
MELKIOR RESOURCES INC.
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2018 AND 2017
(EXPRESSED IN CANADIAN DOLLARS)



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Independent Auditor's Report

**To the Shareholders of
Melkior Resources Inc.**

We have audited the accompanying financial statements of Melkior Resources Inc., which comprise the statements of financial position as at August 31, 2018 and August 31, 2017, and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Melkior Resources Inc. as at August 31, 2018 and August 31, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Melkior Resources Inc. to continue as a going concern.

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, British Columbia
December 4, 2018**

Melkior Resources Inc.
Statements of Financial Position
(Expressed in Canadian Dollars)

	As at August 31, 2018	As at August 31, 2017
ASSETS		
Current assets		
Cash	\$ 1,241,166	\$ 156,477
Sales tax receivable and other receivables (note 6)	49,465	69,672
Prepaid expenses	37,867	4,725
Marketable securities (note 7)	569,563	662,070
Total current assets	1,898,061	892,944
Non-current assets		
Prepaid expenses (note 10)	120,000	10,652
Exploration and evaluation assets (note 8)	8,421,024	7,571,498
Total assets	\$ 10,439,085	\$ 8,475,094
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	\$ 21,397	\$ 67,668
Total liabilities	21,397	67,668
Equity		
Share capital (note 9)	45,171,037	43,559,061
Contributed surplus (note 9)	4,513,787	4,524,148
Deficit	(39,267,136)	(39,675,783)
Total equity	10,417,688	8,407,426
Total equity and liabilities	\$ 10,439,085	\$ 8,475,094

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

Going concern (note 2)
Subsequent events (note 14)

Approved on behalf of the Board:

(Signed) "Norman Farrell" Director

(Signed) "Keith James Deluce" Director

Melkior Resources Inc.
Statements of Comprehensive Income (loss)
(Expressed in Canadian Dollars)

	Year Ended August 31, 2018	Year Ended August 31, 2017
Expenses		
Consulting and management fees (note 10)	\$ 60,883	\$ 151,714
General exploration	237	1,610
Impairment of exploration and evaluation assets (note 8)	-	20,046
Office and general	12,361	8,166
Professional fees (note 10)	44,807	37,246
Regulatory fees (note 10)	35,372	30,859
Salaries and benefits	-	17,195
Travel and promotion	5,773	3,560
Net loss before other items	\$ (159,433)	\$ (270,396)
Other items		
Interest and dividend income	80	1,223
Gain (loss) on marketable securities (note 7)	(342,385)	21,434
Gain on sale of exploration and evaluation assets (note 8)	750,000	107,566
Gain (loss) on settlement of debt	45,000	(23,333)
Other income	115,385	-
Net and comprehensive income (loss) for the year	\$ 408,647	\$ (163,506)
Basic and diluted net income (loss) per share	\$ 0.00	\$ (0.00)
Weighted average number of common shares outstanding - Basic	157,307,139	142,187,632
Weighted average number of common shares outstanding - Diluted	164,052,872	142,187,632

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

Melkior Resources Inc.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended August 31, 2018	Year Ended August 31, 2017
Operating activities		
Net income (loss) for the year	\$ 408,647	\$ (163,506)
Adjustments for:		
Loss (gain) on marketable securities	342,385	(21,434)
Interest and dividend income	(80)	(1,223)
Impairment of exploration and evaluation assets	-	20,046
Gain on sale of exploration and evaluation assets	(750,000)	(107,566)
Loss (gain) on settlement of debt	(45,000)	23,333
Other income	(115,385)	-
Changes in non-cash working capital items:		
Sales tax receivable and other receivables	814	(28,760)
Prepaid expenses	(33,142)	1,372
Amounts payable and other liabilities	(1,271)	213,079
Net cash used in operating activities	(193,032)	(64,659)
Investing activities		
Prepaid expenditures	(120,000)	-
Exploration and evaluation assets expenditures	(812,481)	(455,810)
Proceeds from sale of exploration and evaluation assets	600,000	125,000
Proceeds on sale of marketable securities	50,122	396,498
Purchase of marketable securities	(150,000)	-
Interest and dividend income	80	1,223
Net cash provided by (used in) investing activities	(432,279)	66,911
Financing activities		
Shares issued for cash, net of issue costs	1,710,000	-
Net cash provided by financing activities	1,710,000	-
Net change in cash	1,084,689	2,252
Cash, beginning of year	156,477	154,225
Cash, end of year	\$ 1,241,166	\$ 156,477

Supplemental disclosure with respect to cash flow (note 11)

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

Melkior Resources Inc.
Statements of Changes in Equity
(Expressed in Canadian Dollars)

	<u>Share capital</u>				
	Number of shares	Share capital	Contributed surplus	Deficit	Total
Balance, August 31, 2016	141,409,537	\$ 43,278,823	\$ 4,524,148	\$ (39,512,277)	\$ 8,290,694
Shares issued for settlement of debt	3,271,428	190,238	-	-	190,238
Shares issued for exploration and evaluation assets	1,500,000	90,000	-	-	90,000
Net income and comprehensive income for the year	-	-	-	(163,506)	(163,506)
Balance, August 31, 2017	146,180,965	\$ 43,559,061	\$ 4,524,148	\$ (39,675,783)	\$ 8,407,426
Shares issued for cash	27,692,307	1,584,615	-	-	1,584,615
Share issue costs	-	(63,639)	13,639	-	(50,000)
Shares issued for exploration and evaluation assets	100,000	7,000	-	-	7,000
Warrants exercised	1,200,000	60,000	-	-	60,000
Fair value of warrants exercised	-	24,000	(24,000)	-	-
Net comprehensive income for the year	-	-	-	408,647	408,647
Balance, August 31, 2018	175,173,272	\$ 45,171,037	\$ 4,513,787	\$ (39,267,136)	\$ 10,417,688

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

Melkior Resources Inc.

Notes to Financial Statements

Years Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. Nature of operations

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 mineral properties in Canada. The address of the registered office is 1680 – 200 Burrard Street, Vancouver, BC, Canada, V6C 3L6, and its principal place of business 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”.

On January 24, 2018, at the Annual General and Special Meeting, the shareholders voted to approve the continuation of the Company into British Columbia under the *Business Corporations Act (British Columbia)* from federal jurisdiction. The continuation took effect on February 20, 2018.

2. Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has earned a net income during the year ended August 31, 2018 of \$408,647 (2017 - loss of \$163,506) and has a deficit at August 31, 2018 of \$39,267,136 (2017 - \$39,675,783), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage and, accordingly, has not yet commenced revenue-producing operations. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company’s ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management’s plan will be successful.

If the going concern assumption were not appropriate for these financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

3. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on December 4, 2018.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale, and fair value through profit or loss (“FVTPL”). These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

Melkior Resources Inc.

Notes to Financial Statements

Years Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Basis of presentation (continued)

(c) Functional and presentation currency

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

4. Significant accounting policies

The significant accounting policies have been applied consistently throughout by the Company for purposes of these financial statements.

(a) Exploration and evaluation assets

Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the year in which they are incurred. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

Mineral property acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of mineral property acquisition costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments related to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the amounts upon payment.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

Impairment

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment at least annually and when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Melkior Resources Inc.
Notes to Financial Statements
Years Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(a) Exploration and evaluation assets (continued)

Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

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

(c) Tax 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 in the period when there is reasonable assurance with regard to collections and assessments and that the Company will comply with conditions associated with them.

Melkior Resources Inc.
Notes to Financial Statements
Years Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(d) Financial instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- i) those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and
- ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- i) amortized cost;
- ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

The Company's financial asset consists of cash and other receivables, which are classified and subsequently measured at amortized cost, and marketable securities, which is classified and measured at FVTPL, with realized and unrealized gains or losses related to changes in fair value reported in net loss.

The Company's financial liabilities consist of accounts payable and accrued liabilities, which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

Melkior Resources Inc.
Notes to Financial Statements
Years Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(d) Financial instruments (continued)

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

(e) Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting 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.

(f) 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, tax 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 the 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 are 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 use 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.

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 directly in equity, in which case the related deferred tax is also recognized in equity.

Melkior Resources Inc.
Notes to Financial Statements
Years Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(g) 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 exploration and evaluation assets or some other form of non-monetary assets, when the fair value of the non-monetary assets cannot be determined, the shares are measured at their fair value according to the quoted price on the day of the conclusion of the agreement to issue shares.

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

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as an other liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the other liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financing expense until qualifying expenditures are incurred.

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. Deficit includes all current and prior period retained profits or losses.

(h) Share-based payments

The Company operates an equity-settled share-based remuneration plan (stock option plan) for its eligible directors, officers, employees and consultants. The Company's plan is not cash-settled.

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

Melkior Resources Inc.
Notes to Financial Statements
Years Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(h) Share-based payments (continued)

Equity-settled share-based payments (except finders' warrants to brokers) are ultimately recognized as an expense in 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. Finders' warrants to brokers in respect of an equity financing are recognized as issuance cost of the equity instruments in deficit, with a corresponding credit to contributed surplus in equity. When share options and warrants are exercised, the related compensation cost is transferred to share capital. The compensation cost related to options and warrants expired unexercised remain in contributed surplus.

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 periods if share options ultimately exercised are different from that estimated on vesting.

(i) Changes in accounting policy

IFRS 9 - Financial Instruments ("IFRS 9")

Effective September 1, 2017, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no material impact to the Company's financial statements.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL).

The new hedge accounting guidance had no impact on the Company's financial statements.

Below is a summary showing the classification and measurement bases of the Company's financial instruments as at September 1, 2017 as a result of adopting IFRS 9, along with comparison to IAS 39.

Classification	IAS 39	IFRS 9
Cash	Loans receivable	Amortized cost
Other receivables	Loans receivable	Amortized cost
Marketable securities	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost

Melkior Resources Inc.

Notes to Financial Statements

Years Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(j) New accounting standards issued but not yet effective

The Company is currently evaluating the impact that these new accounting standards is expected to have on its financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

5. Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) *Impairment of exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made 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 the profit or loss in the year the new information becomes available.

(b) *Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Melkior Resources Inc.
Notes to Financial Statements
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5. Critical accounting estimates and judgments (continued)

Critical judgments in applying accounting policies (continued)

(c) *Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

(d) *Going concern*

The assessment of the Company's ability to continue as a going concern requires significant judgment. The financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in Note 2.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

Decommissioning liabilities

Rehabilitation provisions are created based on the Company's internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at August 31, 2018, the Company has no known rehabilitation requirements and accordingly, no provision has been made.

Fair value of investments in unquoted equity investment

The Company has \$300,000 investment in IR Battery Resources and Processing Inc., a private entity's shares. Management estimates cost approximates fair value as there is insufficient more recent information available to measure fair value. There are no indicators that cost might not be representative of fair value.

Melkior Resources Inc.
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6. Sales tax receivable and other receivables

	As at August 31, 2018	As at August 31, 2017
Sales tax receivable	\$ 49,465	\$ 50,279
Other receivables	-	19,393
	\$ 49,465	\$ 69,672

As at August 31, 2018, other receivables included a Junior Exploration Assistance Grant from the Ontario Prospectors Association of \$nil (August 31, 2017 - \$19,393).

7. Marketable securities

All of the marketable 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 August 31, 2018, the following securities were included in marketable securities:

	Number of shares	Acquisition cost	Fair value adjustment	Fair value
Northcore Resources Inc.	50,000	\$ 60,000	\$ (60,000)	\$ -
CBLT Inc.	1,100,000	110,000	(77,000)	33,000
Lineage Grow Company	62,500	52,500	(40,937)	11,563
Beaufield Resources Inc.	2,500,000	500,000	(275,000)	225,000
Zara Resources Inc.	212,600	74,825	(74,825)	-
Tempus Capital Inc.	90,000	-	-	-
IR Battery Resource and Processing Inc.	600,000	300,000	-	300,000
		\$ 1,097,325	\$ (527,762)	\$ 569,563

During the year ended August 31, 2018:

- The Company sold 125 shares of Kontrol Energy Corp. for proceeds of \$172 and a loss of \$3,668;
- The Company sold 700,000 shares of CBLT Inc. for proceeds of \$49,950 and a loss of \$20,050;
- The Company received 600,000 shares of IR Battery Resources and Processing Inc. ("IR Battery") valued at \$300,000 on the sale of the Kenty Lake property (note 8(e)); and
- The Company recognized unrealized loss of \$318,667 from the change in fair value of the marketable securities.

Melkior Resources Inc.

Notes to Financial Statements

Years Ended August 31, 2018 and 2017

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7. Marketable securities (continued)

As at August 31, 2017, the following securities were included in marketable securities:

	Number of shares	Acquisition cost	Fair value adjustment	Fair value
Kontrol Energy Corp.	125	\$ 3,840	\$ (3,770)	\$ 70
Northcore Resources Inc.	50,000	60,000	(60,000)	-
CBLT Inc.	1,800,000	180,000	(18,000)	162,000
Lineage Grow Company	62,500	52,500	(52,500)	-
Beaufield Resources Inc.	2,500,000	500,000	-	500,000
Zara Resources Inc.	212,600	74,825	(74,825)	-
Tempus Capital Inc.	90,000	-	-	-
		\$ 871,165	\$ (209,095)	\$ 662,070

During the year ended August 31, 2017:

- The Company sold 40,500 shares of Kontrol Energy Corp. for proceeds of \$24,146 and a gain of \$11,996;
- Green Swan Capital Corp. changed the company name to CBLT Inc.
- Lakeside Minerals Inc. consolidated its share on a 1 new share for 3 old shares basis and changed the company name to Lineage Grow Company;
- The Company sold 3,000,000 shares of Beaufield Resources Inc. ("Beaufield") for proceeds of \$369,751 and a gain of \$9,751;
- The Company received 2,500,000 shares of Beaufield valued at \$500,000 on the sale of the Launay project (note 8(b));
- The Company received 45,500 common shares of Zara Resources Inc. ("Zara") as payment for the accrued dividends on the Zara preferred shares. These shares were initially recorded at \$1,895, which is equal to the accrued dividends receivable as August 31, 2016;
- The Company received 90,000 common shares of Zara on the conversion of 45,500 post-consolidation preferred shares;
- The Company sold 22,500 shares of Leo Resources Inc. for proceeds of \$2,601 and a gain of \$2,489; and
- The Company recognized unrealized loss of \$2,802 from the change in fair value of the marketable securities.

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8. Exploration and evaluation assets

	Quebec				Ontario			Total
	Launay	Valliant	Tiblemont	Urban	Carscallen	Hemlo	Bristol	
Property acquisition costs								
Balance, August 31, 2016	\$ 2,091	\$ 3,300	\$ 12,003	\$ -	\$ 158,383	\$ -	\$ -	\$ 175,777
Acquisitions	-	-	-	21,471	36,820	143,157	-	201,448
Claim maintenance	-	-	-	-	85	65	3,200	3,350
Recoveries/Sale of property	(2,091)	-	-	-	-	-	-	(2,091)
Impairment	-	(3,300)	(12,003)	-	-	-	-	(15,303)
Balance, August 31, 2017	-	-	-	21,471	195,288	143,222	3,200	363,181
Acquisitions	-	-	-	19,608	19,500	-	-	39,108
Claim maintenance	-	-	-	2,245	26	-	54	2,325
Balance, August 31, 2018	\$ -	\$ -	\$ -	\$ 43,324	\$ 214,814	\$ 143,222	\$ 3,254	\$ 404,614
Property exploration costs								
Balance, August 31, 2016	\$ 514,547	\$ -	4,743	\$ -	\$ 6,806,049	\$ -	\$ -	\$ 7,325,339
Drilling	-	-	-	-	235,062	-	-	235,062
Geochemistry	-	-	-	16,344	12,364	-	5,921	34,629
Geology and prospecting	796	-	-	953	98,118	4,306	885	105,058
Geophysics	-	-	-	-	28,315	-	-	28,315
Recoveries/sale of property	(515,343)	-	-	-	-	-	-	(515,343)
Impairment	-	-	(4,743)	-	-	-	-	(4,743)
Balance, August 31, 2017	-	-	-	17,297	7,179,908	4,306	6,806	7,208,317
Assays	-	-	-	52,382	68,743	42,393	-	163,518
Camp	-	-	-	102,180	-	-	-	102,180
Consulting	-	-	-	22,000	5,000	-	-	27,000
Drilling	-	-	-	-	93,855	-	-	93,855
Geochemistry	-	-	-	62,074	-	30,052	-	92,126
Geology and prospecting	-	-	-	24,706	26,542	45	-	51,293
Geophysics	-	-	-	271,026	5,500	1,595	-	278,121
Balance, August 31, 2018	\$ -	\$ -	\$ -	\$ 551,665	\$ 7,379,548	\$ 78,391	\$ 6,806	\$ 8,016,410
Total exploration and evaluation assets								
August 31, 2017	\$ -	\$ -	\$ -	\$ 38,768	\$ 7,375,196	\$ 147,528	\$ 10,006	\$ 7,571,498
August 31, 2018	\$ -	\$ -	\$ -	\$ 594,989	\$ 7,594,362	\$ 221,613	\$ 10,060	\$ 8,421,024

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8. Exploration and evaluation assets (continued)

Quebec

(a) Urban

During the year ended August 31, 2017, the Company acquired claims in the Urban area of Quebec through map staking. The Company has a 100% ownership in the claims and there is no net smelter return royalty ("NSR").

During the year ended August 31, 2018, the Company acquired additional claims through staking.

(b) Launay

On March 21, 2016, the Company sold an undivided 50% interest in Launay to Beaufield for \$150,000 and 3,000,000 common shares of Beaufield, valued at \$240,000. This agreement terminated a previous agreement signed in November 2013. The proceeds of the sale were accounted for as a reduction in exploration and evaluation assets of \$390,000.

On July 14, 2017, the Company sold the remaining 50% interest in Launay to Beaufield for \$125,000 and 2,500,000 common shares of Beaufield valued at \$500,000. The proceeds of the sale were accounted for as a reduction in exploration and evaluation assets of \$517,434 and a gain on sale of exploration and evaluation assets of \$107,566.

The Company retains a 1.5% NSR on the property, of which one-half may be purchased by Beaufield for \$750,000.

(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 Company has a 100% ownership in the claims and there is no NSR. The Company has no exploration plans for this property at this time, and accordingly, capitalized costs of \$3,300 were written off during the year ended August 31, 2017.

(d) Tiblemont

The Company owns a 100% interest in three mineral claims in Tiblemont Township, Quebec. The Company owns a 100% interest in adjacent claims. On May 12, 2014, three claims were acquired for 200,000 common shares (valued at \$8,000) and a 2% NSR with an optional buy back of 1% for \$1,000,000. The Company has no exploration plans for this property at this time, and accordingly, capitalized costs of \$16,746 were written off during the year ended August 31, 2017.

(e) Kenty Lake

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec. The deferred expenditures of \$1,200 were written off during the year ended August 31, 2016.

During the year ended August 31, 2018, the Company sold its interest in Kenty Lake to IR Battery for \$600,000 and 300,000 common shares of IR Battery valued at \$150,000. The proceeds of the sale were accounted for as a gain on sale of exploration and evaluation assets of \$750,000.

Pursuant to the terms of the sales agreement, IR Battery will participate and subscribe for up to \$100,000 of securities as part of the next flow-through financing conducted by Melkior, provided that such financing (i) occurs within 12 months of the closing date, and (ii) is for total gross proceeds of not less than \$500,000.

Melkior Resources Inc.

Notes to Financial Statements

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8. Exploration and evaluation assets (continued)

Ontario

(f) 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 may buy back one-half 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.

In October 2013, the Company signed a memorandum of understanding ("MOU") with the Mattagami First Nations. As part of the MOU, the Company issued 200,000 common shares (valued at \$8,000) 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 (valued at \$8,400) for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm's length party.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking. One of the claims is subject to a 2% NSR.

During the year ended August 31, 2018, the Company entered into three agreements for the purchase of six additional claims for the Carscallen property. The Company paid \$12,500 and issued 100,000 common shares (valued at \$7,000) as consideration. Two of the claims are subject to a 2% NSR.

During the year ended August 31, 2017, the Company paid \$5,000 for a 100% interest in a claim located in the Carscallen Township. This claim is part of the Big Marsh property, where the Company has existing claims. The previous claims were deemed impaired during the year ended August 31, 2016.

(g) Hemlo

On May 12, 2017, the Company entered into an agreement to acquire a 100% interest in the Hemlo property. The Company paid \$5,000 and issued 1,500,000 common shares (valued at \$90,000) as consideration. The vendor holds a 3% NSR, of which one-third may be purchased by the Company for \$1,000,000.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking.

(h) Bristol

The Company holds a 100% interest in claims forming the Bristol property acquired through staking during the year ended August 31, 2017.

Melkior Resources Inc.
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9. Share capital

(a) Authorized share capital

- (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.

(b) Issued

During the year ended August 31, 2018

On December 22, 2017, the Company completed a private placement of 7,692,307 flow-through shares at a price of \$0.065 per flow-through share for gross proceeds of \$500,000. The premium paid by investors was calculated as \$0.015 per share. Accordingly, \$115,385 was recorded as other liabilities.

In connection with this private placement, the Company paid finders' fee of \$40,000 and transaction fees of \$3,250 in cash and issued 461,538 finders' warrants that entitle the holder to purchase 461,538 common shares at a price of \$0.065 per share for a period of 24 months following the closing. The finders' warrants were valued at \$13,639 using the Black-Scholes valuation model for total share issue expenses of \$56,889. The Company used the following assumptions to calculate the Black-Scholes fair value: expected life of 2 years; expected annualized volatility of 128%; dividend yield of nil; risk-free interest rate of 1.68%; and stock price at date of grant of \$0.05.

On October 24, 2017, the Company issued 100,000 common shares (valued at \$7,000) for the acquisition of mining claims forming part of the Carscallen property (note 8(f)).

During the year ended August 31, 2018, the Company issued 1,200,000 common shares for gross proceeds of \$60,000 on the exercise of 1,200,000 warrants. The Company transferred \$24,000 from contributed surplus to share capital upon exercise of the warrants.

On June 8, 2018, the Company completed a non-brokered private placement of 20,000,000 units at a price of \$0.06 per unit for gross proceeds of \$1,200,000. Each unit comprised one common share of the Company and one common share purchase warrant. Each warrant entitles its holder to purchase one common share of the Company at a price of \$0.085 for a period of 36 months following the closing. The Company incurred issue costs of \$6,750.

During the year ended August 31, 2017

On May 24, 2017, the Company issued 1,333,333 common shares (valued at \$93,333) in settlement of accounts payable and accrued liabilities of \$70,000, resulting in a loss on settlement of debt of \$23,333.

On June 1, 2017, the Company issued 1,500,000 common shares (valued at \$90,000) for the acquisition of the Hemlo property (note 8(g)).

On August 23, 2017, the Company issued 1,938,095 common shares (valued at \$96,905) in settlement of accounts payable and accrued liabilities of \$96,905.

Melkior Resources Inc.
Notes to Financial Statements
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9. Share capital (continued)

(c) Stock options

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.

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9. Share capital (continued)

(c) Stock options (continued)

A summary of changes of the Company's common share purchase options is presented below for the years ended August 31, 2018 and 2017:

	Number of stock options	Weighted average exercise price
Balance, August 31, 2016	7,400,000	\$ 0.10
Expired	(2,000,000)	0.10
Balance, August 31, 2017	5,400,000	0.10
Expired/cancelled	(3,200,000)	0.10
Balance, August 31, 2018	2,200,000	\$ 0.10

The following table reflects the actual stock options issued and outstanding as of August 31, 2018:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
December 18, 2018	0.10	0.30	600,000	600,000
May 31, 2021	0.10	2.75	1,600,000	1,600,000
	0.10	2.08	2,200,000	2,200,000

(d) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, August 31, 2016 and August 31, 2017	20,610,000	\$ 0.07
Issued	20,000,000	0.09
Expired	(11,600,000)	0.08
Exercised	(1,200,000)	0.05
Balance, August 31, 2018	27,810,000	\$ 0.08

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9. Share capital (continued)

(e) Finders' warrants

	Number of warrants	Weighted average exercise price
Balance, August 31, 2016	1,395,750	\$ 0.07
Expired	(555,750)	0.05
Balance, August 31, 2017	840,000	0.09
Issued	461,538	0.07
Expired	(840,000)	0.09
Balance, August 31, 2018	461,538	\$ 0.07

10. Related party transactions

The Company's related parties include companies controlled by officers and close family members of former 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.

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 current and former chief financial officers and the corporate secretary. Key management compensation is as follows:

	Year Ended August 31, 2018	Year Ended August 31, 2017
Consulting and management fees	\$ 55,000	\$ 46,000
Professional fees	4,917	-
Regulatory fees	1,775	-
Total key management compensation	\$ 61,692	\$ 46,000

During the year ended August 31, 2018, the Company paid professional fees and regulatory fees of \$6,692 (2017 - \$nil) to Marrelli Support Services Inc. ("MSSI"), DSA Corporate Services Inc. ("DSA Corp") and DSA Filing Services Limited ("DSA Filing"), together known as the "Marrelli Group", for:

- Eric Myung, an employee of Marrelli Group, to act as the CFO of the Company;
- Bookkeeping services;
- Regulatory filing services;
- Corporate secretarial services.

Consulting and management fees were paid or accrued as follows:

- A company controlled by former CFO amounting to \$27,500 (2017 - \$7,500);
- A company controlled by former Corporate Secretary amounting to \$27,500 (2017 - \$12,500); and
- Former CEO and CFO amounting to \$nil (2017 - \$26,000).

As at August 31, 2018, the balance due to related parties amounted to \$2,005 (August 31, 2017 - \$5,250) and was recorded in accounts payable and accrued liabilities, and prepaid expenses include \$60,000 to a director of the Company.

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11. Supplemental disclosure with respect to cash flows

	Year Ended August 31, 2018	Year Ended August 31, 2017
Common shares issued for exploration and evaluation assets	\$ 7,000	\$ 90,000
Marketable securities received on disposition of exploration and evaluation assets	150,000	500,000
Fair value of warrants exercised	24,000	-
Common shares issued for settlement of debt	-	190,238
Recovery of exploration and evaluation asset expenditures included in other receivables	-	19,393

12. Financial instruments

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The carrying values of cash, other receivables, marketable securities and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by levels within the fair value hierarchy:

August 31, 2018	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 269,563	\$ -	\$ 300,000	\$ 569,563
August 31, 2017	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 662,070	\$ -	\$ -	\$ 662,070

Investment in IR Battery, a private entity, shares cost approximates the fair value as there is insufficient more recent information available to measure fair value.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

(a) 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. The Company manages credit risk, in respect of cash, by placing at major Canadian financial institutions. The Company's maximum exposure to credit risk at August 31, 2018 was \$1,241,166 (2017 - \$175,870).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2018 equal \$21,397 (2017 - \$67,668). All of the liabilities presented as accounts payable are due within 30 days of August 31, 2018. The cash available is sufficient to meet the Company's financial obligations at year end.

Melkior Resources Inc.

Notes to Financial Statements

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12. Financial instruments (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

- (i) Currency risk - The Company has no funds held in a foreign currency and as a result is not exposed to significant currency risk on its financial instruments at year-end.
- (ii) Interest rate risk - Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates and, therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.
- (iii) Other price risk - Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to other price risk with respect to its marketable securities.

(d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the years ended August 31, 2018 and 2017. The Company is not subject to externally imposed capital requirements.

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13. Income tax

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

	Year Ended August 31, 2018	Year Ended August 31, 2017
Income (loss) before income taxes	\$ 408,647	\$ (163,506)
Expected tax payable (recovery) at 26.7%	108,973	(43,869)
Adjustments for the following items:		
Items not deductible for tax purposes	14,882	3,385
Effect of tax rate change and other adjustments	(63,711)	160,564
Expiry of non-refundable mining investment tax credit	129,902	116,365
Change in unrecognized deferred income tax benefits	(190,046)	(236,445)
Deferred income tax recovery	-	-

Available temporary differences for which no deferred tax assets were recorded are as follows:

	August 31, 2018	August 31, 2017
Exploration and evaluation assets	\$ 1,308,000	\$ 1,608,000
Property and equipment	6,000	5,000
Marketable securities	75,000	32,000
Share issue costs	18,000	12,000
Non-capital losses	1,238,000	1,174,000
Deductible capital losses	162,000	155,000
Non-refundable investment tax credit	437,000	559,000
Unrecognized deductible temporary differences	3,244,000	3,545,000

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

2026	97,000
2027	263,000
2028	292,000
2029	470,000
2030	820,000
2031	676,000
2032	610,000
2033	423,000
2034	302,000
2035	210,000
2037	267,000
2038	154,000
	\$ 4,584,000

Melkior Resources Inc.**Notes to Financial Statements****Years Ended August 31, 2018 and 2017****(Expressed in Canadian Dollars)**

13. Income tax (continued)

As at August 31, 2018, accumulated capital losses of approximately \$1,197,000 (2017 - \$1,173,000) are available to be applied against future taxable capital gains. These losses may be carried forward indefinitely.

The Company has unrecorded investment tax credits of \$437,000 (2017 - \$555,000), which are available up to 2024 to reduce the federal income taxes payable.

14. Subsequent event

On October 21, 2018, 7,810,000 warrants expired unexercised.

On October 25, 2018, the 2,500,000 shares of Beaufield Resources Inc. ("Beaufield") held by the Company were exchanged for 120,500 shares of Osisko Mining Inc. ("Osisko") (TSX: OSK) as a result of Osisko's acquisition of Beaufield.