# Melkior Resources Inc.

Condensed Interim Financial Statements

For the three and nine-month period ended May 31, 2014

(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.

Condensed Interim Statements of Financial Position
May 31, 2014
(In Canadian dollars)

| | May 31, 2014 | August 31, 2013 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| *Current assets* | | |
| Cash (Note 5) | 299,258 | 437,185 |
| Sales tax receivable and other receivables | 21,646 | 12,333 |
| Taxes credits receivable | 3,037 | 26,471 |
| Prepaid expenses | 15,206 | 17,443 |
| Listed shares (Note 6) | 129,163 | 156,750 |
| | 468,310 | 650,182 |
| *Non-current assets* | | |
| Exploration and evaluation assets (Note 7) | | |
| Mining properties | 822,576 | 841,401 |
| Exploration and evaluation expenses | 9,695,217 | 9,965,252 |
| | 10,517,793 | 10,806,653 |
| Total assets | 10,986,103 | 11,456,835 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 27,420 | 16,963 |
| Other liabilities | - | - |
| | 27,420 | 16,963 |
| **Shareholders' Equity** | | |
| Share capital (Note 8) | 42,593,923 | 42,448,723 |
| Contributed surplus | 4,109,998 | 4,030,898 |
| Deficit | (35,745,238) | (35,039,749) |
| Total equity | 10,958,683 | 11,439,872 |
| Total liabilities and equity | 10,986,103 | 11,456,835 |

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

These financial statements were approved and authorized for issue by the Board of Directors on July 25, 2014.

(s) Jens E. Hansen

Jens E. Hansen
President and Director

(s) Norman Farrell

Norman Farrell
Director

## Melkior Resources Inc.

Condensed Interim Statements of Comprehensive loss
Three and nine-month period ended May 31, 2014
(In Canadian dollars)

| | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|
| | May 31, 2014 | May 31, 2013 | May 31, 2014 | May 31, 2013 |
| | $ | $ | $ | $ |
| **Expenses** | | | | |
| Salaries and employee benefits expenses | 255 | 390 | 413 | 1,077 |
| Office Expenses | 21,261 | 24,833 | 65,902 | 75,938 |
| Travelling and promotion | 2,660 | 2,703 | 4,806 | 9,651 |
| Investors and shareholders relations | 13,269 | 14,140 | 46,635 | 54,960 |
| Professional and consulting fees | 13,872 | 32,228 | 73,343 | 165,498 |
| Exploration | 2,799 | 900 | 4,873 | 1,700 |
| Stock-based compensation | - | 154,010 | 16,000 | 156,110 |
| Write-off of exploration and evaluation Assets | 512,854 | 329,917 | 514,304 | 862,550 |
| | 566,968 | 559,121 | 726,274 | 1,327,484 |
| Operating loss | (566,968) | (559,121) | (726,274) | (1,327,484) |
| Interest income | 673 | 1,118 | 1,821 | 6,003 |
| Other income | - | (4,550) | - | 30,932 |
| Loss on sale of exploration and evaluation assets | - | - | - | (104,399) |
| Change in value of listed shares | (8,213) | (77,315) | (27,588) | (167,036) |
| Management fees income | 1,226 | - | 33,402 | - |
| Loss on sale of marketable securities | - | (14,135) | - | (14,135) |
| Loss before income taxes | (573,282) | (654,003) | (718,639) | (1,576,119) |
| Deferred income taxes recovery | 8,870 | 1,033 | 19,700 | 51,209 |
| **Net loss and comprehensive loss for the period** | (564,412) | (652,970) | (698,939) | (1,524,910) |
| **Basic and diluted net loss per share** | (0.01) | (0.01) | (0.01) | (0.01) |
| **Weighted average number of outstanding common shares** | 123,748,233 | 119,522,870 | 122,529,647 | 119,522,870 |

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

# Melkior Resources Inc.

Statements of Changes in Equity
May 31, 2014
(In Canadian dollars)

| | Number of shares outstanding | Capital stock | Contributed surplus | Deficit | Total Equity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance at September 1, 2013** | 119,522,870 | 42,448,723 | 4,030,898 | (35,039,749) | 11,439,872 |
| Common shares issued in private placement | 4,016,667 | 210,000 | - | - | 210,000 |
| Common shares issued capitalized in exploration and evaluation expense | 400,000 | 16,000 | - | - | 16,000 |
| Value attributed to warrants | - | (61,100) | 61,100 | - | - |
| Share issue expenses | - | - | 2,000 | (6,550) | (4,550) |
| Flow through premium | - | (19,700) | - | - | (19,700) |
| Stock-based compensation | - | - | 16,000 | - | 16,000 |
| Net loss and comprehensive loss | - | - | - | (698,939) | (698,939) |
| **Balance at May 31, 2014** | **123,939,537** | **42,593,923** | **4,109,998** | **(35,745,238)** | **10,958,683** |

| | 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 | - | - | - | (1,524,910) | (1,524,910) |
| Warrant extension | - | - | 84,000 | (84,000) | - |
| Stock-based compensation | - | - | 164,610 | - | 164,610 |
| **Balance at May 31, 2013** | **119,522,870** | **42,448,723** | **4,136,608** | **(35,110,289)** | **11,475,042** |
| Net loss and comprehensive Loss | - | - | - | 24,840 | 24,840 |
| Warrant extension | - | - | (45,700) | 45,700 | - |
| Stock-based compensation | - | - | (60,010) | - | (60,010) |
| **Balance at August 31, 2013** | **119,522,870** | **42,448,723** | **4,030,898** | **(35,039,749)** | **11,439,872** |

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

# Melkior Resources Inc.

Condensed Interim Statement of Cash Flows
Nine-month period ended May 31, 2014
(In Canadian dollars)

| | Nine months ended | |
|---|---|---|
| | **May 31, 2014** | **May 31, 2013** |
| | **$** | **$** |
| **Operating activities** | | |
| Net loss | (698,939) | (871,941) |
| Non-cash items: | | |
| Stock-based compensation | 16,000 | 2,100 |
| Change in value of listed shares | 27,588 | 89,721 |
| Interest accrued on short-term investments | (1,821) | (4,102) |
| Write-off of exploration and evaluation assets | 514,304 | 532,633 |
| Deferred income taxes recovery | (19,700) | (50,176) |
| | (162,569) | (301,765) |
| Changes in non-cash working capital items | | |
| Sales tax receivable and other receivables | (9,313) | 63,957 |
| Prepaid expenses | 2,237 | 10,716 |
| Accounts payable and accrued liabilities | 10,369 | (100,957) |
| | 3,293 | (26,284) |
| Cash flows used in operating activities | (159,276) | (328,049) |
| **Investing activities** | | |
| Disposal of short term investments | - | 725,000 |
| Additions to mining properties | - | (1,854) |
| Disposal of mining properties | - | 104,399 |
| Tax credits cashed | 23,434 | - |
| Exploration and evaluation expenses | (207,535) | (397,945) |
| Cash flows used in investing activities | (184,101) | 429,600 |
| **Financing activities** | | |
| Issuance of common shares | 210,000 | - |
| Share issue expenses | (4,550) | - |
| Cash flows from financing activities | 205,450 | - |
| Net changes in cash | (137,927) | 101,551 |
| Cash, beginning of period | 437,185 | 23,495 |
| Cash, end of period | 299,258 | 125,046 |

See note 9 on supplemental disclosure of cash flow information

The accompanying notes are an integral part of the condensed interim 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 May 31, 2014, the Company has a deficit of $35,745,238 ($35,039,479 as at August 31, 2013). 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.

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) Statement of compliance with 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, 2014. 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").

### 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.

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

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

Cash 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.

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

***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.

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.

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

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.

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.

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

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 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.

**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.

**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.

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 7 for exploration and evaluation assets impairment analysis.

(in Canadian dollars)

### 4.2 Estimation uncertainty (Cont'd)

The total write-off of the exploration and evaluation assets recognized in profit or loss amounts to $514,304 for the nine month period ended May 31, 2014 ($532,633 – May 31, 2013). No reversal of impairment losses has been recognized for the reporting periods.

No testing for impairment was conducted on the 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 8).

***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.

## 5. Cash

| | May 31, 2014 | August 31, 2013 |
|---|---|---|
| | $ | $ |
| Cash | **291,178** | **408,367** |
| Cash for Canadian mining properties exploration | **8,080** | **28,818** |
| Total Cash | **299,258** | **437,185** |

As at September 1, 2013, the Company had a balance from prior year's flow-through financing of $28,818. As at May 31, 2014, Company had been spent these funds according to the restrictions imposed by this financing arrangement and had met its flow through obligations.

On December 23, 2013, the company raised $40,000 in a private placement of which $39,933 is subject to the restrictions imposed by flow through financing arrangement (Note 13). As at May 31, 2014, Company had incurred expenditures of $31,853 according to the restrictions imposed by this financing arrangement and had an obligation of $8,080 which has to be incurred no later than December 31, 2014.

(in Canadian dollars)

## 6. Listed shares

All of the listed securities held by Melkior were acquired through prior year's property option and sales transactions with the below listed companies. The Company does not purchase shares of publically listed companies on the open market. As at May 31, 2014, the following securities were included in the listed shares:

| | Acquisition Cost | Fair value adjustment | Fair value |
|---|---|---|---|
| **Common shares** | $ | $ | $ |
| Arrowhead Gold Corp. - 243,750 common shares | 1,248,000 | (1,245,563) | 2,438 |
| Northcore Resources Inc. - 1,000,000 common shares | 60,000 | (60,000) | - |
| Green Swan Capital Corp. - 1,800,000 common shares | 180,000 | (108,000) | 72,000 |
| Lakeside Minerals Inc. - 187,500 common shares | 52,500 | (52,500) | - |
| Zara Resources Inc. - 225,000 common shares | 22,500 | (13,500) | 9,000 |
| Leo Resources Inc. - 22,500 common shares | - | 225 | 225 |
| **Total** | **1,563,000** | **(1,479,338)** | **83,663** |
| | | | |
| **Preferred shares** | | | |
| Zara Resources Inc. - 455,000 shares | 45,500 | - | 45,500 |
| **Total** | **45,500** | **-** | **45,500** |
| | | | |
| **Total listed shares** | **1,608,500 -** | **1,479,338** | **129,163** |

On January 13, 2014, the 1,000,000 warrants in Green Swan Capital Corp. expired unexercised. The Company realized a loss of $5,750 on the expiry of the warrants.

On March 3, 2014, Lakeside Minerals Inc. consolidated their common shares on a 4 pre-consolidated shares for 1 post consolidated shares. As a result of the consolidation Melkior's holdings in Lakeside were reduced by 562,500 shares.

On April 2, 2014, Arrowhead Gold Corp. consolidated their common shares on a 4 pre-consolidated shares for 1 post consolidated shares. As a result of the consolidation Melkior's holdings in Arrowhead Gold Corp were reduced by 936,000 shares.

On May 12, 2014, Leo Resources Inc. consolidated their common shares on a 5 pre-consolidated shares for 1 post consolidated shares. As a result of the consolidation Melkior's holdings in Arrowhead Gold Corp were reduced by 90,000 shares.

### 2014 transactions

During the 9 months ended May 31, 2014, Melkior did not dispose of any marketable securities.

### 2013 transactions

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.

(in Canadian dollars)

## 6. Listed shares (Cont'd)

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** |

## 7. Exploration and evaluation assets

During the nine months ended May 31, 2014, the Company incurred mining properties and exploration and evaluation expenses of $207,533 (2013 - $473,088). During the nine months ended May 31, 2014, the Company also had write-offs of mining properties and exploration and evaluation expenses of $514,304 (May 31, 2013 – $862,550).

| **Mining properties** | **August 31, 2013** | **Acquisitions** | **Write-off** | **Disposals** | **May 31, 2014** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Quebec** | | | | | |
| Valliant (Raglan) | 3,300 | - | - | - | 3,300 |
| Launay | 241,767 | 9,488 | - | - | 251,255 |
| Tiblemont | - | 8,422 | - | - | 8,422 |
| | | | | | |
| **Ontario** | | | | | |
| Carscallen (Timmins) | 139,805 | - | - | - | 139,805 |
| Big Marsh (Timmins) | 14,366 | - | - | - | 14,366 |
| Fripp (Timmins) | 16,850 | - | (16,850) | - | - |
| Henderson | 5,375 | - | - | - | 5,375 |
| Long Lac | 19,885 | - | (19,885) | - | - |
| Rim Nickel (McFaulds) (1) | 400,053 | - | - | - | 400,053 |
| | 841,401 | 17,910 | (36,735) | - | 822,576 |

(in Canadian dollars)

## 7. Exploration and evaluation assets (Cont'd)

| Exploration and evaluation expenses | August 31, 2013 | Expenditures | Write-off | May 31, 2014 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Quebec** | | | | |
| Launay [1] | 640,065 | 10,279 | - | 650,344 |
| Kenty Lake | - | 1,450 | (1,450) | - |
| Tiblemont | - | 600 | - | 600 |
| **Ontario** | | | | |
| Carscallen (Timmins) | 6,071,272 | 180,936 | - | 6,252,208 |
| Big Marsh (Timmins) | 230,425 | 1,168 | - | 231,593 |
| Fripp (Timmins) | 48,348 | - | (48,348) | - |
| Bristol (Timmins) | 36,161 | - | - | 36,161 |
| Henderson | 55,830 | - | - | 55,830 |
| Long Lac | 415,304 | 12,467 | (427,771) | - |
| Rim Nickel (McFaulds) | 2,467,847 | 635 | - | 2,468,482 |
| | 9,965,252 | 207,533 | (477,569) | 9,695,218 |

1) Expenditures in the above table only indicate those incurred by Melkior. Expenditures incurred by the joint venture partner are not recorded in the accounts of the Company.

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.

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.

**7. Exploration and evaluation assets** (Cont'd)

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. As of May 31, 2014, Beaufield incurred $334,019 of exploration expenditures on this property and has earned its initial 10% interest in the property. Melkior has remained the operator.

*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. During the year the Company wrote-off $1,450 of expenses relating to this property.

*c) 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.

d) *Tiblemont*
The Company owns 100% interest in 3 mineral claims in Tiblemont Township located 43 km east of Val d'Or, Quebec. Melkior owns a 100% interest in 30 adjacent claims covering 480 hectares. The three new Tiblemont claims were acquired for 200,000 common shares (valued at $8,000 based on the closing market price on the date of issuance) and a 2% Net Smelter Return Royalty with an optional buy back of 1% for $1,000,000.

*e) Other properties in Quebec*
The Company holds claims in the Vauquelin property. The Vauquelin property and 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 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) 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.

**7. Exploration and evaluation assets** (Cont'd)

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.

*iii) 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.

*iv) Fripp*

The Fripp property is 100% owned and is located approximately 25km southwest of Timmins. During the three months ended May 31, 2014, management had determined that this property no longer fit into the Company's strategic plans and would not renew the claims when they expired. As a result an impairment of property cost and deferred exploration expenses of $16,850 and $48,348 respectively.

*f) 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.

*g) Long Lac*
The Company acquired the Long Lac property through staking in Beardmore-Geraldton and owns 100% of two blocks. During the three months ended May 31, 2014, management had determined that this property no longer fit into the Company's strategic plans and would not renew the claims when they expired. As a result an impairment of property cost and deferred exploration expenses of $19,885 and $427,771 respectively.

*h) 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.

## 7. Exploration and evaluation assets (Cont'd)

Riverside claims 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.

ii) Broke Back and River Bank
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 for the year ended August 31, 2013, of exploration and evaluation assets and recorded a loss on sale of exploration and evaluation assets of $104,399. 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 and exploration and evaluation expenses of $327,317.

## 8. 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.

<u>2014 Fiscal year issuances</u>

On October 4, 2013, the Company announced that it has signed a memorandum of understanding ("MOU") with the First Nations. 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. The MOU indicating a recognition and respect for these rights as part of the consultation process. As part of the MOU, Melkior has to issue a 200,000 share payment in recognition of the importance of the assistance provided in this process. The Company issued the shares on December 23, 2013.

On October 16, 2013, the Company closed a non-brokered 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 warrant entitles its holder to purchase one additional common share at a price of $0.05 until October 16, 2015. The Company paid cash commissions totaling $4,550 and issued 120,000 broker warrants, valued at $2,000, using the Black Scholes valuation model, for a total share issue expenses of $6,550 accounted into the deficit. The broker warrants had the same terms as the placement warrants

On December 23, 2013, the Company closed private placements for aggregate proceeds of $40,000 consisting of the issuance of 616,667 units at a price of $0.06 per unit. Each Unit 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 $0.06 until December 23, 2015.

In conjunction with the private placements, insiders have subscribed for aggregate proceeds of $12,000. There were no commission paid in relation to the private placement.

On December 23, 2013, the Company's share closed at $0.02 on the TSX Venture. Of the $0.04 residual value relating to the Unit, $0.008 was allocated to the benefit related to warrants for a value of $5,000 and $0.032 was allocated to the flow-through shares renunciation for a value of $19,700 credited to other liabilities. The $0.008 of the warrants was valued with the Black-Scholes model with the following average assumptions: stock price at date of grant of $0.02, exercise price at date of grant of $0.06, weighted risk-free interest rate of 1.13%, projected volatility of 123.11%, predicted average life of warrants of 2 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.

On May 12, 2014, the Company issued 200,000 common shares with a deemed value of $8,000, based on the closing market price on the date of acquisition, for a 100% interest in 3 mineral claims in the Tiblemont Township located 43 km east of Val d'Or, Quebec.

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)

**8. 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 periods ending May 31, 2014, and August 31, 2013:

| | May 31, 2014 | | August 31, 2013 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted Average exercise price |
| | | $ | | $ |
| Balance at beginning of the year | 8,900,000 | 0.20 | 8,300,000 | 0.32 |
| Granted | 600,000 | 0.10 | 3,400,000 | 0.10 |
| Cancelled/forfeited | (700,000) | 0.28 | (600,000) | 0.25 |
| Expired | (300,000) | 0.10 | (2,000,000) | 0.47 |
| Balance at end of the year | 8,500,000 | 0.12 | 8,900,000 | 0.20 |
| Exercisable at the end of the year | 8,500,000 | 0.12 | 8,900,000 | 0.20 |

On November 7, 2013, 300,000 stock options with an exercise price of $0.10 were expired unexercised.

On December 18, 2013, the Company announced the appointment of Bruce Deluce as Director. The Board of Directors has granted 600,000 stock options to Bruce Deluce exercisable for a period of 5 years at $0.10 per share. The stock options have a Black-Scholes value of $16,000 based on a risk free interest rate of 1.25% and a share price volatility of 164.60%.

On January 3, 2014, 700,000 stock options with a weighted average exercise price of $0.28 were forfeited. The options would have expired December 2014 and February 2016.

(in Canadian dollars)

**8. Share capital** (Cont'd)

The following table summarizes information about common share purchase options outstanding and exercisable as at May 31, 2014 and August 31, 2013:

**May 31, 2014**

| Number of options | Exercise Price | Expiry date |
|---|---|---|
| | $ | |
| 400,000 | 0.40 | August 7, 2014 |
| 600,000 | 0.36 | December 30, 2014 |
| 1,600,000 | 0.20 | July 16, 2015 |
| 1,900,000 | 0.27 | December 23, 2015 |
| 3,400,000 | 0.10 | April 30, 2018 |
| 600,000 | 0.10 | December 18, 2018 |
| 8,500,000 | | |

**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 | | |

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

| Grant date | December 18, 2013 |
|---|---|
| Optioned | Director |
| Number of options | 600,000 |
| Exercise price | $0.10 |
| Exercise price compared to the market | Higher |
| Risk free interest | 1.25% |
| Average expected volatility | 164.62% |
| Expected dividend | - |
| Expected life (years) | 5 |
| Vesting | 100% at date of grant |
| Stock price at the date of grant | $0.03 |
| Estimated fair value per option | $0.03 |
| Estimated fair value | $16,000 |

(in Canadian dollars)

**8. Share capital** (Cont'd)

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.

*b) Warrants*

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

| | **Nine months ended May 31, 2014** | | **Year ended August 31, 2013** | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | **Number of warrants** | **Weighted average exercise price** |
| | | **$** | | **$** |
| Balance at beginning of the period | 10,080,999 | 0.36 | 15,348,999 | 0.36 |
| Issued | 4,106,667 | 0.05 | - | - |
| Cancelled | - | - | (268,000) | 0.25 |
| Expired | (7,466,499) | 0.40 | (5,000,000) | 0.35 |
| Balance at end of the period | 6,631,167 | 0.19 | 10,080,999 | 0.36 |

Warrants outstanding as at May 31, 2014, are as follows:

| **Number of warrants** | **Exercise Price** | **Expiry date** |
|---|---|---|
| | **$** | |
| 1,300,000 | 0.50 | June 28, 2014 (1) |
| 712,500 | 0.10 | July 9, 2014 (1) |
| 602,000 | 0.50 | December 28, 2014 (2) |
| 3,400,000 | 0.05 | October 16, 2015 |
| 616,667 | 0.06 | December 23, 2015 |
| 6,631,167 | | |

1) 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 re-priced from $1.25 to $0.50.
2) 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 $1.50 to $0.50.

(in Canadian dollars)

**8. Share capital** (Cont'd)

*c) Warrants issued as compensation*

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

| | May 31, 2014 | | August 31, 2013 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| | | $ | | $ |
| Balance at beginning | - | - | - | - |
| Issued | 120,000 | 0.05 | - | - |
| Balance at end | 120,000 | | - | |

*d) Policies and processes for managing capital*

The capital of the Company consists of the items included in shareholders' equity of $10,958,683 as of May 31, 2014 ($11,439,872 as of August 31, 2013). 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.

**9. Statement of cash flows**

| | Nine months ended | |
|---|---|---|
| | May 31, 2014 | May 31, 2013 |
| | $ | $ |
| **Additional information** | | |
| Additions of E&E expenses included in accounts payable and accrued liabilities | 11,325 | 21,163 |
| Common shares issued included in E&E expenses (Note 7) | 8,000 | - |
| Common shares issued included in property acquisition (Note 7) | 8,000 | - |
| Stock-based compensation included in E&E expenses | - | 8,500 |
| Listed shares and warrants received on disposal of mining assets | - | 68,000 |

There was no interest or income taxes paid during the nine months ended May 31, 2014.

(in Canadian dollars)

## 10. Compensation to key management and related party disclosures

The Company's related parties include a company controlled by an officer 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. Key management compensation is as follows:

| | Nine months ended | |
|---|---|---|
| | **May 31, 2014** | **May 31, 2013** |
| | **$** | **$** |
| Short-term benefits | | |
| Salaries including benefits | 874 | 2,553 |
| Professional fees | 20,828 | 106,467 |
| Professional fees capitalized in E&E expenses | 19,390 | 30,154 |
| Total short-term benefits | 41,092 | 139,174 |
| Stock-based compensation | 16,000 | 144,951 |
| Total compensation | 57,092 | 284,125 |

### *b) Transactions with other related party*

In the normal course of operations for the period ended May 31, 2014, and 2013, in addition to the amounts listed above in the compensation to key management a company controlled by a Company's officer charged rent totaling $13,500 ($18,000 in 2013) expensed in office expenses.

As at May 31, 2014, the balance due to the related parties amounted to $3,092 (August 31, 2013 - $NIL) and was recorded in accounts payable and accrued liabilities.

(in Canadian dollars)

## 11. 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:

| | May 31, 2014 | | August 31, 2013 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| *At amortized cost* | | | | |
| Cash | 299,258 | 299,258 | 437,185 | 437,185 |
| Other receivables (1) | 13,372 | 13,372 | 1,706 | 1,706 |
| *At fair value through profit or loss* | | | | |
| Listed shares | 83,662 | 83,662 | 105,500 | 105,500 |
| Preferred shares | 45,500 | 45,500 | 45,500 | 45,500 |
| Warrants | - | - | 5,750 | 5,750 |
| **Financial liabilities** | | | | |
| *At amortized cost* | | | | |
| Accounts payable and accrued liabilities | 27,420 | 27,420 | 16,963 | 16,963 |
| Other liabilities | - | - | - | - |

(1) Other receivables does not include sales tax receivable.

The carrying value of cash, 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 and preferred shares of companies in quoted mining exploration companies measured at fair value as at May 31, 2014, and August 31, 2013, are classified in Level 1. Common share purchase warrants and preferred shares of mining exploration companies measured at fair value as at May 31, 2014, and August 31, 2013, are classified in Level 2.

(in Canadian dollars)

## 11. Financial Instruments (Cont'd)

### *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.

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 May 31, 2014, there were no short-term investments.

*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 May 31, 2014, and August 31, 2013, net loss and equity would have changed by $25,832 and $31,350 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 May 31, 2014, and August 31, 2013, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

| | May 31, 2014 | August 31, 2013 |
|---|---|---|
| | $ | $ |
| Cash | 299,258 | 437,185 |
| Other receivables | 21,646 | 1,706 |
| Total | 320,904 | 438,891 |

The other receivables are from joint exploration costs and management fees charged to Beaufield Resources on the Launay project as well as 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 2014, the Company did not record any impairment on its account receivables.

As at May 31, 2014, 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)

## 11. 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:

| | May 31, 2014 carrying amount | August 31, 2013 carrying amount |
|---|---|---|
| | $ | $ |
| Within three months: | | |
| Accounts payable and accrued liabilities | 27,420 | 16,963 |

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.

## 12. 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.

On December 23, 2013, the Company raised $39,933 of restricted funds through a flow through placement. Management is required to fulfil its commitments within the stipulated deadline of December 31, 2014.

## 13. Events after the reporting period

There were no significant events prior to the reporting date to the date of these financial statements.