

Melkior Resources Inc.

AMENDED AND RESTATED Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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

Melkior Resources Inc.

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Melkior Resources Inc.

Condensed Interim Statements of Financial Position

As at February 28, 2017

(in Canadian dollars)

	February, 2017	August, 2016
	\$	\$
Assets		
<i>Current assets</i>		
Cash and cash equivalents (Note 5)	102,564	154,225
Sales tax receivable and other receivables (Note 6)	107,997	125,415
Prepaid expenses	3,385	6,097
Listed shares (Note 7)	329,871	535,238
	<u>543,817</u>	<u>818,975</u>
<i>Non-current assets</i>		
Exploration and evaluation assets (Note 8)		
Mining properties	196,736	175,777
Exploration and evaluation	7,358,745	7,325,339
	<u>7,555,481</u>	<u>7,501,116</u>
Total assets	<u>8,099,298</u>	<u>8,320,091</u>
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	<u>44,981</u>	<u>29,397</u>
Shareholders' Equity		
Share capital (Note 9)	43,278,823	43,278,823
Contributed surplus	4,631,148	4,524,148
Deficit	<u>(39,855,654)</u>	<u>(39,512,277)</u>
Total equity	<u>8,054,317</u>	<u>8,290,694</u>
Total liabilities and equity	<u>8,099,298</u>	<u>8,320,091</u>

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

(s) Bruce Deluce

Bruce Deluce
Director

(s) Jim Deluce

Jim Deluce
Chief Executive Officer and Director

Melkior Resources Inc.

Condensed Interim Statements of Comprehensive Loss

February 28, 2017

(in Canadian dollars)

	<u>Three-month period ended</u>		<u>Six-month period ended</u>	
	<u>February 28, February 29</u>		<u>February 28, February 29</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	\$	\$	\$	\$
Expenses				
Salaries and employee benefits expenses	11,420	6,060	17,173	13,568
Office expense	5,748	6,550	15,571	13,699
Travelling and promotion	0	386	0	634
Investors and shareholder's relations	0	16,104	687	17,699
Professional and consulting fees	29,483	29,088	77,885	41,164
Exploration	500	1,053	3,403	1,053
Write-off of exploration and evaluation				
Assets	<u>0</u>	<u>708</u>	<u>0</u>	<u>2,708</u>
Operating Loss	47,151	59,949	114,719	90,276
Corporate tax refund	11,715	0	11,715	0
Interest and dividend income	0	903	561	1,472
Realized share gain	21,421	0	21,421	0
Change in value of listed shares	<u>20,477</u>	<u>3,527</u>	<u>(155,367)</u>	<u>17,530</u>
Net loss and comprehensive loss/profit for the period	6,452	(62,573)	(236,389)	(71,274)
Basic and diluted net loss per share	<u>(0.000)</u>	<u>(0.000)</u>	<u>(0.001)</u>	<u>(0.000)</u>
Weighted average number of Outstanding common shares	<u>141,409,537</u>	<u>131,799,537</u>	<u>141,409,537</u>	<u>131,799,537</u>

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

Melkior Resources Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

For the six months ended February 28, 2017

(in Canadian dollars)

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total equity</u>
		\$	\$	\$	\$
Balance at September 1, 2015	131,799,537	42,894,423	4,264,678	(39,342,367)	7,816,734
Net loss	-	-	-	(71,274)	(71,274)
Balance at February 29, 2016	131,799,537	42,894,423	4,264,678	(39,413,641)	7,745,460

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total equity</u>
		\$	\$	\$	\$
Balance at September 1, 2016	141,409,537	43,278,823	4,524,148	(39,512,277)	8,290,694
Warrant extension	-	-	107,000	(107,000)	-
Net loss	-	-	-	(236,379)	(236,379)
Balance at February 28, 2017	141,409,537	43,278,823	4,631,148	(39,855,656)	8,054,317

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

Melkior Resources Inc.

Condensed Interim Statements of Cash Flows
For the six months ended February 28, 2017, 2016
(in Canadian dollars)

	<u>February</u> <u>2017</u> \$	<u>February</u> <u>2016</u> \$
Operating activities		
Net loss	(236,379)	(71,274)
Non-cash items		
Change in value of listed shares	155,367	(17,530)
Write-off of exploration and evaluation assets	-	2,708
Interest accrued on short-term investments	(569)	(1,138)
	<u>(81,581)</u>	<u>(81,581)</u>
Changes in non-cash working capital items		
Sales tax receivable and other receivables	22,246	(4,309)
Prepaid expenses	2,712	7,865
Accounts payable and accrued liabilities	9,328	(8,897)
	<u>34,286</u>	<u>(5,341)</u>
Cash flows used in operating activities	<u>(47,295)</u>	<u>(92,575)</u>
Investing activities		
Shares sold	50,000	-
Additions to mining properties	(33,087)	(1,085)
Exploration and evaluation expenses	(21,279)	(70,282)
Cash flows used in investing activities	<u>(4,366)</u>	<u>(71,367)</u>
Net changes in cash and cash equivalents	(51,661)	(163,942)
Cash and cash equivalents, beginning of the period	<u>154,225</u>	<u>167,583</u>
Cash and cash equivalents, end of the period	<u>102,564</u>	<u>3,641</u>

See Note 10 on supplemental disclosure of cash flow information

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

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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

Melkior Resources Inc. (the “Company”), incorporated under the *Business Corporations Act* (Canada), is a junior mining exploration company operating in Canada. The Company’s operations include the acquisition and exploration of mining properties. The address of the registered office is 207-66 Brousseau Avenue, Timmins, Ontario, Canada, P4N 5Y2. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “MKR”, on the OTCQX Exchange in the United States 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.

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 and continued support of suppliers and creditors. Even if the Company has been successful in doing so in the past, there is no assurance that it will manage to obtain additional financing in the future.

The Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable and has not yet generated income or cash flows from its operations. As at February 28, 2017, the Company has an accumulated deficit of \$39,855,656. 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 carrying amounts of assets, liabilities and expenses presented in the financial statements and the classification used in the statements of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. These adjustments could be material.

2. Summary of significant accounting policies

The significant accounting policies and measurement bases used in the preparation of these annual 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, 2017. 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 policies applied in these condensed interim financial statements are based on IFRSs issued and outstanding as of February 28, 2017. The same accounting policies and methods of computation are followed in these condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended August 31, 2016.

b) Functional and presentation currency

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

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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

c) Mining properties and exploration and evaluation (E&E) expenses

E&E expenses are costs incurred in the course of the 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 or options to acquire such rights (option agreement) are capitalized under mining properties. E&E expenditures 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 impaired 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 2d) 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, 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 in connection with option agreements

On the disposal of interest in connection with option agreements, the Company does not recognize expenses related to E&E performed on the property by the acquirer. In addition, the cash or share consideration received directly from the acquirer is credited against the carrying amount of costs previously capitalized to the mining properties first and subsequently to E&E expenses, and the surplus is recognized as a gain on disposal of E&E assets in profit or loss.

d) Impairment of E&E 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). Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, a cash-generating unit is reviewed for impairment.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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

Impairment reviews for E&E 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 at period-end and 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; and
- 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 E&E 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.

e) Provisions

Provisions are recognized when present legal and constructive obligations as a result of a past event will likely 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 amount, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

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

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

f) Government assistance

The Company recognizes certain grants at fair value if there is reasonable assurance they will be received and the Company will comply with the conditions associated with the grant. Grants related to E&E expenses incurred are recognized as a reduction of E&E assets.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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 early-adopted by 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 9 *Financial Instruments* (2014)

Issued by IASB July 2014

Effective for annual periods beginning September 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 (International Financial Reporting Interpretations Committee) *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets:**
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities:**
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets:**
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:**
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

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

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB January 2016

Effective for annual periods beginning September 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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 that 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.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay 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.

Bifurcation of units

The Company uses the residual value method when valuing equity components and other liabilities related to flow-through shares. Management's judgment is used to establish fair value of the components.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

4. Judgments, estimates and assumptions (Cont'd)

4.2 Estimation uncertainty (Cont'd)

Impairment of E&E 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.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or 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 and 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 an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

See Note 8 for E&E assets impairment analysis.

No impairment was assessed on the Vaillant (Raglan), Launay, Tiblemont and Carscallen properties. The Company continues significant fieldwork on Carscallen property.

Share-based payments, warrants and warrants extension

The estimation of value requires the selection of an appropriate valuation model, data and consideration as to the volatility of the Company's shares, the probable life of share options and warrants granted, issued and modified, and the time of exercise of those share options and warrants. Option pricing models require the inputs of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. The model used by the Company is the Black-Scholes valuation model (Note 9). Changes to the input assumptions can materially affect the fair value estimate and contributed surplus.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

5. Cash and cash equivalents

	February 28, 2017	November 30, 2017
Cash and cash equivalents	\$ 102,564	\$ 107,165
Total cash and cash equivalents	102,564	107,165

The Company has applied for Junior Exploration Assistance Grant ("JEAG") with the Ontario Prospectors Association based on 2016 exploration program on the Carscallen property. The Grant when awarded will be for \$100,000 and requires the Company to incur a further \$100,000 of eligible exploration expenditures to satisfy the flow-through financing requirements (Note 6).

Cash equivalents are deposited in money market investments that are cashable on demand.

6. Sales tax receivable and other receivables

	February 28, 2017	November 30, 2016
Sales tax receivable	\$ 6,100	\$ 5,210
Other receivables	101,896	101,896
Total sales tax and other receivables	107,106	107,106

As at February 28, 2017, other receivables of \$101,896 (November, 2016 - \$101,896) included a JEAG from the Ontario Prospectors Association of \$100,000 (August 31, 2016 - \$100,000), this grant is still in process. Other receivables of \$1,896 are accrued dividends from Zara Resources Inc. ("Zara") preferred shares, which will be settled in common shares of Zara.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

7. Listed shares

All of the listed securities held by the Company were acquired through current and prior year's property option and sales transactions with the below listed companies. The Company does not purchase shares of publicly listed companies on the open market. As at February 28, 2017, the following securities were included in the listed shares:

	Acquisition cost	Fair value adjustment	Fair value
	\$	\$	\$
Common shares			
Kontrol Energy Corp. - 40,625 shares	1,248,000	(1,221,187)	26,813
Northcore Resources Inc. - 50,000 shares	60,000	(60,000)	-
Green Swan Capital Corp. - 1,800,000 shares	180,000	(90,000)	90,000
Lakeside Minerals Inc. - 62,500 shares	52,500	(31,563)	20,937
Beaufield Resources Inc. - 2,000,000 shares	210,000	(20,000)	190,000
Zara Resources Inc. - 77,100 shares	27,429	(26,658)	771
Tempus Capital Inc. - 90,000 shares	-	-	-
Leo Resources Inc. - 22,500 shares	-	112	1,350
Total	1,777,929	(1,449,296)	329,871
Preferred shares			
Zara Resources Inc. - 455,000 shares	45,500	(45,500)	-
Total	45,500	(45,500)	-
Total listed shares	1,823,429	(1,494,796)	329,871

During the six months ended February 28, 2017, the listed shares had an unrealized loss in market value of \$155,367.

8. Exploration and evaluation assets

During the six months ended February 28, 2017, the Company incurred mining properties costs of \$20,959 and E&E expenses of \$12,127.

Mining properties	November 30, 2016	Acquisitions	Option payment	Write-off	February 28, 2017
	\$	\$	\$	\$	\$
Quebec					
Valliant (Raglan)	3,330	-	-	-	3,330
Launay	2,091	-	-	-	2,091
Tiblemont	12,003	-	-	-	12,003
Urban	-	16,791	-	-	16,791
Ontario					
Hemlo	-	4,168	-	-	4,168
Carscallen (Timmins)	158,383	-	-	-	158,383
	<u>175,777</u>	<u>20,959</u>	<u>-</u>	<u>-</u>	<u>196,736</u>

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

8. Exploration and evaluation assets (Cont'd)

E&E expenses	November 30, 2016	Expenditures	Option payment	Write-off	February 28, 2016
	\$	\$	\$	\$	\$
Quebec					
Launay	514,547	-	-	-	514,547
Kenty Lake	-	-	-	-	-
Tiblemont	4,743	-	-	-	4,743
Ontario					
Carscallen (Timmins) ⁽¹⁾	6,827,328	12,127	-	-	6,839,455
	<u>7,346,618</u>	<u>12,127</u>	<u>-</u>	<u>-</u>	<u>7,357,745</u>

(1) The Carscallen opening balance is shown net of \$100,000 JEAG.

Quebec

a) Launay

The Company holds claims located in Launay Township, Quebec. Certain claims are subject to a 1% net smelter return ("NSR") royalty.

On November 5, 2013, the Company announced that it had entered into an option and joint venture agreement with Beaufield on its wholly owned Launay gold project (the "Project") located in Launay.

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 a 10% interest for each \$250,000 of exploration expenditures.

On March 21, 2016, the Company sold an undivided 50% interest in the Launay gold property to Beaufield for \$150,000 cash and 3,000,000 common shares of Beaufield, valued at \$240,000. This agreement terminated the agreement signed in November 2013. The proceeds of the sale were accounted for as a reduction in mining property of \$251,255 and a reduction of deferred exploration and evaluation expenses of \$138,745 on the statement of financial position.

Both companies are in the process of preparing a joint venture for further exploration on the Launay property.

b) Ungava and Kenty Lake

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec. During the year ended August 31, 2014, management had determined that the Kenty Lake property no longer fit into the Company's strategic plans and would not renew the claims when they expired. The property was classified as a secondary project. As a result, the Company has written off deferred mining property costs of \$Nil during the three months ended November 30, 2016 (2015 - \$Nil) and deferred exploration and evaluation expenses of \$Nil for the Kenty Lake property (2015 - \$1,200).

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

8. Exploration and evaluation assets (Cont'd)

c) *Valliant (Raglan)*

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

d) *Tiblemont*

The Company owns a 100% interest in three mineral claims in Tiblemont Township located 43 kilometres east of Val-d'Or, Quebec. The Company owns a 100% interest in adjacent claims covering 480 hectares. On May 12, 2014, three 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% NSR with an optional buy back of 1% for \$1,000,000.

e) *Other property in Quebec*

The Company holds claims in the Vauquelin property. The Vauquelin property and its 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 while another group of claims is subject to a 2% NSR of which the Company has the right to buy out one-half, or 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.

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 Nations that have traditional rights and treaty rights on the lands being explored. The MOU indicates a recognition and respect for these rights as part of the consultation process. As part of the MOU, the Company has to issue 200,000 common shares, with a deemed value of \$8,000 based on the closing market price, in recognition of the importance of the assistance provided in this process. The Company issued the shares on December 23, 2013. The Company will pay 2% of all exploration costs eligible for assessment credit to the Mattagami First Nation.

On April 7, 2016, the Company issued 210,000 common shares for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm's length party.

g) *Other property in Ontario*

The Company holds claims in the Big March, Bristol, Henderson and McFaulds East properties. Expenditures to maintain these properties in good standing are expensed as incurred.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

9. Share capital

Authorized

The Company's authorized share capital consists of:

- i) an unlimited number of common shares without par value, voting and participating; and
- ii) an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the request of the Company at paid-up capital.

a) Share issuances

2017 fiscal year issuances

There were no issuances of common shares during the three months ended November 30, 2016.

b) Stock option plan

The Company maintains a stock option plan (the "Plan") pursuant to which options to purchase common shares may be granted for its eligible directors, officers and employees of the Company, as well as persons providing ongoing services to the Company.

The number of shares to be delivered upon the exercise of all options granted under the plan shall not exceed 10,948,000.

Unless indicated otherwise by the Board at the time of grant, one-sixth 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 their respective 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 notice of termination.

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 or any other regulations by the TSX-V. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination, not later than upon the fifth anniversary of the grant of the option.

The total number of options granted to any one individual in any 12-month period will not exceed 5% of the issued common shares. The total number of options granted to a consultant in any 12-month period will not exceed 2% of the issued common shares at the time of grant. The total number of options granted to persons providing investor relations activities in any 12-month period will not exceed 2% of the issued common shares at the time of grant. These options must vest in stages over a 12-month period from the date of grant with no more than 25% of the options vesting in any three-month period.

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.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

9. Share capital (Cont'd)

A summary of changes of the Company's common share purchase options is presented below for the six months ended February 28, 2017 and the year ended August 31, 2016:

	February 28, 2017		August 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted Average exercise price
Balance at beginning of the period	7,400,000	\$ 0.10	5,500,000	\$ 0.15
Granted	-	-	4,000,000	0.10
Expired/forfeited	-	-	(2,100,000)	0.22
Balance at end of the period	<u>7,400,000</u>	<u>0.10</u>	<u>7,400,000</u>	<u>0.10</u>
Exercisable at the end of the period	<u>7,400,000</u>	<u>0.10</u>	<u>7,400,000</u>	<u>0.10</u>

2017 fiscal year activity

There were no stock options granted during the three months ended November 30, 2016

The following table summarizes information about common share purchase options outstanding and exercisable as at November 30, 2016 and August 31, 2016:

February 28, 2017			August 31, 2016		
Number of options	Exercise price	Expiry date	Number of options	Exercise price	Expiry date
	\$			\$	
2,500,000	0.10	April 30, 2018	2,500,000	0.10	April 30, 2018
600,000	0.10	December 18, 2018	600,000	0.10	December 18, 2018
300,000	0.10	December 15, 2019	300,000	0.10	December 15, 2019
4,000,000	0.10	May 31, 2021	4,000,000	0.10	May 31, 2021
<u>7,400,000</u>			<u>7,400,000</u>		

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the options. No special features inherent in the options granted were incorporated into measurement of fair value.

In total \$Nil (year ended August 31, 2016 - \$Nil) of the stock-based payments (all of which related to equity-settled share-based payment transactions) were capitalized in E&E assets and \$Nil (year ended August 31, 2016 - \$114,000) were included in stock-based compensation in profit or loss for the six months ended February 28, 2017 and credited to contributed surplus.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

9. Share capital (Cont'd)

c) Warrants

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

	February 28, 2017		August 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of the period	20,619,000	\$ 0.07	11,876,667	\$ 0.05
Issued	-	-	9,400,000	0.09
Expired	-	-	(666,667)	0.06
Balance at end of the period	20,610,000	0.07	20,610,000	0.07

Warrants outstanding as at February 28, 2017 and August 31, 2016 are as follows:

Expiry date	February 28, 2017		August 31, 2016	
	Number of warrants	Exercise price	Number of warrants	Exercise price
		\$		\$
October 20, 2016 ⁽¹⁾	7,810,000	0.05	7,810,000	0.05
October 16, 2017 ⁽²⁾	3,400,000	0.05	3,400,000	0.05
March 24, 2018	1,200,000	0.07	1,200,000	0.07
March 24, 2018	700,000	0.10	700,000	0.10
March 28, 2018	2,000,000	0.07	2,000,000	0.07
March 28, 2018	5,500,000	0.10	5,500,000	0.10
	20,610,000		20,610,000	

(1) On October 3, 2016, the Company extended the life of 7,810,000 existing warrants expiring October 20, 2016, for two additional years. The pricing of the warrants remained unchanged.

(2) On August 31, 2015, the Company extended the life of 3,400,000 existing warrants expiring October 16, 2015, for two additional years. The pricing of the warrants remained unchanged.

The weighted average fair value of the extended warrants during the three months ended November 30, 2016 was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

February 28, 2017	
Average share price at the date of extension	\$0.03
Average exercise price at the date of extension	\$0.05
Average risk-free interest rate	0.53%
Expected average volatility	110.93%
Expected dividend	-
Expected life (years)	2
Estimated fair value per warrant	\$0.01370
Estimated fair value	\$107,000
Forfeiture rate	0.00%

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the warrants.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

9. Share capital (Cont'd)

d) Warrants issued as compensation (finder's warrants)

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

	February 28, 2017		August 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of the period	1,395,750	\$ 0.07	675,750	\$ 0.05
Issued	-	-	840,000	0.09
Expired	-	-	(120,000)	0.05
Balance at end of the period	1,395,750	0.07	1,395,750	0.07

Finder's warrants outstanding as at February 28, 2017 and August 31, 2016 are as follows:

Expiry date	February 28, 2017		August 31, 2016	
	Number of warrants	Exercise price	Number of warrants	Exercise price
October 20, 2016	555,750	\$ 0.05	555,750	\$ 0.05
March 28, 2018	550,000	0.10	550,000	0.10
March 28, 2018	290,000	0.07	290,000	0.07
	1,395,750		1,395,750	

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

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the warrants issued as compensation.

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$8,054,317 as of February 28, 2017. 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 does not use long-term debt, as it does not generate operating revenues. There is no dividend policy. The Company does not have any externally imposed capital requirements, neither regulatory nor contractual, 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. The Company has not changed its policies and procedures in the past year.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

10. Supplemental disclosure of cash flow information

	<u>Six months ended February 28,</u>	
	<u>2017</u>	<u>2016</u>
	\$	\$
Additional information		
Additions of E&E expenses included in accounts payable and accrued liabilities	17,932	1,205

11. Loss per share

In calculating the diluted loss per share, dilutive potential common shares, such as share options and warrants, have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be anti-dilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Note 9.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator; no adjustment to net loss was necessary in the periods ended February 28, 2017.

12. Compensation to key management and related party disclosures

The Company's related parties include a company controlled by an officer, close family members of directors 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:

	<u>Six months ended February 28,</u>	
	<u>2017</u>	<u>2016</u>
	\$	\$
Short-term benefits		
Salaries including benefits	-	6,909
Professional and consulting fees	26,000	15,026
Professional fees capitalized in E&E expenses	-	3,160
Total benefits	<u>26,000</u>	<u>24,215</u>

b) Transactions with other related parties

In the normal course of operations for the six months ended February 28, 2017 and 2016:

- In addition to the amounts listed above in the compensation to key management, a company controlled by the Company's former chief executive officer charged rent totaling \$Nil (2015 - \$Nil) expensed in office expenses; and
- A close family member of a former director provided secretarial services totaling \$15,840 (2015 - \$6,600).

As at February 28, 2017, the balance due to related parties amounted to \$Nil

Melkior Resources Inc.

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(in Canadian dollars)

13. Financial Instruments

a) Categories of financial assets and liabilities

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

	February 28, 2017		November 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	\$	\$	\$	\$
<i>At amortized cost</i>				
Cash and cash equivalents	102,564	102,564	107,165	107,165
Other receivables ⁽¹⁾	107,997	107,997	101,896	101,896
	210,561	210,561	209,061	209,061
<i>At FVTPL</i>				
Listed shares	329,871	329,871	359,394	359,394
Preferred shares	-	-	-	-
	329,871	329,871	359,394	359,394
Financial liabilities				
<i>At amortized cost</i>				
Accounts payable and accrued liabilities	44,981	44,981	44,177	44,177

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

The carrying values of cash, other receivables, and accounts payable and accrued liabilities are considered to be a reasonable approximation of fair values due to 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:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- 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
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Listed common shares of companies in quoted mining exploration companies measured at fair value as at November 30, 2016 and August 31, 2016 are classified as Level 1. Preferred shares of mining exploration companies measured at fair value as at November 30, 2016 and August 31, 2016 are classified as Level 2.

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

13. 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 Note 13a.

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 due to changes in market prices. The Company is exposed to other price risk. The Company's exposure to foreign currency risk and interest rate risk is not material.

The Company does not actively engage in the trading of financial instruments for speculative purposes.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. As at February 28, 2017 and November 30, 2016, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	February 28, 2017	November 30, 2016
Cash and cash equivalents	\$ 102,564	\$ 107,165
Other receivables (excluding sales tax receivable)	101,896	101,896
Total	204,460	209,061

The other receivables include dividends receivable from the preferred shares acquired from Zara and JEAG receivable. The exposure to credit risk for the Company's receivables has to be monitored continuously. As at February 28, 2017 and November 30, 2016, the Company did not record any impairment loss on its other receivables.

As at February 28, 2017, 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 is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

14. Financial instruments (Cont'd)

c) Financial instrument risk (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

Melkior Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended February 28, 2017

(in Canadian dollars)

financing sources, such as private and public investments, for a sufficient amount. Since inception, the Company has primarily financed its E&E 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 at the carrying amount:

	February 28, 2017	November 30, 2016
	\$	\$
Within three months:		
Accounts payable and accrued liabilities	44,981	44,177

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

15. Contingencies and commitments

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is committed to using the financing proceeds for qualifying 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; or
- 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.