



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED  
DECEMBER 31, 2020

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

# Melior Resources Inc.

## Condensed Interim Consolidated Statements of Financial Position (Expressed in Thousands of Canadian Dollars) (Unaudited)

| As at                                            |    | December 31,<br>2020 |    | June 30,<br>2020 |
|--------------------------------------------------|----|----------------------|----|------------------|
| <b>ASSETS</b>                                    |    |                      |    |                  |
| Current                                          |    |                      |    |                  |
| Cash and cash equivalents                        | \$ | 24                   | \$ | 109              |
| Trade and other receivables                      |    | 57                   |    | -                |
| Other current assets (Note 4)                    |    | 36                   |    | 49               |
|                                                  |    | 117                  |    | 158              |
| Investment in AMR (Note 5)                       |    | -                    |    | 70               |
| Investment in GRPL (Note 6)                      |    | 1,147                |    | 1,147            |
| <b>Total assets</b>                              | \$ | <b>1,264</b>         | \$ | <b>1,375</b>     |
| <b>LIABILITIES</b>                               |    |                      |    |                  |
| Current                                          |    |                      |    |                  |
| Trade and other payables                         | \$ | 539                  | \$ | 526              |
| Promissory note (Notes 8)                        |    | 206                  |    | 148              |
| Loans payable (Notes 7)                          |    | 33,658               |    | 33,969           |
| <b>Current liabilities</b>                       |    | <b>34,403</b>        |    | <b>34,643</b>    |
| <b>Total liabilities</b>                         | \$ | <b>34,403</b>        | \$ | <b>34,643</b>    |
| <b>EQUITY</b>                                    |    |                      |    |                  |
| Share capital (Note 9)                           |    | 384,116              |    | 384,116          |
| Contributed surplus                              |    | 161,969              |    | 161,963          |
| Accumulated other comprehensive income           |    | -                    |    | 70               |
| Accumulated losses                               |    | (579,224)            |    | (579,417)        |
| <b>Total equity (deficiency)</b>                 |    | <b>(33,139)</b>      |    | <b>(33,268)</b>  |
| <b>Total equity (deficiency) and liabilities</b> | \$ | <b>1,264</b>         | \$ | <b>1,375</b>     |

### Nature of Operations and Going Concern (Note 1) Subsequent Event (Note 13)

Approved on behalf of the Board:

"Martyn Buttenshaw"  
Director

"Rishi Tibriwal"  
Director

*The accompanying notes are an integral part of these financial statements*

# Melior Resources Inc.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss) (Expressed in Thousands of Canadian Dollars) (Unaudited)

|                                                         | Three Months Ended<br>December 31, |                   | Six Months Ended<br>December 31, |                   |
|---------------------------------------------------------|------------------------------------|-------------------|----------------------------------|-------------------|
|                                                         | 2020                               | 2019              | 2020                             | 2019              |
| Revenue                                                 | \$ -                               | \$ -              | \$ -                             | \$ 3,801          |
| Cost of Sales                                           | -                                  | -                 | -                                | (5,355)           |
| Depreciation                                            | -                                  | -                 | -                                | (47)              |
|                                                         | -                                  | -                 | -                                | (1,601)           |
| Other Income (Expense)                                  |                                    |                   |                                  |                   |
| Accretion convertible loan                              | -                                  | -                 | -                                | (9)               |
| Finance costs                                           | (872)                              | (930)             | (1,894)                          | (1,847)           |
| Foreign exchange (loss) gain                            | 1,429                              | 1                 | 2,206                            | 6                 |
| Gain on deconsolidation (Note 3)                        | -                                  | -                 | -                                | 10,681            |
| General and administrative expenses (Note 10)           | (99)                               | (128)             | (183)                            | (1,879)           |
| Gain on sale of investment in AMR                       | -                                  | -                 | 70                               | -                 |
| Impairment of plant and equipment                       | -                                  | -                 | -                                | (516)             |
| Loss on fair value of derivative                        | -                                  | -                 | -                                | (4,829)           |
| Share based payments (Note 11)                          | (3)                                | -                 | (6)                              | (16)              |
|                                                         | 455                                | (1,057)           | 193                              | 1,591             |
| <b>Net Income (Loss)</b>                                | <b>\$ 455</b>                      | <b>\$ (1,057)</b> | <b>\$ 193</b>                    | <b>\$ (10)</b>    |
| Items that will be reclassified subsequently to income: |                                    |                   |                                  |                   |
| Reversal of unrealised gain on AMR investment           | -                                  | -                 | (70)                             | -                 |
| Foreign currency translation adjustment                 | -                                  | -                 | -                                | 2,054             |
|                                                         | -                                  | -                 | (70)                             | 2,054             |
| <b>Total Comprehensive Income (Loss)</b>                | <b>\$ 455</b>                      | <b>\$ (1,057)</b> | <b>\$ 123</b>                    | <b>\$ 2,044</b>   |
| <b>Gain (Loss) per common share, basic and diluted</b>  | <b>\$ 0.02</b>                     | <b>\$ (0.04)</b>  | <b>\$ 0.01</b>                   | <b>\$ (0.00)</b>  |
| <b>Weighted average number of shares outstanding</b>    | <b>29,901,770</b>                  | <b>29,901,770</b> | <b>29,901,770</b>                | <b>29,901,770</b> |

The accompanying notes are an integral part of these financial statements

## Melior Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity  
(Expressed in Thousands of Canadian Dollars)  
(Unaudited)

|                                                           | Common Shares     |                   | Contributed       | Accumulated                             |                     |                    |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|-----------------------------------------|---------------------|--------------------|
|                                                           | Number            | Amount            | Surplus           | Other<br>Comprehensive<br>Income (Loss) | Deficit             | Total              |
| <b>Balance, June 30, 2019</b>                             | <b>29,901,770</b> | <b>\$ 384,116</b> | <b>\$ 161,933</b> | <b>\$ (1,074)</b>                       | <b>\$ (575,887)</b> | <b>\$ (30,912)</b> |
| Foreign currency translation adjustment                   | -                 | -                 | -                 | 2,054                                   | -                   | 2,054              |
| Net income for the period                                 | -                 | -                 | -                 | -                                       | (10)                | (10)               |
| Share-based payments                                      | -                 | -                 | 16                | -                                       | -                   | 16                 |
| <b>Balance, December 31, 2019</b>                         | <b>29,901,770</b> | <b>\$ 384,116</b> | <b>\$ 161,949</b> | <b>\$ 980</b>                           | <b>\$ (575,897)</b> | <b>\$ (28,852)</b> |
| <b>Balance, June 30, 2020</b>                             | <b>29,901,770</b> | <b>\$ 384,116</b> | <b>\$ 161,963</b> | <b>\$ 70</b>                            | <b>\$ (579,417)</b> | <b>\$ (33,268)</b> |
| Net income for the period                                 | -                 | -                 | -                 | -                                       | 193                 | 193                |
| Share-based payments                                      | -                 | -                 | 6                 | -                                       | -                   | 6                  |
| Unrealized loss on available-for-sale<br>financial assets | -                 | -                 | -                 | (70)                                    | -                   | (70)               |
| <b>Balance, December 31, 2020</b>                         | <b>29,901,770</b> | <b>\$ 384,116</b> | <b>\$ 161,969</b> | <b>\$ -</b>                             | <b>\$ (579,224)</b> | <b>\$ (33,139)</b> |

The accompanying notes are an integral part of these financial statements

**Melior Resources Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Expressed in Thousands of Canadian Dollars)**  
**(Unaudited)**

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| <b>For the six months ended December 31,</b>            | <b>2020</b>  | <b>2019</b>   |
|---------------------------------------------------------|--------------|---------------|
| <b>Cash and cash equivalents (used in) provided by:</b> |              |               |
| <b>Operating Activities</b>                             |              |               |
| Receipts from customers                                 | -            | 3,801         |
| Cash paid to suppliers, employees and others            | <b>(153)</b> | (6,185)       |
| Cash flow from operating activities                     | <b>(153)</b> | (2,384)       |
| <b>Investing Activities</b>                             |              |               |
| Disposal of investment                                  | 70           | -             |
| Payments for plant and equipment                        | -            | (563)         |
| Cash flow from investing activities                     | <b>70</b>    | (563)         |
| <b>Financing Activities</b>                             |              |               |
| Loan proceeds                                           | 55           | 1,457         |
| Cash payments for financing activities                  | <b>(57)</b>  | -             |
| Cash flow from financing activities                     | <b>(2)</b>   | 1,457         |
| Change in cash and cash equivalents during the period   | <b>(85)</b>  | (1,490)       |
| Cash and cash equivalents, beginning of the period      | <b>109</b>   | 1,657         |
| Cash and cash equivalents, end of period                | <b>\$ 24</b> | <b>\$ 167</b> |

*The accompanying notes are an integral part of these financial statements*

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Melior Resources Inc., (the “Corporation”), is a Canadian company focused on making strategic investments in, and developing, resource-based opportunities offering cash flow and capital appreciation potential.

The Corporation is incorporated under the laws of the province of British Columbia, Canada. The Corporation’s principal place of business is 120 Adelaide Street West, Suite 2500, Toronto, Ontario, Canada.

On May 15, 2014, the Corporation completed the acquisition of 100% of the issued and outstanding shares of Goondicum Resources Pty Ltd (“GRPL”), an Australian incorporated company which owns the Goondicum Mine. The Goondicum Mine, located in Queensland Australia, is an ilmenite and apatite mining and processing facility near the town of Monto in Queensland, Australia.

On September 9, 2019, the Corporation’s wholly owned subsidiaries, GRPL and its holding company, Melior Australia Pty Ltd (“MAPL”) appointed a voluntary administrator pursuant to Section 436A of the Corporations Act 2001 (Australia). On September 13, 2019, the Corporation announced that as a consequence of the appointment of the voluntary administrators to GRPL, the Corporation and its subsidiaries received a notice of default and demand from their senior lender under the loan agreement dated August 9, 2018, as amended. Under the Default Notice, Pala Investments Limited (“Pala”) demanded that the Corporation and its subsidiaries make payment to it in the amount of US\$22,714,700, representing the amount outstanding under the loan payable (Note 11) as at September 9, 2019, together with related interest, costs and charges, on or before 4:00 p.m. Australian Western Standard Time on September 13, 2019.

The Corporation has entered into a standstill agreement with Pala pursuant to which Pala has agreed (on certain terms and conditions) not to proceed with enforcement actions against the Corporation (excluding the subsidiaries) for a period until April 30, 2021.

On October 31, 2020, the Corporation announced that it has entered into a non-binding letter of intent dated October 31, 2020 with Rancho Gold Corp. (“Rancho”) with respect to a proposed transaction (the “Proposed Transaction”) whereby Melior will acquire all of the issued and outstanding common shares in the capital of Rancho. Rancho holds an indirect 99.9% interest in a 22,367-hectare gold exploration property located in the Sierra Madre Occidental gold-belt in eastern Sonora, Mexico, known as the Santa Daniela property. The Proposed Transaction will constitute an arm’s length reverse take-over pursuant to the policies of the TSX Venture Exchange (the “TSXV”), and following the Proposed Transaction, it is anticipated that the Company will be a Tier 2 Mining Issuer on the TSXV.

These unaudited condensed interim financial statements have been prepared on a going concern basis which assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from carrying values as shown and the financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing repay its liabilities, and the satisfactory resolution of the voluntary filings under Section 436A of the Corporations Act 2001 (Australia). The Corporation has a working capital deficit of \$34.3 million and had a cumulative deficit of \$579.3 million as at December 31, 2020. These material uncertainties cast significant doubt upon the Corporation’s ability to continue as a going concern.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets, liabilities and reported expenses should the Corporation be unable to continue as a going concern. These adjustments could be material.

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

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### 2. STATEMENT OF COMPLIANCE

The Corporation applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of March 1, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these condensed interim consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2020. Any subsequent changes to IFRS that are given effect in the Corporation's annual financial statements for the year ending June 30, 2021 could result in restatement of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise stated.

### 3. DECONSOLIDATION

On September 9, 2019, the Corporation announced that its wholly owned subsidiaries, GRPL and MAPL appointed a voluntary administrator pursuant to Section 436A of the Corporations Act 2001 (Australia). Accordingly, the Corporation no longer controls GRPL or MAPL with effect from September 9, 2019. As a result, the assets and liabilities of GRPL and MAPL have been derecognised from the consolidated statement of financial position and the remaining investment has been recognised as a non-current asset held for sale. See Note 9 for further information.

| <b>Deconsolidated assets and liabilities of form subsidiaries</b>           |                  |
|-----------------------------------------------------------------------------|------------------|
| Cash and cash equivalents                                                   | \$ 674           |
| Trade and other receivables                                                 | 43               |
| Inventory                                                                   | 2,285            |
| Other current assets                                                        | 756              |
| Property, plant and equipment                                               | 1,912            |
| Deposits                                                                    | 2,101            |
| Trade and other payables                                                    | (7,517)          |
| HW Loan                                                                     | (8,250)          |
| Environmental Provision                                                     | (224)            |
| Decommissioning liability                                                   | (1,661)          |
| Accumulated translation difference - GRPL                                   | 1,074            |
| <b>Net carrying value of deconsolidated operations on September 9, 2019</b> | <b>(8,807)</b>   |
| <b>Fair value of deconsolidated operations at September 9, 2019</b>         |                  |
| Net carrying value of deconsolidated operations                             | \$ 8,807         |
| Fair value of deconsolidation operations                                    | 1,874            |
| <b>Gain on deconsolidation</b>                                              | <b>\$ 10,681</b> |

# **Melior Resources Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the Three and Six Months Ended December 31, 2020**

**(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)**

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The investment in GRPL is held in the name of Melior Resources Inc., and any liquidation surplus will flow to Pala Investments Inc against the Pala loans outstanding. See note 6.



# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

### 4. OTHER CURRENT ASSETS

|                       | December 31, |    | June 30, |    |
|-----------------------|--------------|----|----------|----|
|                       | 2020         |    | 2020     |    |
| HST/GST Receivable    | \$           | 24 | \$       | 18 |
| Prepayments and bonds |              | 12 |          | 31 |
|                       | \$           | 36 | \$       | 49 |

### 5. INVESTMENT IN ASIAN MINERAL RESOURCES LIMITED

On June 29, 2012, the Corporation completed a strategic investment in Asian Mineral Resources Limited ("AMR") by means of a private placement whereby it purchased 47,272,727 common shares of AMR (the "AMR Shares") at \$0.11 per AMR Share for total consideration of \$5.20 million (the "Strategic Investment"). The Corporation now owns and controls, directly and indirectly, a total of 236,363 AMR Shares representing approximately 1% of the issued and outstanding AMR Shares on an undiluted basis. Due to the prolonged decline in value of the equity investment, the Corporation took an impairment charge of \$4.26 million in the year ended June 30, 2016 and a further impairment in charge of \$944,000 in the year ended June 30, 2018. Following an upturn in the value of the investment, the Corporation reversed \$69,712 of the impairment charge in the year ended June 30, 2020, which was recorded to accumulated other comprehensive income.

On September 10, 2020, the Corporation divested all 236,263 shares held in AMR on September 10, 2020 for net proceeds of \$69,712.

### 6. INVESTMENT IN GRPL – HELD FOR SALE

As a result of the appointment of a voluntary administrator, the Corporation has recognised its net investment in GRPL at fair value as at the date of the loss of control. The fair value utilised an independent valuation which determined the fair value less costs of disposal to be C\$1.87 million (A\$2.09 million). Assets were valued on a either a cost or a market basis with the split being approximately 65% and 35% respectively. The cost approach derived asset values by estimating the current cost to reproduce or replace the asset, deducting for all depreciation, including physical deterioration, functional obsolescence, and external/economic obsolescence. The market approach derived asset values by comparison to similar assets that have been recently sold or are currently available for sale, applying appropriate units of comparison, and adjusting based on the elements of comparison to the sale prices of the comparable. Marketability of each item is also a determinant of value. Marketability, as a measure of demand, is approximated through recent sale under similar sale conditions. The fair value measurement falls within level 2 of the fair value hierarchy.

In June 2020, the Company recorded an impairment charge of \$727,000 to account for the decrease in the GRPL investment fair value to incorporate the impact of the COVID19 outbreak and the increased administrator's fee. See subsequent events note 13.

### 7. LOANS PAYABLE

On August 17, 2015, the Corporation entered into a US\$5 million loan facility agreement with Pala, bearing interest at 10% per annum, a term of 365 days from the first draw down, and subject to a commitment fee equal to 2% of the unused portion of the loan facility, calculated daily. The Corporation paid Pala an arrangement fee of US\$100,000, upon the initial draw down against the loan facility. The Loan facility is secured by the assets of the Corporation.

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

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### 7. LOANS PAYABLE (CONTINUED)

On July 18, 2016, the Corporation announced that it had reached an agreement with Pala to extend the expiry and repayment date of the Pala Facility from August 28, 2016 to October 31, 2017. Based on the terms of the extension, as at 28th July 2016 an additional US\$475,000 remained available to be drawn down by The Corporation prior to the expiry on October 31, 2017.

On November 16, 2016, the Corporation entered into an amending agreement with Pala to extend the expiry and repayment date of the Pala Facility from October 31, 2017 to October 31, 2022. As at November 16, 2016, a total of US\$3 million had been drawn down under the Pala Facility, including an additional US\$300,000 received on November 10, 2016. Based on the terms of the amendment, as at November 16, 2016 no further advances are available, and any interest payable is now payable on the settlement of the facility. The maturity date of the facility was amended to October 31, 2022; however, Pala may demand settlement within five business days at any time on or after October 24, 2017.

On July 7, 2017, the Corporation reached an agreement with Pala to amend the terms of the secured loan. Under the terms of the extension, an additional US\$1.24 million was available for immediate draw down by The Corporation and the date on which Pala may demand settlement within five business days was changed to any time on or after June 23, 2019.

The loan was convertible, in whole or part, at the option of Pala any time after July 6, 2017 and prior to the fifth Business Day after the earlier of (i) 5 years from July 7, 2017 and (ii) the repayment in full of the principle balance of the loan and any accrued and unpaid interest. The Loan was convertible to equity at a conversion price of \$0.52 per share from July 6, 2017 to July 6, 2018 and following July 6, 2018, the greater of \$1.00 and the conversion price.

The Corporation used the residual value method to allocate the principal amount of the convertible loan between the liability and equity components. The Corporation valued the debt component of the loan by calculating the present value of the principal and interest payment, discounted at a rate of 15%, being management's best estimate of the rate that a non-convertible loan with similar terms would bear.

The equity conversion feature of the loan comprises the value of the conversion option, being the difference between the principal value of the loan and the liability element calculated above. Based on this calculation, the liability component is \$4.09 million (\$4.056 million net of transaction costs) and the residual equity component is \$1.84 million. Accretion charges attributable to the convertible loan were \$119,000 (2018 - \$942,000). These amounts are added to the liability component on the statements of financial position and is included in convertible loan accretion expense on the statements of operations and comprehensive loss.

On August 9, 2018, the Corporation entered into a loan amendment agreement with Pala to consolidate the two existing loan facilities into one new facility. The new facility was for an aggregate principal amount of US\$13.75 million with a 24-month maturity date and also provides for the cancellation of Pala's equity conversion option. The loan included 2 tranches. Tranche 1 was for US\$11.75 million with a 2% arrangement fee and 5% issuer discount accrued on drawdown. Tranche 2 was for US\$2 million with a 3% arrangement fee and a 5% issuer discount accrued on drawdown. The Corporation also incurred a US\$1.25 million prepayment fee that was added to the debt. Additionally, the loan agreement notes that a portion of the funds provided, specifically tranche 1, are to be used for full repayment of the previous outstanding loan balance. The amendment has been accounted for as an extinguishment of debt.

On February 1, 2019, the Corporation entered into a loan amendment agreement with Pala to advance a 3rd tranche of the previous loan. Tranche 3 was for US\$2 million with a 3% arrangement fee and a 5% issuer discount accrued on drawdown. The new facility was for an aggregate principal amount of US\$15.75 million

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

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### 7. LOANS PAYABLE (CONTINUED)

with a 24-month maturity date. The Corporation also incurred a fee which was paid with 750,000 common shares valued at \$450,000. The amendment has been accounted for as a modification of debt.

On June 6, 2019 the Corporation entered into amendment to loan agreement entered into on August 9, 2018 and amended on November 16, 2018 and February 1, 2019 to advance a 4th tranche of the previous loan. Tranche 4 was for US\$2.5 million. The Corporation also incurred a fee which was paid with 171,807 common shares valued at \$66,437. The amendment has been accounted for as an extinguishment of debt.

Under the terms of the amendment Pala has the right to convert the principal amount of US\$15,747,473.45 and any interest and fees accrued under the loan facility each at the conversion prices as set out below:

(i) in respect of Tranche 1, US\$9,247,473.45 of Loans at a price of C\$0.39 per common Share with the balance of such Loans at the then Current Market Price;

(ii) in respect of Tranche 2, US\$2 million of Loans at a price of C\$0.39 per common Share with the balance of such Loans at the then Current Market Price;

(iii) in respect of Tranche 3, US\$2 million of Loans at a price of C\$0.39 per common Share with the balance of such Loans at the then Current Market Price; and

(iv) in respect of Tranche 4, US\$2.5 million of Loans at a price of C\$0.39 per common Share with the balance of such Loans at the then Current Market Price.

The conversion feature of the loan meets the definition of a derivative liability instrument as the conversion price is denominated in a different currency than the debt. The derivative liability has been valued using the Black Scholes pricing model. The initial value of the debt component is the proceeds less the fair value of the derivatives. The debt component is classified as measured at amortized cost using the effective interest method. The effective interest rate of the debt was approximately 433%. The fair value of the conversion feature was estimated based on the Black Scholes pricing model using a share price of \$0.39, risk free interest rate of 1.35% an expected dividend yield of 0%, a volatility rates of 163%, and an expected life of 2.57 years. The value assigned to the derivative was \$22,282,480.

On September 9, 2019, the Corporation announced that its wholly-owned subsidiaries, appointed a voluntary administrator pursuant to Section 436A of the Corporations Act 2001 (Australia).

On September 13, 2019, the Corporation announced that as a consequence of the appointment of the voluntary administrators to the Subsidiaries, the Corporation and its subsidiaries have received a notice of default ("Default Notice") and demand from their senior lender under the loan agreement dated August 9, 2018, as amended.

Under the Default Notice, Pala demanded that the Corporation and its subsidiaries make payment to it in the amount of US\$22,714,700, representing the amount outstanding under the Loan Agreement as at September 9, 2019, together with related interest, costs and charges, on or before 4:00 p.m. Australian Western Standard Time on September 13, 2019.

The Corporation has entered into a standstill agreement with Pala pursuant to which Pala has agreed (on certain terms and conditions) not to proceed with enforcement actions against the Corporation (excluding the Subsidiaries) for a period until April 30, 2021.

As a result of the receipt of the Default Notice the Corporation has derecognised the derivative component, which arose from the conversion feature of the loan, and revalued the debt component. The Corporation recorded a loss during the period, a loss on derecognition of the derivative component of \$4,829,344.

# Melior Resources Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

## 7. LOANS PAYABLE (CONTINUED)

|                                           |           |               |
|-------------------------------------------|-----------|---------------|
| <b>Balance, June 30, 2019</b>             | <b>\$</b> | <b>5,721</b>  |
| Draw downs on facility                    |           | 1,363         |
| Transaction costs added to loan principal |           | 136           |
| Interest accrued                          |           | 3,777         |
| Derivative component derecognised         |           | 22,282        |
| Foreign exchange                          |           | 690           |
| <b>Balance, June 30, 2020</b>             | <b>\$</b> | <b>33,969</b> |
| Interest accrued                          |           | 1,894         |
| Foreign exchange                          |           | (2,206)       |
| <b>Balance, December 31, 2020</b>         | <b>\$</b> | <b>33,658</b> |

### Derivative Liability

|                                                      |           |               |
|------------------------------------------------------|-----------|---------------|
| <b>Balance, June 30, 2019</b>                        | <b>\$</b> | <b>17,453</b> |
| Derivative liability derecognised                    |           | (22,282)      |
| Loss on derecognition of derivative liability        |           | 4,829         |
| <b>Balance, June 30, 2020, and December 31, 2020</b> | <b>\$</b> | <b>-</b>      |

## 8. PROMISSORY NOTE

On June 6, 2019, the Corporation entered into a demand promissory note with Pala. The Promissory Note is for an aggregate principal amount of US\$105,550.00 and carries an interest rate of 5% per annum payable on maturity. On September 7, 2020 the Corporation entered into an Amended Promissory Note, increasing the amount of the Promissory Note by US\$50,000 to a total of US\$155,550.

In addition, the Promissory Note is unsecured and cannot be called in for repayment prior to April 30, 2021. The Corporation may at any time repay some or all of the Promissory Note (without restriction or prepayment charges).

|                                   |           |            |
|-----------------------------------|-----------|------------|
| <b>Balance, December 31, 2019</b> | <b>\$</b> | <b>-</b>   |
| Draw downs on facility            | \$        | 137        |
| Interest accrued                  |           | 4          |
| Foreign exchange                  |           | 7          |
| <b>Balance, June 30, 2020</b>     | <b>\$</b> | <b>148</b> |
| Draw downs on facility            | \$        | 64         |
| Interest accrued                  |           | 3          |
| Foreign exchange                  |           | (9)        |
| <b>Balance, December 31, 2020</b> | <b>\$</b> | <b>206</b> |

# Melior Resources Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

## 9. SHARE CAPITAL

### (a) Authorized

Unlimited preferred shares without par value

Unlimited common shares without par value

| Issued                                               | Number of<br>Common Shares | Amount     |
|------------------------------------------------------|----------------------------|------------|
| <b>Balance, June 30, 2019, and December 31, 2019</b> | 29,901,770                 | \$ 384,116 |
| <b>Balance, June 30, 2020, and December 31, 2020</b> | 29,901,770                 | \$ 384,116 |

|                                                      | Number of<br>Warrants outstanding<br>and exercisable | Weight Average<br>Exercise Price (\$) |
|------------------------------------------------------|------------------------------------------------------|---------------------------------------|
| <b>Balance, June 30, 2019, and December 31, 2019</b> | 1,624,750                                            | 1.05                                  |
| Warrants expired during the period                   | (1,624,750)                                          | (1.05)                                |
| <b>Balance, June 30, 2020</b>                        | -                                                    | -                                     |
| <b>Balance, December 31, 2020</b>                    | -                                                    | -                                     |

### (b) Stock Options

As at December 31, 2020, 2,990,177 common shares remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Corporation's common shares on the date of grant or the price determined by the Board of Directors, not being less than the market price, and an option's maximum term is ten years. Options are granted upon approval by the Board of Directors.

|                                   | Number of<br>Stock Options | Weight Average<br>Exercise Price |
|-----------------------------------|----------------------------|----------------------------------|
| <b>Balance, June 30, 2019</b>     | 866,667                    | 0.63                             |
| Options expired during period     | 741,667                    | 0.60                             |
| <b>Balance, June 30, 2020</b>     | 125,000                    | 0.80                             |
| <b>Balance, December 31, 2020</b> | 125,000                    | 0.80                             |

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

### 9. SHARE CAPITAL (CONTINUED)

As at December 31, 2020 the Corporation had the following stock options outstanding and exercisable:

| <b>Expiry Date</b> | <b>Number of Options Exercisable</b> | <b>Weighted Average Number of Options Outstanding</b> | <b>Remaining Contractual Life (Years)</b> | <b>Exercise Price (\$)</b> |
|--------------------|--------------------------------------|-------------------------------------------------------|-------------------------------------------|----------------------------|
| July 13, 2021      | 83,333                               | 125,000                                               | 0.53                                      | \$ 0.80                    |

In July 2018, the Corporation granted 125,000 stock options to a director of the Corporation at an exercise price of \$0.80. The options expire in 3 years from grant, with one third vesting in 6 months, one third in 18 months and one third in 30 months. A fair value of \$87,658 was determined using the Black-Scholes option pricing model. The following assumptions were used: risk-free interest rate - 1.98%; expected volatility 176% (which is based on historical volatility of the Corporation's share price; dividend yield - nil; expected life - 3 years; and share price - \$0.80).

### 10. GENERAL AND ADMINISTRATIVE

|                            | <b>Three Months Ended<br/>December 31</b> |             | <b>Six Months Ended<br/>December 31</b> |             |
|----------------------------|-------------------------------------------|-------------|-----------------------------------------|-------------|
|                            | <b>2020</b>                               | <b>2019</b> | <b>2020</b>                             | <b>2019</b> |
| Salaries and benefits      | \$ 42                                     | \$ 77       | \$ 113                                  | \$ 1,313    |
| Professional fees          | 24                                        | 15          | 33                                      | 166         |
| Directors fees             | -                                         | -           | -                                       | 51          |
| General and office         | 21                                        | 18          | 17                                      | 195         |
| Process Technology         | -                                         | -           | -                                       | 5           |
| Travel                     | -                                         | -           | -                                       | 64          |
| Filing and regulatory fees | 7                                         | 9           | 9                                       | 5           |
| Environmental compliance   | -                                         | -           | -                                       | 84          |
| Insurance                  | 5                                         | 9           | 11                                      | (4)         |
|                            | \$ 99                                     | \$ 128      | \$ 183                                  | \$ 1,879    |

### 11. RELATED PARTY TRANSACTIONS AND BALANCES

Remuneration of key management personnel of the Corporation was as follows:

**Three Months Ended** **Six Months Ended**

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended December 31, 2020

(Tabular Amounts Expressed in Thousands of Canadian Dollars, Unless Otherwise Stated)

|                       | December 31 |        | December 31 |        |
|-----------------------|-------------|--------|-------------|--------|
|                       | 2020        | 2019   | 2020        | 2019   |
| Salaries and benefits | \$ 52       | \$ 77  | \$ 113      | \$ 161 |
| Directors fees        | -           | 15     | -           | 51     |
| Shared based payments | 3           | 8      | 6           | 24     |
|                       | \$ 55       | \$ 100 | \$ 119      | \$ 236 |

### 11. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

As at December 31, 2020, remuneration of \$386,087 (June 30, 2020 - \$380,310) remained payable to related party and included in trade and other payables.

As at June 30, 2020 and December 31, 2020, Pala, which is beneficially controlled by Vladimir Iorich, owned directly or indirectly 47.26% (2019 – 47.26%) of the Corporation's issued and outstanding common shares.

The Corporation entered into secured loan agreements with Pala and the details of this loan are set out in notes 7 and 8.

### 12. SEGMENTED INFORMATION

The Corporation operates in one geographical and business segment being the exploration and development of mineral properties in Canada. All segment assets, segment liabilities and segment results relate to the one segment and therefore no segment analysis has been prepared.

### 13. SUBSEQUENT EVENTS

#### Liquidation of Australian Subsidiaries

The deregistration of MAPL was confirmed as of January 10, 2021, by the Australian Securities and Investment Commission. The deregistration of MAPL severed the ownership of GRPL as GRPL was a wholly owned subsidiary of MAPL. As of March 1, 2021, the liquidation of GRPL was still in process, however A\$1.05 million had been dispersed to Pala to be applied against the Pala loans outstanding, with up to a further A\$180,000 still to be potentially dispersed. Should the maximum amount that could potentially be realised from the liquidation of GRPL the Corporation would realise a \$130,000 gain on the residual investment in GRPL and the loan to Pala would reduce by \$1.28 million.

#### Ranchero Proposed Transaction

On February 18, 2021, the Corporation announced that it has entered into an amalgamation agreement dated February 17, 2021 (the "Amalgamation Agreement") with Ranchero and 1274169 B.C. Ltd. ("Subco"), a wholly-owned subsidiary of the Company, pursuant to which the Company proposes to acquire all of the issued and outstanding securities of Ranchero by way of a three-cornered amalgamation (the "Transaction"), as more particularly described in the Company's news release dated November 2, 2020.

Under the terms of the Amalgamation Agreement, Ranchero will amalgamate with Subco, and the Company will acquire all of the outstanding common shares of Ranchero in exchange for post-consolidation common shares of Melior (the "Resulting Issuer Shares") on the basis of one Resulting Issuer Share for one common share of Ranchero. The completion of the Transaction is subject to a number of conditions precedent, as described in the news release of the Company dated November 2, 2020.