - 225,000 common shares	22,500	(3,375)	19,125
Leo Resources Inc. - 112,500 common shares	-	-	-
Total	**1,563,000**	**(1,457,500)**	**105,500**
Preferred shares			
Zara Resources Inc. - 455,000 shares	45,500	-	45,500
Total	**45,500**	**-**	**45,500**
Warrants			
Green Swan Capital Corp. - 1,000,000 warrants	30,000	(24,250)	5,750
Total	**30,000**	**(24,250)**	**5,750**
Total listed shares	**1,638,500**	**(1,481,750)**	**156,750**

On April 22, 2013, the Company sold 200,000 common shares of Green Swan Capital Corp. for gross proceeds of $6,000 and realized a loss on the sale of $6,135 that is included in the change in value of the listed shares in the statement of comprehensive loss.

On December 17, 2012, the Company announced the execution of a definitive agreement whereby Zara Resources Inc. ("Zara") acquired 100% of the River bank claims ("River bank") owned by the Company for 225,000 common shares of Zara at a deemed price of $0.10 per share, and 455,000 non-voting Convertible 5% preference shares of Zara at a deemed price of $0.10 per share (Note 8).

As at August 31, 2012, the following securities were included in the listed shares:

	Acquisition Cost	Fair value adjustment	Fair value
Common shares	$	$	$
Arrowhead Gold Corp. - 975,000 common shares	1,248,000	(1,233,375)	14,625
Northcore Resources Inc. - 1,000,000 common shares	60,000	(50,000)	10,000
Green Swan Capital Corp. - 2,000,000 common shares	200,000	-	200,000
Lakeside Minerals Inc. - 750,000 common shares	52,500	(30,000)	22,500
Total	**1,560,500**	**(1,313,375)**	**247,125**
Warrants			
Green Swan Capital Corp. - 1,000,000 warrants	30,000	(6,000)	24,000
Total	**30,000**	**(6,000)**	**24,000**
Total listed shares	**1,590,500**	**(1,319,375)**	**271,125**

(In Canadian dollars)

7. Listed shares (Cont'd)

On April 27, 2012, the Company signed a letter agreement where it sold to Lakeside Minerals Corp. ("Lakeside"), 6 claims from the Launay property and the 15 claims composing the Launay-Trojan block. 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.

On December 16, 2011, the Company amended an option agreement with Green Swan Capital Corp. to sell an initial 51% undivided interest in the Company's River bank and Broke Back properties. The Company received 2,000,000 common shares of Green Swan (1,500,000 held in escrow and released every six months starting January 13, 2013) and 1,000,000 share purchase warrants.

8. Exploration and evaluation assets

During the year-ended August 31, 2013, the Company incurred mining properties and exploration and evaluation expenses of $515,168 (2012 - $953,317). During the year-ended August 31, 2013, the Company also had write-offs of mining properties and exploration and evaluation expenses of $863,050 (2012 – $727,953) and realized dispositions of mining properties and exploration and evaluation expenses of $172,399 (2012 - $436,186) for a loss on sale of exploration and evaluation assets of $104,399 (2012 - $128,685).

Mining properties	August 31, 2012	Acquisitions	Write-off	Disposals	August 31, 2013
	$	$	$	$	$
Quebec					
Valliant (Raglan)	-	3,300	-	-	3,300
Launay	240,813	954	-	-	241,767
Ontario					
Carscallen (Timmins)	139,805	-	-	-	139,805
Big Marsh (Timmins)	14,166	200	-	-	14,366
Shaw (Timmins)	28,040	-	(28,040)	-	-
Fripp (Timmins)	16,550	300	-	-	16,850
Bristol (Timmins)	-	101	(101)	-	-
Henderson	5,375	-	-	-	5,375
Long Lac	19,885	-	-	-	19,885
Eldorado	28,534	-	(28,534)	-	-
River Bank (McFaulds) (1)	-	104	-	(104)	-
Broke Back (McFaulds) (1)	-	600	(600)	-	-
Rim Nickel (McFaulds) (1)	400,053	-	-	-	400,053
	893,221	5,559	(57,275)	(104)	841,401

(In Canadian dollars)

8. Exploration and evaluation assets (Cont'd)

Mining properties	**August 31, 2011**	**Acquisitions**	**Write-off**	**Disposals**	**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					
Carscallen (Timmins)	139,805	-	-	-	139,805
Big Marsh (Timmins)	14,166	-	-	-	14,166
Shaw (Timmins)	38,540	400	(10,900)	-	28,040
Fripp (Timmins)	-	16,550	-	-	16,550
Henderson	5,375	-	-	-	5,375
Long Lac	19,885	-	-	-	19,885
Loveland (Timmins)	132,560	-	(132,560)	-	-
Eldorado	28,134	400	-	-	28,534
Broke Back (McFaulds) [(1)]	168,912	-	-	(168,912)	-
Rim Nickel (McFaulds) [(1)]	563,053	400	(163,400)	-	400,053
	1,515,443	23,685	(331,785)	(314,122)	893,221

Exploration and evaluation expenses	**August 31, 2012**	**Expenditures**	**Tax credits**	**Write-off**	**Disposals**	**August 31, 2013**
	$	**$**	**$**	**$**		**$**
Quebec						
Ungava	-	5,591	-	(5,591)	-	-
Launay	608,467	52,763	(21,165)	-	-	640,065
Ontario						
Carscallen (Timmins)	5,788,625	282,647	-	-	-	6,071,272
Big Marsh (Timmins)	157,608	72,817	-	-	-	230,425
Shaw (Timmins)	83,284	-	-	(83,284)	-	-
Fripp (Timmins)	43,443	4,905	-	-	-	48,348
Bristol (Timmins)	34,559	1,602	-	-	-	36,161
Henderson	55,830	-	-	-	-	55,830
Long Lac	328,520	86,784	-	-	-	415,304
Loveland (Timmins)	-	100	-	(100)	-	-
Eldorado	389,483	-	-	(389,483)	-	-
River Bank (McFaulds) [(1)]	172,295	-	-	-	(172,295)	-
Broke Back (McFaulds) [(1)]	327,317	-	-	(327,317)	-	-
Rim Nickel (McFaulds) [(1)]	2,465,447	2,400	-	-	-	2,467,847
	10,454,878	509,609	(21,165)	(805,775)	(172,295)	9,965,252

(In Canadian dollars)

8. Exploration and evaluation assets (Cont'd)

Exploration and evaluation expenses	August 31, 2011	Expenditures	Tax credits	Write-off	Disposition	August 31, 2012
	$	$	$	$		$
Quebec						
Ungava	-	1,139	-	(1,139)	-	-
Launay	459,958	205,823	(21,339)	-	(35,975)	608,467
Troilus	394,829	-	-	(394,829)	-	-
Ontario						
Carscallen (Timmins)	5,233,960	554,665	-	-	-	5,788,625
Big Marsh (Timmins)	157,208	400	-	-	-	157,608
Shaw (Timmins)	82,485	799	-	-	-	83,284
Fripp (Timmins)	41,840	1,603	-	-	-	43,443
Bristol (Timmins)	34,559	-	-	-	-	34,559
Henderson	55,830	-	-	-	-	55,830
Long Lac	266,830	61,690	-	-	-	328,520
Loveland (Timmins)	-	200	-	(200)	-	-
Eldorado	336,649	52,834	-	-	-	389,483
River Bank (McFaulds) (1)	181,406	21,020	-	-	(30,131)	172,295
Riverside (McFaulds) (1)	6,854	(6,854)	-	-	-	-
Broke Back (McFaulds) (1)	368,146	15,129	-	-	(55,958)	327,317
Rim Nickel (McFaulds) (1)	2,444,263	21,184	-	-	-	2,465,447
	10,064,817	929,632	(21,339)	(396,168)	(122,064)	10,454,878

(1) The Rim Nickel (McFaulds) property was separated into four properties: River Bank (McFaulds), Riverside (McFaulds), Broke Back (McFaulds) and Rim Nickel (McFaulds).

All impairment charges (or reversals, if any) are included within Write-off of exploration and evaluation assets in profit or loss.

Quebec

a) Launay and Launay-Trojan

The Company holds 83 claims located in Launay township, 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.

As at August 31, 2013, the Company wrote-off $NIL ($19,000 – 2012) of expenditures relating to this property. In August 2012, some claims were dropped and therefore the cost of the property was written off by $19,000.

8. Exploration and evaluation assets (Cont'd)

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 wrote-off the mining property costs and deferred exploration expenses in 2009.

As at August 31, 2013, the Company wrote-off $5,591 ($1,754 – 2012) of expenditures relating to this property. The Company does minimal work on the property and continues to write them off as expense are incurred.

c) 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.

d) Valliant (Raglan)

On April 16, 2013, the Company acquired 33 claims, located in the Ungava nickel, copper platinum group belt of northern Quebec by map staking. The claims are located 25 kilometres east of Melkior's 49% owned Kenty Lake property. These claims were acquired by the Company through map staking and as a result Melkior has a 100% ownership in the claims and there is no NSR.

e) Other properties in Quebec

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.

As at August 31, 2013, the Company wrote-off $NIL ($205 – 2012) of expenditures relating to Otish property.

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 additional 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.

8. Exploration and evaluation assets (Cont'd)

No further work was budgeted, therefore the Company wrote-off $100 ($132,760 – 2012) of expenditures relating to this property.

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 Toronto Venture stock exchange of Northcore shares 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.

On July 11, 2013, the Company and Northcore amended the August 19, 2009, option agreement. The amendments to the agreement allow Northcore until October 31, 2016 to incur $200,000 of exploration expenses to acquire a 50% interest in the Bristol property.

The Company is the operator. As at August 31, 2013, $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 $28,040 ($10,900 – 2012) and exploration and evaluation expenses of $83,284 in the year ended August 31, 2013. No work is planned for this property in the current year.

vi) Fripp

The Fripp property is 100% owned and is located approximately 25km southwest of Timmins.

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 and became the operator of the project. 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 and owns 100% of two blocks.

8. Exploration and evaluation assets (Cont'd)

i) Eldorado

The Eldorado property is located approximately 20km southeast of Timmins. Claims were dropped and therefore the cost of the property was written off by $28,534 and deferred exploration of $389,483 in the year ended August 31, 2013. There were no impairments on this property in the year ended August 31, 2012.

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.

In March 2011, the Company opted to relinquish its interest in the property. As at August 31, 2013, the Company wrote-off $NIL ($163,400 – 2012) of expenditures relating to this property.

ii) 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 have been integrated into the Rim Nickel East property.

iii) Broke Back and River Bank

On January 18, 2010, the Company signed an agreement to acquire 100% interest in the Broke Back and River bank 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 the Broke Back and River bank claims is Geotest Corporation. Jens Hansen, President and Director of the Company, is an officer of Geotest Corporation.

In December 2011, the Company closed a 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 River bank 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 River bank 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 River bank and Broke Back properties, Green Swan will have the option to acquire an additional 19% interest (for a total 70% undivided interest in the River bank and Broke Back properties) by incurring an additional $1,000,000 in work expenditures within a delay of twenty-four months.

8. Exploration and evaluation assets (Cont'd)

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 TSX Venture 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 River bank properties to Winston Resources Inc., which subsequently became Zara Resources Inc.

On December 17, 2012 the Company announced the execution of a definitive agreement whereby Zara Resources Inc. ("Zara") acquired 100% of the River bank claims ("River bank") owned by the Company for the sum of $68,000.

The consideration for 100% of River bank was payable by the issuance of 225,000 common shares of Zara at a deemed price of $0.10 per share, and 455,000 Non Voting Convertible 5% Preference Shares of Zara at a deemed price of $0.10 per share. The Preference Shares annual yield will be payable in common shares of Zara at the prevailing market price, and are convertible at the discretion of Zara into common shares of Zara at the market price at the time of conversion. River bank is also subject to a pre-existing 2% NSR.

As a result of the sale of the River bank property, the Company disposed of $172,399 ($224,870 - 2012) of exploration and evaluation assets and recorded a loss on sale of exploration and evaluation assets of $104,399 ($128,685 – 2012). The Company allowed the remaining Broke Back claims to expire in April 2013 and as a result the cost of the property was written off by $600 ($NIL – 2012) and exploration and evaluation expenses of $327,317 ($NIL – 2012).

9. 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.

During the year-ended August 31, 2013, the Company did not issue any common shares through private placement, exercise of share purchase warrants, or exercise of stock options.

<u>2012 Fiscal year issuances</u>

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.

9. 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.

a) *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)

9. 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.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of changes of the Company's common share purchase options is presented below for the years-ending August 31, 2013, and 2012:

	August 31, 2013		August 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of the year	8,300,000	0.32	9,700,000	0.32
Granted	3,400,000	0.10	-	-
Cancelled	(600,000)	0.25	-	-
Expired	(2,000,000)	0.47	(1,400,000)	0.30
Balance at end of the year	8,900,000	0.20	8,300,000	0.32
Exercisable at the end of the year	8,900,000	0.20	8,300,000	0.32

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2013 and August 31, 2012:

August 31, 2013

Number of options	Exercise Price	Expiry date
	$	
300,000	0.10	November 7, 2013
400,000	0.40	August 7, 2014
800,000	0.36	December 30, 2014
1,800,000	0.20	July 16, 2015
2,200,000	0.27	December 23, 2015
3,400,000	0.10	April 30, 2018
8,900,000		

(In Canadian dollars)

9. Share capital (Cont'd)

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		

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

Grant date	April 30, 2013
Optionee	Directors, officers and consultants
Number of options	3,400,000
Exercise price	$0.10
Exercise price compared to the market	Higher
Risk free interest	1.16%
Average expected volatility	97.68%
Expected dividend	-
Expected life (years)	5
Vesting	100% at date of grant
Stock price at the date of grant	$0.05
Estimated fair value per option	$0.03
Estimated fair value	$94,000

There were no share purchase options issued during the year ended August 31, 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 options. No special features inherent in the options granted were incorporated into measurement of fair value.

In total $96,100 ($95,700 as of August 31, 2012) of the stock-based payments (all of which related to equity-settled share-based payment transactions) were included in stock based compensation, profit or loss, and $8,500 were capitalized in exploration and evaluation assets ($57,886 as of August 31, 2012) for the reporting period ended August 31, 2013 and credited to contributed surplus.

(In Canadian dollars)

9. Share capital (Cont'd)

b) Warrants

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

	Year ended August 31, 2013		Year ended August 31, 2012	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
		$		**$**
Balance at beginning of the year	15,348,999	0.36	21,112,599	0.39
Issued	-	-	5,727,500	0.26
Cancelled	(268,000)	0.25	-	-
Expired	(5,000,000)	0.35	(11,491,100)	0.41
Balance at end of the year	10,080,999	0.36	15,348,999	0.36

Warrants outstanding as at August 31, 2013, are as follows:

Number of warrants	Exercise Price	Expiry date
	$	
2,845,000	0.25	December 7, 2013 (1)
1,300,000	0.10	June 28, 2014 (2)
712,500	0.10	July 9, 2014 (2)
4,496,499	0.50	December 15, 2013 (4)
125,000	0.50	December 17, 2013 (4)
602,000	0.10	December 28, 2014 (3)
10,080,999		

1) On November 16, 2012, the Company extended the life of 2,845,000 existing warrants expiring on December 7, 2012, for an additional year.
2) On June 3, 2013, the Company extended the life of 1,300,000 and 712,500 existing warrants expiring on June 28, 2013 and July 9, 2013, respectively for an additional year. The warrants were also repriced from $0.25 to $0.10.
3) On August 15, 2013, the Company extended the life of 602,000 existing warrants expiring on December 28, 2013, for an additional year. The warrants were also re priced from $0.30 to $0.10.
4) On November 18, 2011, the Company 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 17, 2013.

The weighted average fair value of the extended warrants was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

(In Canadian dollars)

9. Share capital (Cont'd)

	August 31, 2013	**August 31, 2012**
Average share price at the date of grant	$0.07	$0.31
Average exercise price at the date of grant	$0.18	$0.50
Average risk free interest rate	1.10%	1.32%
Expected average volatility	83%	113%
Expected dividend	-	-
Expected life (years)	1	2.077
Estimated fair value per warrant	$0.007	$0.1469
Estimated fair value	$38,300	$678,900

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.

c) *Warrants issued as compensation*

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

	August 31, 2013		**August 31, 2012**	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
		$		**$**
Balance at beginning	-	-	1,656,605	0.32
Expired	-	-	(1,656,605)	0.32
Balance at end	-		-	-

d) *Policies and processes for managing capital*

The capital of the Company consists of the items included in shareholders' equity of $11,439,872 as of August 31, 2013 ($12,835,342 as of August 31, 2012). 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.

(In Canadian dollars)

10. Income taxes

The relationship between the expected tax 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:

	2013	2012
	$	$
Loss before income taxes	(1,551,279)	(1,574,932)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.9% (27.4% in 2012)	(417,294)	(431,531)
Adjustments for the following items:		
Difference between deferred tax and statutory tax rates	-	7,009
Changes in temporary differences not recorded	284,326	206,658
Tax effect of issuance of flow-through shares	72,596	117,865
Reversal of the other liabilities attributable to issuance of flow-through shares	(51,209)	(92,801)
Stock-based compensation	25,851	26,222
Fair value variation non deductible	23,741	21,663
Realization of a deferred tax liability not previously recorded on mining property	11,343	54,204
Non-deductible items and others	(563)	(2,090)
Deferred income tax recovery	(51,209)	(92,801)

The 2013 statutory tax rate is lower than the 2012 statutory tax rate following a decrease in the federal statutory tax rate as of January 1, 2013.

The major components of deferred tax recovery are outlined below:

	2013	2012
	$	$
Origination and reversal of temporary differences	(356,922)	(331,532)
Tax effect of issuance of flow-through shares	72,596	117,865
Reversal of the other liabilities attributable to issuance of flow-through shares	(51,209)	(92,801)
Difference between deferred tax and statutory rates	-	7,009
Changes in temporary differences not recorded	284,326	206,658
Total deferred tax recovery	(51,209)	(92,801)

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

	August 31, 2013		August 31, 2012	
	Federal	Quebec	Federal	Federal
	$	$	$	$
E&E assets	3,086,064	8,649,470	2,631,471	7,710,902
Property and equipment	20,530	20,530	20,530	20,530
Listed shares	740,875	740,875	659,688	659,688
Share issue expenses	144,645	144,645	267,179	267,179
Non-capital losses	4,389,000	4,305,000	3,966,000	3,883,000
Deductible capital losses	53,437	53,437	46,370	46,370
	8,434,551	13,913,957	7,591,238	12,587,669

(in Canadian dollars)

10. Income taxes (cont'd)

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
2033	423,000	422,000
	4,389,000	4,305,000

As at August 31, 2013, accumulated capital losses of $106,874 ($92,739 in 2012) are available to be applied against future taxable capital gains. These losses may be carried forward indefinitely.

The Company has unrecorded investment tax credits of $636,052 ($636,052 in 2012) 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 2012) which are available up to 2017 to reduce the Quebec income taxes.

11. 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 9.

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 2013 and 2012.

	2013	2012
	$	$
Net loss for the year	(1,500,070)	(1,482,131)
Weighted average number of shares in circulation	119,522,870	115,599,447
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.

(in Canadian dollars)

12. Statement of cash flows

	Year ended August 31, 2013	2012
	$	$
Additional information		
Tax credits receivable applied against E&E expenses	21,165	20,897
Additions of E&E expenses included in accounts payable and accrued liabilities	-	96,359
Listed shares and warrants received on disposal of mining assets	68,000	282,500
Stock-based compensation included in E&E expenses	8,500	57,886

13. Compensation to key management and related party disclosures

The Company's related parties include a company controlled by an officer, a company controlled by the former CFO and key management, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received.

Outstanding balances are usually settled in cash.

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 and explorations manager. Key management compensation is as follows:

	Year ended August 31, 2013	2012
	$	$
Short-term benefits		
Salaries including benefits	1,137	12,988
Professional fees	89,165	139,110
Professional fees capitalized in E&E expenses	50,300	61,900
Total short-term benefits	140,602	213,998
Stock-based compensation	88,471	94,213
Total compensation	229,073	308,211

b) Transactions with other related party

In the normal course of operations for the year ended August 31, 2013, and 2012, in addition to the amounts listed above in the compensation to key management (Note 13a):

1. A company controlled by a Company's officer charged rent totaling $22,500 ($33,000 in 2012) expensed in office expenses.
2. A Company controlled by an officer charged professional fees of $7,700 ($25,843 in 2012).

As at August 31, 2013, the balance due to the related parties amounted to $NIL (August 31, 2012 - $25,275) and was recorded in accounts payable and accrued liabilities.

(in Canadian dollars)

14. 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, 2013		August 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
At amortized cost				
Cash	437,185	437,185	23,495	23,495
Short-term investments	-	-	1,279,370	1,279,370
Other receivables	1,706	1,706	-	-
At fair value through profit or loss				
Listed shares	156,750	156,750	271,125	271,125
Financial liabilities				
At amortized cost				
Accounts payable and accrued liabilities	16,963	16,963	160,520	160,520

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

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 common shares of companies in quoted mining exploration companies measured at fair value as at August 31, 2013 and 2012 are classified in Level 1. Common share purchase warrants and preferred shares of mining exploration companies measured at fair value as at August 31, 2013 and 2012 are classified in Level 2.

c) Financial instrument risk

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities are summarized in a).The main types of risks the Company is exposed to are market risk, credit risk and liquidity risk.

(in Canadian dollars)

14. Financial Instruments (cont'd)

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

Market 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.

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, 2013, there were no longer any short-term investments. 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, 2013, and August 31, 2012, net loss and equity would have changed by \$31,350 and \$54,225 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, 2013, and August 31, 2012, 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, 2013	**August 31, 2012**
	$	$
Cash	437,185	23,495
Short-term investments	-	1,279,370
Other receivables	1,706	-
Total	438,891	1,302,865

The other receivables are dividends receivable from the preferred shares acquired from Zara Resources upon disposal of the River bank claims. The exposure to credit risk for the Company's receivables has to be monitored continuously. In 2013, the Company did not record any impairment on its account receivables. In 2013, the Company recorded a reversal of an impairment recorded in 2012 due from partners for \$28,375 due to liquidity challenges one of its partners, as the amount was collected in the current year.

As at August 31, 2013, 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 guaranteed investment certificates is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(in Canadian dollars)

14. 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, 2013 carrying amount	August 31, 2012 carrying amount
	$	$
Within three months:		
Accounts payable and accrued liabilities	16,963	160,520

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash, tax credits receivable and listed shares. These financial assets exceed the current cash outflow requirements.

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.

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.

As of August 31, 2013, 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. As at August 31, 2013 management has met its obligation to fulfil the $60,518 prior to the December 31, 2012, deadline. Of the $452,275 which is required to be spent on qualifying Canadian exploration expenses management has a total obligation of $28,818 remaining as at August 31, 2013.

16. Events after the reporting period

1) On October 4, 2013, the Company announced it had signed a memorandum of understanding ("MOU") with the Mattagami First Nation of Gogama, Ontario, on the Carscallen-Big Marsh- Bristol Projects in the Timmins area.

   Under the terms of the MOU, Melkior will issue 200,000 shares and will pay 2% of all assessment eligible exploration costs to the Mattagami First Nation.

16. Events after the reporting period (cont'd)

Under the new Ontario Mining Act, mineral exploration companies are required to undertake consultation with the First Nation that have traditional rights and treaty rights on the lands being explored. Melkior signed the MOU referred to in the news release dated October 4, 2013 indicating a recognition and respect for these rights as part of the consultation process. The 200,000 share payment was agreed to in recognition of the importance of the assistance provided in this process.

2) On October 10, 2013, The Company announced that it has completed the closing of a private placement for aggregate proceeds of $170,000 consisting of the issuance of 3,400,000 units at a price of $0.05 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each full warrant entitles its holder to purchase one additional common share at a price of $0.05 for a period of 24 months following the closing. The securities issued under the private placement are subject to a four (4) month hold period ending February 8, 2014. An amount of $68,000 was allocated to warrants.

In conjunction with the private placement, insiders of Melkior have subscribed for aggregate proceeds of $105,000.

Melkior paid cash commissions totalling $700 and issued 120,000 broker warrants in relation to this private placement. The broker warrants have the same terms as the unit warrants.

3) On November 7, 2013, the Company announced that it had entered into an option and joint-venture agreement with Beaufield Resources Inc. ("Beaufield") on its wholly owned Launay gold project (the "Project") located in Launay township, in the province of Québec.

Under the terms of the agreement Beaufield will have the option to earn an interest of up to 50% in the Project by incurring exploration expenditures aggregating $1,250,000 over five years, with a minimum $250,000 of exploration expenditures in the first year. Beaufield will earn 10% interest for each $250,000 of exploration expenses.

The Company will remain as the operator on the Project until the first $250,000 of exploration expenditures is spent. Melkior or Beaufield will thereafter be the operator until the end of the option period.