

**Melkior Resources Inc.**  
(an exploration company)

**Annual Report**

2009

# Melkior Resources Inc.

(an exploration company)

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For the year ended August 31, 2009

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# Melkior Resources Inc.

(an exploration company)

## Management's Discussion and Analysis

For the year ended August 31, 2009

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Management has prepared the following discussion and analysis (MD&A) which constitutes management's review of financial and operating factors affecting Melkior Resources Inc. ("Melkior" or the "Company") for the year ended August 31, 2009.

This MD&A should be read in conjunction with the Company's financial statements and related notes as at August 31, 2009. All figures are in Canadian dollars unless otherwise noted. The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from [www.sedar.com](http://www.sedar.com).

### Nature of activities

Melkior is an exploration stage company engaged in the acquisition and exploration of mining properties located in Québec and Ontario.

### Overall performance

Melkior has a \$3,497,210 working capital as of August 31, 2009 (\$4,448,898 as of August 31, 2008) which will allow the Company to undertake its exploration program for at least the next two years.

In Fiscal 2009, Melkior raised \$999,375 (\$2,200,000 in 2008) by private placements and \$152,525 in 2008 via the exercise of warrants and options.

Exploration for Fiscal 2009 totalled \$1,532,602 versus \$2,328,604 in Fiscal 2008. The main exploration expenditures in Fiscal 2009 were on Timmins West, Troilus and Rim Nickel. Mining properties at a total cost of \$106,480 were acquired in Fiscal 2009 versus \$998,832 in Fiscal 2008 (mainly McFaulds Rim Nickel).

### Selected annual information

	Fiscal year ended August 31		
	2009	2008	2007
	\$	\$	\$
Income	113,966	1,267,908	180,732
Net loss	(6,309,850)	(267,034)	(155,036)
Net Loss per share, basic and diluted	(0.07)	-	-

	As at August 31		
	2009	2008	2007
	\$	\$	\$
Total assets	9,107,526	14,671,491	11,464,686

### Results of operations

Total expenses are \$6,423,816 in Fiscal 2009 versus \$1,857,942 in Fiscal 2008, due to the following:

- Write-offs for \$5,346,461 in Fiscal 2009 (nil in Fiscal 2008) of mining assets relating to Ungava, Monts Otish and Launay (see investing activities).
- A \$129,000 stock-based compensation expense was recorded in Fiscal 2009 following the grant of 700,000 options while in Fiscal 2008 the stock-based compensation expenses was \$672,000 following the grant of 2 800,000 options.
- A \$533,000 fair value loss was recorded in Fiscal 2009 (\$697,000 in Fiscal 2008) on the 4,100,000 shares received from Otish Energy Inc. following the sale of the properties in the Mont Otish.
- Professional and consulting fees decreased in Fiscal 2009 due to less activities operated by the Company and legal fees relating to the Otish sale and Rim Nickel purchase that occurred in Fiscal 2008.

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### Management's Discussion and Analysis

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	<u>2009</u>	<u>2008</u>
	<u>\$</u>	<u>\$</u>
Legal	10,037	74,731
Accounting	90,438	72,333
Audit	32,000	32,875
Consulting	16,135	-
Management	45,160	47,700
<b>Professional and consulting fees</b>	<b><u>193,770</u></b>	<b><u>227,639</u></b>

- General and administrative increased to \$154,316 in Fiscal 2009 (\$123,700 in Fiscal 2008) due to:
  - Increased directors' fees due to more board meetings.
  - Increased share of the Ottawa office expenses.
- Melkior now reimburses its share of medical insurance for consultants hired by the Company.
- During Fiscal 2009, Melkior reduced investors relation activities and incurred a cost of \$71,940 in investors and shareholders relations compared to \$126,610 in Fiscal 2008. Melkior signed an agreement in October 2009 with the investor relations firm Agoracom whereby Melkior will disburse a monthly fee of \$3,000 and has granted 225,000 stock options exercisable at \$0.30 \$ until November 1, 2011.

Interest income was \$61,685 in Fiscal 2009 versus \$181,471 in Fiscal 2008 due to less cash and cash equivalents, term deposits and exploration funds on deposit and also lower interest rates available.

The management fees income decreased to \$2,710 in Fiscal 2009 (\$24,231 in Fiscal 2008) since these fees were mainly earned as the operator of Rim Nickel West property which was less active in Fiscal 2009.

Melkior recorded a \$323,000 recovery of future income taxes in Fiscal 2009 (nil in Fiscal 2009) representing the tax impact of the flow-through shares issued.

Finally, during Fiscal 2008, Melkior sold to Otish Energy Inc. its 50% interest in certain Monts Otish projects and realized a gain of \$1,062,206. In Fiscal 2009, Melkior sold a 50% interest to Big Red Diamond Corporation and realized a gain of \$49,571.

#### Investing activities

The main mining assets of the Company are Carscallen Timmins West, Rim Nickel – McFaulds and Ungava. The total exploration budget for Fiscal 2010 is \$1,685,000.

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## Management's Discussion and Analysis

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### Investing activities (Cont'd)

Deferred exploration expenses 2009	Ungava	Launay	Otish	Troilus	Timmins	Eldora- do	Rim Nickel McFaulds	Others	Total
	\$	\$	\$		\$		\$	\$	\$
Balance beginning	1,134,915	4,235,839	147,618	-	1,412,737	85,176	394,111	85,710	7,496,106
<b>Additions</b>									
Drilling	-	5,085	-	291,909	327,522	-	-	-	624,516
Geology – prospecting	14,910	48,018	15,291	43,524	59,984	4,395	29,266	33,357	248,745
Geophysics geochemistry	1,800	700	21,578	53,186	94,714	81,289	220,942	39,629	513,838
Line cutting	-	-	-	11,422	74,075	-	-	-	85,497
Management fees	-	-	-	60,006	-	-	-	-	60,006
	16,710	53,803	36,869	460,047	556,295	85,684	250,208	72,986	1,532,602
Options	1,500	5,110	-	1,500	7,528	7,029	5,500	-	28,167
Recharge	-	-	-	-	-	-	(26,904)	-	(26,904)
	18,210	58,913	36,869	461,547	563,823	92,713	228,804	72,986	1,533,865
<b>Deductions</b>									
Tax credits	(7,092)	(17,132)	-	(67,206)	-	-	-	-	(91,430)
Disposal	-	-	-	-	(10,049)	-	-	-	(10,049)
Write-off	(1,146,033)	(3,872,631)	(106,419)	-	-	-	-	-	(5,125,083)
Balance, end	-	404,989	78,068	394,341	1,966,511	177,889	622,915	158,696	3,803,409

Deferred exploration expenses 2008	Ungava	Launay	Otish	Timmins	Eldora- do	Rim Nickel McFaulds	Others	Total
	\$	\$	\$	\$		\$	\$	\$
Balance beginning	1,134,915	3,933,257	522,268	360,083	1,189	-	10,554	5,962,266
<b>Additions</b>								
Drilling	-	259,378	-	835,048	-	-	-	1,094,426
Geology – prospecting	-	13,375	(3,432)	73,536	2,910	5,070	895	92,354
Geophysics geochemistry	-	5,311	306,280	28,661	14,749	589,767	71,016	1,015,784
Analysis	-	-	8,504	26,521	-	-	-	35,025
Line cutting	-	-	-	14,754	30,463	-	-	45,217
Logistics	-	30	1,370	5,457	-	-	-	6,857
Travelling	-	446	987	33,537	726	-	3,245	38,941
	-	278,540	313,709	1,017,514	48,848	594,837	75,156	2,328,604
Options	-	25,554	-	35,140	35,139	-	-	95,833
Amortization	-	-	2,748	-	-	-	-	2,748
Recharge	-	-	(97,769)	-	-	(200,726)	-	(298,495)
	-	304,094	218,688	1,052,654	83,987	394,111	75,156	2,128,690
<b>Deductions</b>								
Tax credits	-	(1,512)	(21,953)	-	-	-	-	(23,465)
Disposal	-	-	(571,385)	-	-	-	-	(571,385)
Balance, end	1,134,915	4,235,839	147,618	1,412,737	85,176	394,111	85,710	7,496,106

## **Melkior Resources Inc.**

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### **Management's Discussion and Analysis**

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#### **Investing activities (Cont'd)**

Jens E. Hansen, P. Eng. and President and Director of Melkior, qualified person under NI 43-101, has reviewed the following technical disclosure.

#### **Rim Nickel - McFaulds**

(East Rim 100% - Nickel, West Rim 50%)

##### *East Rim*

Melkior owns the 23,872 hectare East Rim Property in the "Ring of Fire" discovery area of North Central Ontario, which covers a large, significant regional gravity feature. The property is possibly underlain by large volumes of dense mafic or ultramafic rocks of the type that can host significant nickel copper massive sulphide occurrences as demonstrated by the work of Noront Resources Ltd. ("Noront"). East Rim is located approximately 25 kilometres from the chromite discoveries by Noront and Freewest Resources Canada Inc., and 30 kilometres from the nickel discovery by Noront. The property is 238 square kilometers in size.

To identify massive sulphides on the property, Melkior undertook a 1738 line kilometre MEGATEM airborne survey. The survey and its interpretation were carried out by Fugro Airborne Surveys. Ten conductors were identified as first priority massive sulphide bedrock prospects and 8 as second priority. In addition one first priority target occurs on ground owned 50-50 by Melkior and MacDonald Mines Exploration Ltd.

An exposure of highly altered dioritic to gabbroic intrusive rocks measuring approximately 300 by 600 metres was identified by Melkior's consulting geologist in the south eastern portion of the East Rim claims. This confirms Melkior's interpretation that highly prospective mafic rocks are present.

Melkior has completed MEGATEM and VTEM airborne surveys. A series of potential massive sulphide targets have been located. These are essentially drill ready. At present however, Melkior plans to concentrate its drilling on the Carscallen Gold Project in the Timmins area.

##### *West Rim*

Melkior holds the West Rim property 50%-50% with Bold Venture Inc. The property covers 935 claims or 14960 hectares. It is located approximately 20 kilometres north of the important Eagle Nest nickel discoveries and 20 kilometres southeast of the Metalex Venture Ltd -WSR massive sulphide discovery. The West Rim property covers the majority of an important gravity anomaly located at the approximate centre of the "Ring of Fire". The ROF wraps around the Melkior-Bold gravity feature.

The exploration budget for Fiscal 2010 is in the planning stages and not yet defined.

#### **Timmins West (Carscallen Gold)**

(100% owned – gold)

The Melkior property is located 5km west of the Lake Shore Gold Corp. developing West Timmins gold mine. In the summer 2009, Melkior staked 18 additional unit claims over 288 hectares. This enlarges the Carscallen property to 102 claim units and 1603 hectares. On November 4, 2009, the business combination of Lake Shore Gold Corp. and West Timmins Mining Inc. was approved by the shareholders of those companies.

The exploration results to date have identified structures containing gold over a length of approximately 1 kilometre. The length of the gold zone is considered very significant. Surface work and drilling have confirmed the continuity of the veins. Drilling has intersected significant gold including 60.27 g/t over 1.8 metres and 19.8 g/t over 3.3 metres (Melkior's news release on Jan 14, 2009). The next exploration phase will focus on exploring at depth and on strike.

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#### **Investing activities (Cont'd)**

On July 7, 2009, the Company started a drilling program which consisted of 2152 metres. The objective of the drill program is to test a new 700 metre long East-West Induced Polarization (IP) anomaly immediately north of the previously drilled Zam-Zam and 3 other zones where gold values in drilling that include 60.27 g/t over 1.8 metres and 19.8 g/t over 3.3 metres were obtained and surface sampling in narrow quartz-pyrite veins graded up to 843.7 g/t gold. It will be drilled to depths of 100 to 200 metres. To date the majority of the holes drilled have intersected gold are consistently associated with pyrite that is detectable by IP. Previous drilling has concentrated on north-south structures which have intersected gold bearing structures in four zones over a total strike length of 950 metres. These zones remain open along strike to the north and the south and to depth.

On September 21, 2009, Melkior published an update on the exploration programs. Results received from the 2152 metre July 2009 drill program continue to extend the mineralization both north and south. One deeper hole drilled CAR-18-2009 intersected two gold systems at a depth of almost 200 metres. Following are the highlights:

- Hole No. CAR-16-2009 intersected 56.0g/t over 0.9 metres and extends mineralization 180 metres south of previous drilling. Three distinct mineralized intersections were encountered at depths of less than 100 metres.
- Hole No. CAR-18-2009 intersected 25.3g/t over 0.6 metres and 15.65g/t over 0.6 metres. These are the first intersections encountered in the volcanics under the granite indicating that the volcanics can be mineralized.
- Hole No. CAR-19-2009 intersected 48g/t over 0.7 metres at a depth of 92 metres.
- Hole No. CAR-20-2009 intersected 3.16g/t over 3.70 metres including 10.15g/t over 1.0 metres.
- Hole No. CAR-1-2009 intersected 13.0g/t over 0.7 metres and intersected gold on a newly defined East-West structure.
- Hole No. CAR-17-2009 intersected 9.42g/t over 0.85 metres at a vertical depth of approximately 120 metres. It should be noted that silver values of up to 6.5g/t were associated with the gold intersections.

On November 17, 2009, Melkior announced that a diamond drill program totalling approximately 4000 metres had begun. The current program represents continued drilling on the 1010, ZamZam and Shenkman gold zones already traced for over 1000 metres and systematically drilled to a depth of approximately 100 metres. The new programs are planned to drill these zones to depths of approximately 300 metres. The data acquired will be entered into a 3 dimensional compilation currently underway. This will enable Melkior to interpret new data and advance the program as deeper drilling progresses. An Induced Polarization survey of the southern portion of the Carscallen property is underway. The objective of this work is to map possible southward extensions of the 1010 and ZamZam-Shenkman structures. Some shallow drilling could be allocated to evaluate any newly identified extensions. An orientation geochemical survey was completed in October 2009 and results are pending.

The exploration budget for Fiscal 2010 is \$800,000. This budget could be increased following the results of the drilling program underway.

#### **Timmins Loveland**

(100% owned - or copper nickel)

An airborne magnetic-electromagnetic VTEM survey has been completed on this property located in Loveland Township, approximately 35 kilometres northwest of Timmins. Five targets meriting follow-up for gold and copper-zinc have been identified by the airborne survey. The property adjoins Amador Gold Corp. which has a copper-zinc discovery a short distance from the Melkior boundary. Drilling is warranted on at least two airborne anomalies.

The exploration budget for Fiscal 2010 is \$200,000.

# Melkior Resources Inc.

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## Management's Discussion and Analysis

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### Investing activities (Cont'd)

#### Timmins Eldorado

(100% owned - nickel)

A 530 line kilometre VTEM airborne electromagnetic and magnetic survey has been completed on the Eldorado property which is located 20 kilometres southeast of Timmins. The property adjoins Liberty Mines Inc and is located 10 kilometres northwest of the Golden Chalice Resources Inc Langmuir Nickel discovery.

Several massive sulphide type conductors potentially caused by base metal sulphides have been identified by the airborne survey. These represent high priority targets for follow up by geophysics and drilling. The groundwork is scheduled to be undertaken this winter to be followed by drilling.

The exploration budget for Fiscal 2010 is \$300,000.

#### Shaw Gold

(100% - gold)

A three day reconnaissance program was undertaken on the newly staked Shaw property. The property consists of 78 unpatented claims covering 12.5 km<sup>2</sup>, located in the Timmins district of Ontario, approximately 13 kilometers south-east of the city of Timmins, in an area actively being explored by others.

The objectives of the field work were to determine the best access to the property and to sample known outcrops in the northern part. Three old exploration pits and a number of old trenches were located and sampled. 40 samples were collected. The best assay obtained, was from material hosted in an ankeritized magnetic basalt and graded 2.7 g/t Silver. A second sample returned assays of 1.3% Zinc and 0.6% Lead 236 ppb Au in a pyrite rich basalt.

Outcrop is very limited representing only about one percent of the property.

The exploration budget for Fiscal 2010 is \$50,000.

#### Big Marsh

(100% owned – base metals)

The Big Marsh property is located in Carscallen Township two kilometres north of the Melkior Timmins gold property. A program of line cutting and geophysics is underway. These claims adjoin a property being actively explored for base metals by San Gold Corp.

On December 15, 2008, the Company acquired claims in the Carscallen Township near Timmins, Ontario for \$5,000. These claims adjoin the Big Marsh property and will be referred to as Big Marsh, being contiguous with the original property. A portion of the property was covered by cut lines and a magnetometer survey. One line was surveyed by Induced Polarisation. Two holes were drilled on this property with anomalous but low, gold values being reported. Base metals were not present.

#### Fripp

(100% owned – gold)

The Fripp property is located 25 kilometres south southwest of the City of Timmins. A ground magnetometer survey has recently been completed over the property and has identified one target which will be followed up by prospecting.

The exploration budget for Fiscal 2010 is \$15,000.

## **Melkior Resources Inc.**

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#### **Investing activities (Cont'd)**

##### **Bristol**

(100% owned - gold)

August 26, 2009, Melkior announced the signature of a letter of intent with Big Red Diamond Corporation ("Big Red") whereby Big Red can acquire a 50% interest in Melkior's 100% owned 12 claim units in Bristol Township, West Timmins. Big Red will issue 1,000,000 of its common share to Melkior on regulatory approval and undertake \$400,000 of exploration work over a period of 48 months on the claims to earn the 50% interest. Melkior will be the operator.

The Melkior claims are located between two Big Red claim groups in Bristol Township. Regional airborne geophysics suggests exploration targets that extend from the Melkior claims onto the Big Red properties. The Bristol claims are 5 kilometres north of the Lake Shore Gold West Timmins gold deposit.

The exploration budget will be paid by Big Red, the option holder.

##### **Long Lac -Geraldton**

(100% owned – gold copper)

The Beardmore property is located in northern Ontario, approximately 20 km east of the town of Longlac. It consists of 203 unpatented claims, covering 32.5 km<sup>2</sup>. In early 2008 an airborne AeroTEM survey was flown and in the summer of 2008 a small program of prospecting over selected anomalies was undertaken.

In August 2009, a 10 day mapping and prospecting campaign was carried out over the anomalous sector identified in 2008. 134 rock samples were collected, highlighting two interesting areas. The first area, followed for 20 meters, returned gold values of 3.43 g/t and 2.37 g/t. The gold is hosted in a silicified amphibolite and is associated with high values of arsenic. The second area returned values of 1.47 g/t; 1.15 g/t gold and 4.09 g/t silver in a gold bearing iron formation injected with quartz veins.

All gold deposits, in the Beardmore-Geraldton gold camp, are associated with high contents of arsenopyrite (H.S. Armstrong, 1943). More prospecting and sampling, in association with ground geophysics will permit a better understanding of the economic potential of the discoveries.

The exploration budget for Fiscal 2010 is \$50,000.

##### **Launay**

(100% owned - gold)

Melkior added to its land position in February 2009 (See press release February 26<sup>th</sup>, 2009) and now holds 169 claims or 75.6 square kilometres. The property is located 80 kilometres north west of Val-D'Or, Quebec. Previous work has identified two gold zones with large tonnage low grade potential. Historical assays from drill holes include 6.92g/t gold over 12.8 metres and 9.10g/t gold over 7.0 metres.

The 2009 program was designed to verify gold at the Zone 75, follow the geological trend onto the new claims and sample the trend.

Grab samples taken on Zone 75 yielded 13.75g/t, 5.06g/t and 3.08g/t gold thereby supporting earlier drill results. On the new claims, which are approximately 4 kilometres to the north of Zone 75, several anomalous gold in grab samples including 1.415g/t and 1.28g/t with anomalous silver values of up to 19.15g/t were discovered.

During the year, the Company reviewed the exploration expenses and wrote-off the exploration expenses incurred more than three years ago for \$3,872,631.

Melkior is discussing the possibility of joint venturing the property to others.







































































