Melkior Resources Inc.

Condensed Interim Financial Statements

For the three and six-month period ended February 28, 2013

(Unaudited)

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

Melkior Resources Inc.
3208, Richmond Road, Ottawa, Ontario, Canada, K2H 5B6
Tel.: (613) 721-2919   Fax: (613) 680-1091

Melkior Resources Inc.

Interim Statements of Financial Position
February 28, 2013
(Unaudited, in Canadian dollars)

	February 28, 2013	August 31, 2012
	$	$
Assets		
Current assets		
Cash	125,046	23,495
Short term investments	557,102	1,279,370
Sales tax receivable and other receivables	24,493	60,377
Taxes credits receivable	20,897	48,970
Prepaid expenses	4,919	15,635
Listed shares	249,404	271,125
	981,861	1,698,972
Non-current assets		
Exploration and evaluation assets (Note 5)		
Mining properties	837,801	893,221
Exploration and evaluation expenses	10,214,935	10,454,878
	11,052,736	11,348,099
Total assets	12,034,597	13,047,071
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	59,563	160,520
Other liabilities	1,033	51,209
	60,596	211,729
Shareholders' Equity		
Share capital (Note 6)	42,448,723	42,448,723
Contributes surplus	3,982,598	3,887,998
Deficit	(34,457,320)	(33,501,379)
	11,974,001	12,835,342
	12,034,597	13,047,071

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

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

Melkior Resources Inc.

Interim Statements of Comprehensive Income
Three and six-month period ended February 28, 2013
(Unaudited, in Canadian dollars except data per share)

	Three-month period ended		Six-month period ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	$	$	$	$
Expenses				
Salaries and employee benefits expenses	603	8,118	687	12,869
Office Expenses	27,840	27,099	51,105	53,146
Travelling and promotion	5,560	3,695	6,948	4,070
Investors and shareholders relations	31,798	31,991	40,820	59,936
Professional and consulting fees	43,369	75,528	133,270	131,041
Exploration	800	-	800	18
Stock-based compensation	700	28,810	2,100	75,976
Write-off of exploration and evaluation Assets	532,633	682	532,633	1,297
	643,303	175,923	768,363	338,353
Operating loss	(643,303)	(175,923)	(768,363)	(338,353)
Interest income	1,785	989	4,885	4,726
Other income	35,482	-	35,482	-
Loss on sale of exploration and evaluation assets	(104,399)	-	(104,399)	-
Change in value of listed shares	(23,471)	135,390	(89,721)	98,250
Loss before income taxes	(733,906)	(39,544)	(922,117)	(235,377)
Deferred income taxes recovery	4,810	11,380	50,176	11,380
Net loss and comprehensive loss for the period	(729,096)	(28,164)	(871,941)	(223,997)
Basic and diluted net loss per share	(0.01)	-	(0.01)	-
Weighted average number of outstanding common shares	119,522,870	116,202,678	119,522,870	115,625,253

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

Melkior Resources Inc.

Interim Statements of Change in Equity
Six-month period ended February 28, 2013
(Unaudited, in Canadian dollars)

	Number of shares outstanding	Capital stock	Contributed surplus	Deficit	Total Equity
		$	$	$	$
Balance at August 31, 2012	119,950,370	42,448,723	3,887,998	(33,501,379)	12,835,342
Net loss and comprehensive Loss	-	-	-	(871,941)	(871,941)
Warrant extension	-	-	84,000	(84,000)	-
Stock-based compensation	-	-	10,600	-	10,600
Balance at February 28, 2013	**119,950,370**	**42,448,723**	**3,982,598**	**(34,457,320)**	**11,974,001**

	Number of shares outstanding	Capital stock	Contributed surplus	Deficit	Total equity
		$	$	$	$
Balance at August 31, 2011	110,950,370	41,493,723	2,978,022	(31,260,833)	13,210,912
Net loss and comprehensive loss	-	-	-	(223,997)	(223,997)
Private placement for cash – flow-through shares	5,690,000	569,000	-	-	569,000
Benefit related to flow-through shares renunciation	-	(56,900)	-	-	(56,900)
Share issue expenses	-	-	-	(31,537)	(31,537)
Stock-based compensation	-	-	110,338	-	110,338
Warrants extension	-	-	678,900	(678,900)	-
Balance at February 29, 2012	**116,640,370**	**42,005,823**	**3,767,260**	**(32,195,267)**	**13,577,816**

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

Melkior Resources Inc.

Interim Statements of Cash Flows
(Unaudited, in Canadian dollars)

	Six-month period ended	
	February 28, 2013	February 29, 2012
	$	$
Operating activities		
Net loss and comprehensive loss for the period	(871,941)	(223,997)
Non-cash items:		
Stock-based compensation	2,100	75,976
Fair value variation on listed shares	89,721	(97,067)
Write-off of exploration and evaluation assets	532,633	1,297
Interest accrued on interest income	(4,102)	(168)
Deferred income taxes recovery	(50,176)	(11,380)
	(301,765)	(255,339)
Changes in non-cash working capital items		
Sales tax receivable and other receivables	63,957	139,195
Prepaid expenses	10,716	15,259
Accounts payable and accrued liabilities	(100,957)	(74,648)
Due to a partner	-	(598)
	(26,284)	79,208
Cash flows used in operating activities	(328,049)	(176,131)
Investing activities		
Purchase of short term investments	-	(700,000)
Disposal of short term investments	725,000	1,530,770
Additions to mining properties	(1,854)	(9,065)
Disposal of mining properties	104,399	25,000
Exploration and evaluation expenses	(397,945)	(1,159,875)
Payments received from partners for exploration costs	-	-
Cash flows used in investing activities	429,600	(313,170)
Financing activities		
Issuance of common shares	-	569,000
Share issue expenses	-	(31,537)
Cash flows from financing activities	-	537,463
Net changes in cash	101,551	48,162
Cash, beginning of period	23,495	50,092
Cash, end of period	125,046	98,254

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

1. General information and nature of operations

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.

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

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not yet generated income or cash flows from its operations. As at February 28, 2013, the Company has a deficit of $34,457,320 ($33,501,379 as at August 31, 2012). These material uncertainties cast a significant doubt regarding the Company's going concern.

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

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

2. Summary of significant accounting policies

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

a) Basis of preparation and adoption of IFRS

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, taking into account the accounting policies that the Company intends to adopt for its financial statements for the year ending August 31, 2013. Accordingly, these condensed interim financial statements do not include all of the information required for full annual financial statements required by IFRS and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on April 19, 2013.

The condensed interim financial statements should be read in conjunction with the Company's IFRS annual financial statements for the year ended August 31, 2012.

b) Basis of evaluation

The condensed interim financial statements have been prepared on the historical cost basis except for listed shares which are measured at fair value.

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

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

c) Foreign currency translation

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

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

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

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

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

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

All other financial assets are subsequently measured at fair value.

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

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

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

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

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

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

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

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

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

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

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

Objective evidence of impairment could include:

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

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

e) Basic and diluted loss per share

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

f) 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.

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

g) Exploration and evaluation assets

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

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

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

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

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

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

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

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

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

h) Operating lease agreements

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

i) Impairment of exploration and evaluation assets

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

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

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

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

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

j) Provisions and contingent liabilities

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

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

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

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

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

k) Income taxes

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

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

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

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

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

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

l) Equity

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

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

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

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

m) Equity-settled share-based payments

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

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

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

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

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

n) Segmental reporting

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

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

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

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

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

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

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.

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

4. Critical accounting estimates, judgments and assumptions

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

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

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

The total write-off of the exploration and evaluation assets amounts to $532,633 for the period ended February 28, 2013 ($1,297 for the six months ended February 29, 2012). No reversal of impairment losses has been recognized for the reporting periods.

Share-based payments

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

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

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

5. Exploration and evaluation assets

Mining properties	August 31, 2012	Acquisitions	Impairment	February 28, 2013
	$	$	$	$
Quebec				
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	-	-	16,550
Henderson	5,375	-	-	5,375
Long Lac	19,885	-	-	19,885
Eldorado	28,534	-	(28,534)	-
Rim Nickel (McFaulds)	400,053	-	-	400,053
	893,221	1,154	(56,574)	837,801

Exploration and evaluation expenses	August 31, 2012	Expenditures	Tax credits	Impairment/ Disposition	February 28, 2013
	$	$	$	$	$
Quebec					
Launay	608,467	31,790	-	-	640,257
Ontario					
Carscallen (Timmins)	5,788,625	253,964	-	-	6,042,589
Big Marsh (Timmins)	157,608	34,623	-	-	192,231
Shaw (Timmins)	83,284	-	-	(83,284)	-
Fripp (Timmins)	43,443	1,052	-	-	44,495
Bristol (Timmins)	34,559	400	-	-	34,959
Henderson	55,830	-	-	-	55,830
Long Lac	328,520	81,890	-	-	410,410
Eldorado	389,483	-	-	(389,483)	-
River Bank (McFaulds)	172,295	-	-	(172,295)	-
Brokeback (McFaulds)	327,317	-	-	-	327,317
Rim Nickel (McFaulds)	2,465,447	1,400	-	-	2,466,847
	10,454,878	405,119	-	(645,062)	10,214,935

5. Exploration and evaluation assets (Cont'd)

Mining properties	August 31, 2011	Acquisitions	Impairment	February 29, 2012
	$	$	$	$
Quebec				
Launay	400,734	433	-	401,167
Ungava	-	615	(615)	-
Troilus	4,279	-	-	4,279
Ontario				
Carscallen (Timmins)	139,805	-	-	139,805
Big Marsh (Timmins)	14,166	-	-	14,166
Shaw (Timmins)	38,540	400	-	38,940
Loveland (Timmins)	132,560	-	-	132,560
Henderson	5,375	-	-	5,375
Long Lac	19,885	-	-	19,885
Eldorado	28,134	400	-	28,534
River Bank (McFaulds)	104	-	(104)	-
Brokeback (McFaulds)	168,808	-	(168,808)	-
Rim Nickel (McFaulds)	563,053	400	-	563,453
	1,515,443	2,248	(169,527)	1,348,164

Exploration and evaluation expenses	August 31, 2011	Expenditures	Tax credits	Impairment/ Disposition	February 29, 2012
	$	$	$	$	$
Quebec					
Launay	459,958	19,039	(7,880)	-	471,117
Troilus	394,829	-	-	-	394,829
Ontario					
Carscallen (Timmins)	5,233,960	195,075	-	-	5,429,035
Big Marsh (Timmins)	157,208	-	-	-	157,208
Bristol (Timmins)	34,559	-	-	-	34,559
Fripp (Timmins)	41,840	404	-	-	42,244
Shaw (Timmins)	82,485	800	-	-	83,285
Henderson	55,830	-	-	-	55,830
Long Lac	266,830	58,291	-	-	325,121
Eldorado	336,649	1,792	-	-	338,441
Brokeback (McFaulds)	368,146	15,129	-	(55,958)	327,317
Riverbank (McFaulds)	181,406	21,020	-	(30,131)	172,295
Riverside (McFaulds)	6,854	(6,854)	-	-	-
Rim Nickel (McFaulds)	2,444,263	20,222	-	-	2,464,485
	10,064,817	324,918	(7,880)	(86,089)	10,295,766

Quebec

a) *Launay and Launay-Trojan*

The Company holds claims located in Launay township, Quebec. Certain claims are subject to a 1% Net Smelter Return ("NSR") royalty.

5. Exploration and evaluation assets (Cont'd)

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.

b) Ungava

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec. Considering the market conditions that prevailed in fiscal 2009 where it was difficult to finance an exploration program for the Ungava project located in the far north, the Company didn't expect to do extensive work on the property in the near future and consequently wrote-off the mining property costs and deferred exploration expenses in 2009.

c) Mont Otish

In April 2007, the Company acquired claims located 30km northwest from the Otish basin. Following the airborne survey completed in the fall 2008 on the McLeod molybdenum property in the Otish Mountains, the Company decided to drop half of the claims and consequently wrote off half of the mining property costs and deferred exploration expenses in 2009.

d) Troilus

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

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

e) Other properties in Québec

The Company holds claims in the Vauquelin and Tiblemont properties. The Vauquelin and Tiblemont properties and their deferred exploration expenses were written off in 2005.

Ontario

f) Timmins

i) Carscallen

The Company holds a 100% interest in the Carscallen property, west of Timmins. Some claims are subject to a 1.5% NSR royalty while another group of claims is subject to a 2% NSR of which the Company has the right to buy out half (1%) of the NSR for $1,000,000.

In October and November, 2010, the Company signed three agreements to acquire 100% interests in mining claims in consideration of $10,000 cash and two 2% NSR royalties of which 1% can be repurchased for $500,000 each.

ii) Loveland

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

On November 27, 2009, the Company signed a letter of intent with Bold Venture Inc. ("Bold") whereby Bold can acquire a 10% interest in the Loveland property by undertaking $125,000 of exploration work. The Company was the operator. In January 2011, Bold earned its 10% interest in the Loveland property. According to the terms of the contract, Bold decided in February 2011 not to pursue the exploration and returned the 10% interest in the Loveland property to the Company in exchange for a $40,000 payment.

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 Venturestock exchange of Northcore on August 19, 2009) and will undertake $400,000 of exploration work over a period of 48 months on the claims to earn the 50% interest. The Company is the operator. As at August 31, 2012, $24,458 of work was completed for Northcore on the property.

iv) *Big Marsh*
The Company holds claims in the Carscallen Township near Timmins, subject to two 2% NSR, half (1%) of which may be repurchased for $1,000,000 each.

v) *Shaw*
The property is located approximately 13km south-east of the City of Timmins and was staked in 2009. Some claims are subject to two 1% NSR royalty, half (0.5%) of which can be repurchased for $1,000,000 each. Some claims were dropped and therefore the cost of the property was written off by $28,040 and deferred exploration of $83,284 in the quarter ended February 28, 2013.

vi) *Fripp*

The Fripp property 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. The Company chose to participate in the exploration over $60,000.

h) *Long Lac*
The Company acquired the Long Lac property through staking in Beardmore-Geraldton.

i) *Eldorado*
The Eldorado property is located approximately 20km southeast of Timmins. Some claims were dropped and therefore the cost of the property was written off by $28,534 and deferred exploration of $389,483 in the quarter ended February 28, 2013.

5. Exploration and evaluation assets (Cont'd)

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.

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 will be integrated into the Rim Nickel East property.

iii) Broke Back and Riverbank
On January 18, 2010, the Company signed an agreement to acquire 100% interest in the Broke Back and Riverbank properties, located in McFaulds region. The Company acquired the 100% interest by reimbursing out of pocket staking costs of $167,400 and by undertaking the assessment work needed to renew the claims. The property is subject to a 2% NSR royalty. The Company can repurchase 1% NSR for $1,000,000 within one year of presenting a scoping study. One of the stakers of the Broke Back and Riverbank claims is Geotest Corporation. Jens Hansen, President and Director of the Company, is an officer of Geotest Corporation.

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

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

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

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

5. Exploration and evaluation assets (Cont'd)

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

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

On December 17, 2012 the Company announce the execution of a definitive agreement whereby Zara Resources Inc. ("Zara") will acquire 100% of the Riverbank claims ("Riverbank") owned by the Company for the sum of $68,000.

The consideration for 100% of Riverbank will be 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. Riverbank is also subject to a pre-existing 2% NSR.

As a result of the sale of the Riverside property the Company wrote-off $172,295 of deferred exploration and recorded a loss on sale of exploration and evaluation assets of $104,399.

6. 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 six months ended February 28, 2013, the company did not issue any common shares through private placement, exercise of share purchase warrants, or exercise of stock options.

a) Stock option plan

A summary of changes of the Company's common share purchase options is presented below for the six months ending February 28, 2013 and February 29, 2012:

6. Share capital (Cont'd)

	Six-month period ended February 28, 2013		Six-month period ended February 29, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of period	8,300,000	0.32	9,700,000	0.31
Granted	-		-	-
Exercised	-		-	-
Cancelled	-		-	-
Expired	(2,200,000)	0.47	(1,400,000)	0.30
Balance at end	6,100,000	0.26	8,300,000	0.32
Exercisable at the end of period	6,100,000	0.26	7,500,000	0.32

The following table summarizes information about common share purchase options outstanding and exercisable as at February 28, 2013:

Number of options	Exercise price	Expiry date
	$	
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
6,100,000		

b) Warrants

A summary of changes of the Company's warrants is presented below:
Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares as follow:

	Six-month period ended February 28, 2013		Six-month period ended February 29, 2012	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance at beginning	15,348,999	0.36	21,112,599	0.39
Issued	-	-	2,845,000	0.25
Expired	-	-	(2,903,226)	0.25
Balance at end	15,348,999	0.36	21,054,373	0.37

6. Share capital (Cont'd)

Warrants outstanding as at February 28, 2013 are as follows:

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

1) On November 16, 2012, the Corporation extended the life of 2,845,000 existing warrants expiring on December 7, 2012. The increase in the weighted average fair value on the extension date of the warrants awarded was $0.0295 per warrant or $84,000 estimated using the Black-Scholes model and the following average assumptions: stock price at date of grant of $0.09, exercise price at date of grant of $0.25, risk-free interest rate of 1.25%, projected volatility of 148%, predicted average life of warrants of 1 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.

c) *Warrants issued as compensation*

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

	Six-month period ended February 28, 2013		Six-month period ended February 29, 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	-		-	-

7. Statement of cash flows

	Six-month period ended	
	February 28, 2013	February 29, 2012
	$	$
Additional information		
Tax credits receivable applied against E&E expenses	-	7,880
Additions of E&E expenses included in accounts payable and accrued liabilities	24,826	26,792
Due from partners included in E&E expenses and mining properties	-	765
Due to a partner included in E&E expenses	-	24,458
Listed shares and warrants received on disposal of mining assets	68,000	230,000
Stock-based compensation included in E&E expenses	8,500	34,362

8. Compensation to key management and related party disclosures

a) Compensation to key management

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

	Six-month period ended	
	February 28, 2013	February 29, 2012
	$	$
Salaries including benefits	1,830	14,850
Professional fees	81,550	92,911
Professional fees capitalized in E&E expenses	29,600	32,400
Total short-term benefits	112,980	140,161
Stock-based compensation	-	71,533
Total compensation	112,980	211,694

b) Transactions with other related party

In the normal course of operations for the six months ended February 28, 2013 and 2012, in addition to the amounts listed above in the compensation to key management (Note 8a): A company controlled by an Company officer charged rent totaling $12,000 ($18,000 in 2012) expensed in office expenses.

9. Contingencies and commitments

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

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

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

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

As of August 31, 2012, management is required to fulfil its commitments within the stipulated deadline of December 31, 2012 for $60,518 and of December 31, 2013 for $452,275. As at February 28, 2013 management has met its obligation to fulfil the $60,518 prior to the December 31 deadline. Of the $452,275 which is required to be spent on qualifying Canadian exploration expenses management has met a total obligation of $302,759 as at February 28, 2013.

10. Events after the reporting period

On February 21, 2013, the Company moved its head office from Montreal, Quebec to Ottawa, Ontario.