



FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

(EXPRESSED IN CANADIAN DOLLARS)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Melior Resources Inc. were prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Management acknowledges responsibility for the preparation and presentation of the annual financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Corporation's circumstances. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Corporation for issuance to the shareholders.

Management recognizes its responsibility for conducting the Corporation's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

October 28, 2020

The accompanying notes are an integral part of these financial statements



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Melior Resources Inc.

Opinion

We have audited the financial statements of Melior Resources Inc. (the Company), which comprise the statements of financial position as at June 30, 2020, and the statements of operations and comprehensive loss, statements of cash flows and statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the financial statements, which indicates that the Company incurred a comprehensive loss of \$2,386,000 during the year ended June 30, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements for the year ended June 30, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on January 30, 2020.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



CLEARHOUSE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
October 28, 2020

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

As at	June 30, 2020	June 30, 2,019
ASSETS		
Current		
Cash and cash equivalents	\$ 109	\$ 1,657
Trade and other receivables	-	128
Inventory (Note 6)	-	2,505
Other current assets (Note 7)	49	657
	158	4,947
Investment in AMR (note 8)	70	-
Investment in GRPL - held for sale (Note 9)	1,147	-
Current assets	1,375	4,947
Property, plant and equipment (Note 10)	-	1,921
Deposits (Note 12)	-	2,153
Non-Current assets	-	4,074
Total assets	\$ 1,375	\$ 9,021
LIABILITIES		
Current		
Trade and other payables (note 18)	\$ 526	\$ 6,427
Unearned Revenue (Note 5)	-	8,376
Provision (Note 5)	-	229
Promissory note (Notes 14 & 18)	148	-
Loans payable (Notes 13 & 18)	33,969	5,721
Derivative liability (Notes 13 & 18)	-	17,453
Current liabilities	34,643	38,206
Non-Current Assets		
Provisions (Note 5)	-	34
Decommissioning liability (Note 15)	-	1,693
Non-Current liabilities	-	1,727
Total liabilities	\$ 34,643	\$ 39,933
EQUITY		
Share capital (Note 16)	384,116	384,116
Contributed surplus	161,963	161,933
Accumulated other comprehensive income (loss)	70	(1,074)
Accumulated losses	(579,417)	(575,887)
Total equity (deficiency)	(33,268)	(30,912)
Total equity (deficiency) and liabilities	\$ 1,375	\$ 9,021

Nature of Operations and Going Concern (Note 1)
Subsequent Event (Note 17)

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.

Statements of Operations and Comprehensive Income (Loss) (Expressed in Thousands of Canadian Dollars)

	Year Ended June 30,	
	2020	2019
Revenue	\$ 3,788	\$ 5,566
Cost of sales	(5,132)	(12,289)
Depreciation	(47)	(1,014)
Amortisation	-	-
Loss before other income (expenses)	(1,391)	(7,737)
Other Income (Expense)		
Accretion on convertible Loan (Note 13)	-	(921)
Accretion decommissioning liability	(9)	(185)
Finance expense	(4,054)	(2,573)
Foreign exchange (loss)/gain	(621)	(585)
Gain on sale of property plant & equipment	-	15
Gain on deconsolidation (Note 5)	10,681	-
General and administrative expenses (Note 17)	(2,025)	(8,283)
Impairment of plant and equipment	(525)	(12,594)
Interest income	-	9
Unrealized loss on fair value of derivative	(4,829)	4,829
Loss on debt extinguishment	-	(4,157)
Share based payments (Note 18)	(30)	(146)
Impairment of investments in GRPL – held for sale	(727)	-
	(2,139)	(24,591)
Net Loss for the Year	\$ (3,530)	\$ (32,328)
Items that will be reclassified subsequently to income:		
Fair value adjustment on investment in AMR	70	-
Foreign currency translation adjustment	1,074	(841)
	1,144	(841)
Total Comprehensive Loss	\$ (2,386)	\$ (33,169)
Net Loss per common share, basic and diluted	\$ (0.12)	\$ (1.10)
Weighted average number of shares outstanding	29,901,770	29,293,315

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Statement of Changes in Equity

(Expressed in Thousands of Canadian Dollars)

	Common Shares		Contributed	Accumulated				
	Number	Amount	Surplus	Other	Comprehensive	Deficit		Total
				Income (Loss)				
Balance, June 30, 2018	28,979,978	\$ 383,600	\$ 161,787	\$ (233)	\$ (543,559)	\$		1,595
Shares issued	921,807	516	-	-	-	-		516
Foreign currency translation adjustment	-	-	-	(841)	-	-		(841)
Net loss for the year	-	-	-	-	(32,328)	-		(32,328)
Share-based payments	-	-	146	-	-	-		146
Balance, June 30, 2019	29,901,770	\$ 384,116	\$ 161,933	\$ (1,074)	\$ (575,887)	\$		(30,912)
Balance, June 30, 2019	29,901,770	\$ 384,116	\$ 161,933	\$ (1,074)	\$ (575,887)	\$		(30,912)
Foreign currency translation adjustment	-	-	-	1,074	-	-		1,074
Net loss for the year	-	-	-	-	(3,530)	-		(3,530)
Share-based payments	-	-	30	-	-	-		30
Unrealized gain on FVTOCI investment	-	-	-	70	-	-		70
Balance, June 30, 2020	29,901,770	\$ 384,116	\$ 161,963	\$ 70	\$ (579,417)	\$		(33,268)

On June 15, 2018, the Corporation gave effect to a consolidation of the common shares in the capital of the Corporation at a ratio of ten pre-consolidation common shares for one post-consolidation common share. All share, option and warrant information has been updated accordingly.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.
Statement of Cash Flows
(Expressed in Thousands of Canadian Dollars)

For the Year Ended June 30,	2020	2019
Cash and cash equivalents (used in) provided by:		
Operating Activities		
Receipts from customers	3,916	7,281
Cash paid to suppliers, employees and others	(6,544)	(19,673)
Interest received	-	-
Cash flow from operating activities	(2,628)	(12,392)
Investing Activities		
Payments for plant and equipment	(563)	(5,960)
Proceeds from disposal of equipment	-	15
Cash flow from investing activities	(563)	(5,945)
Financing Activities		
Loan proceeds	1,499	18,275
Promissory note	143	-
Cash flow from financing activities	1,642	18,275
Change in cash and cash equivalents during the year	(1,549)	(62)
Cash and cash equivalents, beginning of year	1,658	1,720
Cash and cash equivalents, end of year	\$ 109	\$ 1,658

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

1. NATURE OF OPERATIONS

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 13) 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 December 31, 2020.

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 incurred a comprehensive loss of \$2.4 million and had a cumulative deficit of \$579.4 million as at June 30, 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.

2. STATEMENT OF COMPLIANCE

These financial statements of the Corporation have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC").

The financial statements were authorized for issue by the Board of Directors of the Corporation on October 28, 2020.

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

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

These financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified as at fair value through profit or loss, which are measured at fair value.

(b) Translation of foreign currencies:

The functional currencies of the Corporation, as determined by management, is the Canadian. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in statements of operations and comprehensive loss, non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange differences arising on translation of assets and liabilities are recognized in other comprehensive income (loss) and in the cumulative transaction adjustment in shareholders' equity.

(c) Financial Instruments:

Recognition

The Corporation recognises 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 derecognised either when the Corporation 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 Corporation has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Measurement

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income ("FVOCI"). The Corporation determines the classification of its financial assets at initial recognition.

- i. Financial assets recorded at fair value through profit or loss ("FVTPL") Financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Corporation's cash and cash equivalents and investments are classified as financial assets measured at FVTPL.
- ii. On initial recognition of an equity investment that is not held for trading, the Corporation may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis.
- iii. Amortized cost Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Corporation's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest". The Corporation's trade and other receivable is classified as financial assets measured at amortized cost.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Corporation determines the classification of its financial liabilities at initial recognition.

- i. Amortized cost Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Corporation's trade and other payables, and loans payable do not fall into any of the exemptions and are therefore classified as measured at amortized cost.
- ii. Financial liabilities recorded fair value through profit or loss ("FVTPL") Financial liabilities are classified as fair value through profit or loss if they fall into one of the five exemptions detailed above. The Corporation's derivative liability is classified as measured at FVTPL.

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Instruments classified as FVTPL are measured at fair value with unrealized gains or losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(d) Impairment (and Reversal of Impairment) of non-financial assets:

The carrying values of mineral properties and plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Corporation. If this is the case, the individual assets of the Corporation are grouped together into cash generating units ("CGU") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Corporation. This generally results in the Corporation evaluating its non-financial assets on a geographical basis.

The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use.

In calculating value in use ("VIU"), the estimated future cash flows of a mine or development property are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Estimated future cash flows include estimates of recoverable ounces of gold. Estimated future cash flows also involve estimates regarding gold prices, production levels, capital, closure and rehabilitation costs and income taxes. Cash flows are subject to risks and uncertainties and changes in the estimates of the cash flows could affect the recoverability of long-lived assets. An impairment loss is reversed if there is indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of net loss and comprehensive loss so as to reduce the carrying amount to its recoverable amount.

Impairment reversal assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the CGU's recoverable amount since the last impairment loss was recognized. This reversal is limited to the carrying value that would have been determined, net of any depreciation where applicable, had no impairment charge been recognized in prior years. When an impairment reversal is undertaken, the recoverable amount is assessed by reference to the higher of VIU and FVLCD. We have determined that the FVLCD is greater than the VIU amounts and is therefore used as the recoverable amount for impairment testing purposes.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of ninety days or less.

(f) Inventories:

Supplies inventory is valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs.

Ilmenite stock and apatite stock Sales inventory is valued at the lower of average cost and net realizable value. Costs include production, sales and distribution costs.

(g) Plant and equipment:

Plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairment.

Depreciation on assets is calculated on a straight-line basis over the estimated useful life, or in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term, as follows:

Plant and Equipment	5 - 20 years
Vehicles	3 - 5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognized.

(h) Decommissioning liabilities:

The Corporation recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in finance costs. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates.

(i) Leases:

Effective July 1, 2019, the Company adopted IFRS 16 – Leases. Previously, the Company classified leases as operating or finance leases based on IAS 17 - Leases.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

The Company has applied IFRS 16 in accordance with the modified retrospective approach. Under this approach, the cumulative effect of applying IFRS 16 is recognized in opening retained earnings at the date of initial application (i.e. July 1, 2019). The Company analysed the impact of the transition to IFRS 16 and concluded that there were no adjustments on the opening retained earnings and the current year financial statements.

(j) Revenue recognition:

The Corporation's revenue includes sales of Ilmenite and Apatite, which are generally physically delivered to customers in the period in which they are produced, with their sales price based on prevailing spot market metal prices. The Corporation reviewed its contracts with customers using the five-step analysis required under IFRS 15. Transfer of control generally occurs when the Ilmenite and Apatite has been accepted by the customer. Once the customer has accepted the product, the significant risks and rewards of ownership have been transferred and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the product.

Amounts included in unearned revenue are amounts that have been paid by the customer for the product in advance of the transfer of control of the product to the customer.

(k) Income taxes:

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(l) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

(m) Stock-based compensation:

Stock options granted are settled with common shares of the Corporation. When options are issued to employees the expense is determined based on the fair value of the award granted and recognized over the period when services are received, which is usually the vesting period. The fair value is determined using the Black-Scholes option pricing model. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statements of operations and comprehensive loss.

(n) Mineral Properties:

Mineral properties are carried at cost less accumulated depletion and include:

- (i) Costs of acquiring production, development and exploration stage properties in asset acquisition transactions, including earn-in agreements;
- (ii) Expenditures incurred to develop mining properties;
- (iii) Economically recoverable exploration and evaluation expenditures;
- (iv) Certain costs incurred during production, net of proceeds from sales, prior to reaching commercial production; and
- (v) Estimates of reclamation and closure costs.

The recorded amount of capitalized costs may not reflect recoverable value, which is dependent on development programs, the nature of the mineral deposit, commodity prices, development and operating costs and the Corporation's ability to bring projects into production.

Once a property reaches commercial production capital costs are depleted on units of production over the expected life of the property's proven and probable reserves and costs of any additional work on that property are expensed as incurred, except for development programs that extend the life or enhance the value of a property, which are capitalized and depleted over the remaining life of the ore body.

A mineral property is derecognized upon disposal or considered to be impaired when no or limited future economic benefits are expected to arise from continued use of the asset. Any gain or loss on derecognition or impairment of an asset, determined as the difference between the proceeds received or expected to be received and the carrying amount of the asset, are recognized in the determination of profit or loss.

(o) Per share information:

Basic loss per share is computed by dividing the loss/income for the year available to common shareholders by the weighted average number of common shares outstanding during the years. Diluted loss/income per share is computed similarly to basic loss per share except that the weighted average common shares outstanding are increased to include additional common shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional common shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the years. At present, options and warrants are anti-dilutive and, therefore, have not been taken into account in the per share calculations.

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

(p) Business Combinations:

Business combinations are accounted for under the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Corporation, if any, at the date control is obtained. The consideration transferred includes the fair value of any liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than share and debt issue costs incurred to issue financial instruments that form part of the consideration transferred, are expensed as incurred. Identifiable assets acquired, and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. If a business combination is achieved in stages, the Corporation remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in net income.

Contingent consideration is classified as a provision and is measured at fair value, with subsequent changes recognized in income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

New information obtained during the measurement period, up to 12 months following the acquisition date, about facts and circumstances existing at the acquisition date may affect the acquisition accounting.

(q) Provisions:

Provisions are recognized when present legal or constructive obligations exist as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

(r) New standards and interpretations

At the date of authorization of these Financial Statements, the IASB and the IFRS Interpretations Committee have issued certain new and revised Standards and Interpretations which are not yet effective. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The Company has not early adopted and is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company.

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

4. Critical Accounting Estimates and Judgments

The preparation of these financial statements requires the Corporation to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates.

In addition, the Corporation has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

(i) Impairment and reversal of impairment of non-financial assets

When there are indications that an asset may be impaired or reversal of impairment, the Corporation is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs of disposal ("FVLCD"). Determining the FVLCD requires management to make estimates and assumptions and changes in to of these estimates or assumptions, used in determining the fair values could impact the impairment analysis.

(ii) Valuation of stock options

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Corporation's control and will depend upon a variety of factors, including the market value of the Corporation's common shares and financial objectives of the stock-based instrument holders. The Corporation used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain, and the model has its limitations.

(iii) Going Concern

The assessment of the Corporation's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in note 1.

(iv) Deconsolidation of subsidiaries

Management's assessment of the Company's control of its Australian subsidiaries, as defined under IFRS 10, involves judgment on the nature of the related administration process, as discussed in note 1 and note 5.

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

5. 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 at its fair value. See Note 9 for further information.

Deconsolidated assets and liabilities of form subsidiaries

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
Net carrying value of deconsolidated operations on September 9, 2019		(8,807)

Fair value of deconsolidated operations at September 9, 2019

Net carrying value of deconsolidated operations	\$	8,807
Fair value of deconsolidation operations		1,874
Gain on deconsolidation	\$	10,681

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 9.

6. Inventories

	2020		2019
Ilmenite Stock	\$	-	\$ 2,401
Apatite Stock		-	51
Supplies		-	53
	\$	-	\$ 2,505

The Company held \$nil inventory as at June 30, 2020 – see note (5).

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

7. Other Current Assets

	June 30, 2020		June 30, 2019	
HST/GST Receivable	\$	18	\$	384
Prepayments and bonds		31		273
	\$	49	\$	657

8. 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.

As at June 30, 2020, the common shares were recorded at \$69,712 (2019 - \$nil) which the Corporation subsequently realised when it divested all 236,263 held in AMR on September 10, 2020.

9. 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.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

10. Plant and Equipment

Cost		Vehicles	Plant And Equipment	Total
Balance, June 30, 2018	\$	416	7,918	8,334
Additions		-	5,960	5,960
Disposals		(26)	-	(26)
Impairment		-	(8,039)	(8,039)
Foreign exchange		(24)	(453)	(477)
Balance, June 30 2019	\$	366	5,386	5,752
Additions		-	563	563
Impairment		-	(525)	(525)
Deconsolidation (note 5)		(366)	(5,424)	(5,790)
Balance, June 30 2020	\$	-	-	-
Accumulated Depreciation				
Balance, June 30, 2018	\$	132	2,911	3,043
Depreciation		75	939	1,014
Disposals		(26)	-	(26)
Foreign exchange		(10)	(190)	(200)
Balance, June 30, 2019	\$	171	3,660	3,831
Depreciation		-	47	47
Deconsolidation (note 5)		(171)	(3,707)	(3,878)
Balance, June 30 2020	\$	-	-	3-831
Carrying Value				
At June 30, 2019	\$	195	1,726	1,921
At June 30, 2019	\$	-	-	-

The Corporation undertook an impairment test on the cash generating unit being the plant and equipment and mineral properties. The impairment test utilised an independent valuation which determined the fair value less costs of disposal. The fair value measurement falls within level 2 of the fair value hierarchy. For the year ended June 30, 2019, impairment charges totalled \$12.6 million of which \$8.0 million was allocated to plant and equipment and \$4.6 million was allocated to mineral properties. See note (11).

11. Mineral Properties

		2020	2019
Opening balance	\$	-	\$ 4,831
Foreign exchange		-	(276)
Impairment		-	(4,555)
Closing balance	\$	-	\$ 4,831

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

12. Deposits

	2020		2019	
Term Deposit - Ergon	\$	-	\$	47
Term Deposit - State of Queensland		-		2,068
Term Deposit - Office Lease		-		38
	\$	-	\$	2,153

13. 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.

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 July 18, 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.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

13. Loans Payable- continued

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 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.

On August 21, 2019 the Corporation entered into amendment to loan agreement entered into on August 9, 2018 and amended on November 16, 2018, February 1, 2019 and -6 June 2019 to advance a 5th and 6th tranche of the previous loan. Both Tranche 5 and 6 were for US\$1.0 million each. In connection with this amendment, the company paid a 3% arrangement fee and a 7% discount on the face value of the loan which were both added to the principal amount outstanding.

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.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

13. Loans Payable- continued

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 December 31, 2020.

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.

Balance, June 30, 2018	\$	5,257
Draw downs on facility	\$	21,942
Repayment		(6,886)
Loss on extinguishment of debt		4,157
Interest accrued		2,519
Derivative component		(22,282)
Accretion		921
Foreign exchange		93
Balance, June 30, 2019	\$	5,721
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
Balance, June 30, 2020	\$	33,969

Derivative Liability

Balance, June 30, 2018	\$	-
Derivative component additions		22,282
Gain on fair value change of derivative		(4,829)
Balance, June 30, 2019	\$	17,453
Derivative liability derecognised		(22,282)
Loss on derecognition of derivative liability		4,829
Balance, June 30, 2020	\$	-

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

14. 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. In addition, the Promissory Note is unsecured and cannot be called in for repayment prior to December 31, 2020. The Corporation may at any time repay some or all of the Promissory Note (without restriction or prepayment charges).

Balance, June 30, 2019	\$	-
Draw downs on facility	\$	137
Interest accrued		4
Foreign exchange		7
Balance, June 30, 2020	\$	148

15. Decommissioning Liability

For the Corporation, asset retirement obligations primarily relate to the dismantling of the Goondicum Ilmenite Project. The estimate of future site removal and restoration costs depends on the development of environmentally acceptable mine closure plans.

A summary of the changes in the provision for reclamation liabilities is set out below.

	2019	2019
Opening Balance	\$ 1,693	\$ 1,510
Discounted value of additions	-	88
Accretion	9	185
Foreign Exchange	(41)	(90)
Deconsolidation (Note 5)	(1,661)	
Closing Balance	\$ -	\$ 1,693

The mine closure provision liability is based upon numerous estimates and assumptions, as follows:

- Total undiscounted amount of future retirement costs was determined to be \$2.07 million (2018 - \$2.13 million);
- Weighted average risk-free interest rate at 2.25% (2018 - 3.25%); and
- The \$2.07 million (2018 - \$2.13 million) undiscounted provision is expected to be fully disbursed in fiscal 2029.

The Corporation has posted rehabilitation deposits totalling \$2.07 million (2018 - \$1.44 million) with the State of Queensland as security for the Corporation's obligation under the mine closure plan.

Upon the deconsolidation of GRPL, the decommissioning liabilities and the rehabilitation deposits have been derecognized. See Note 5.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

16. Share Capital

(a) Authorized

Unlimited preferred shares without par value
Unlimited common shares without par value

Issued	Number of Common Shares	Amount
Balance, June 30, 2018	28,979,963	\$ 383,600
Issued during the period	750,000	450
Balance, March 31, 2019	29,729,963	384,050
Balance, June 30, 2019 & June 30, 2020	29,901,770	\$ 384,116

The Corporation closed the first tranche of the Private Placement on January 25, 2018 with a total of 1,328,750 units ("Units") issued, raising gross proceeds of \$1.06 million. In the second tranche, the Corporation issued 298,500 Units, raising gross proceeds of \$238,000. In total, 1,624,750 Units were issued, raising gross proceeds of \$1.3 million.

Each Unit is comprised of one common share of the Corporation (each, a "Share") and one common share purchase warrant (each, a "Warrant"). Each Warrant entitles its holder to purchase one additional Share of the Corporation at a price of \$1.05 per Share within the 24-month period following the final closing date of the Private Placement.

provided that, in the event the Shares trade at a closing price on The TSX Venture Exchange (the "Exchange") of greater than \$1.05 per Share for a period of 10 consecutive trading days at any time after the six month anniversary of the closing of the Private Placement.

During the year ended June 30, 2018, 208,333 options were exercised for proceeds of \$125,000 with a Black Scholes value of \$100,000 that was moved from contributed surplus to share capital.

On February 5, 2019, the Corporation signed and closed an amendment to the loan agreement with Pala. In connection with the signing of the amendment, Pala was issued 750,000 common shares in the capital of The Corporation (the "Bonus Shares"). The Bonus Shares are subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange and applicable securities laws. The amendment to the loan agreement with Pala included the cancellation of 3,250,000 share purchase warrants issued to Pala in connection with the loan agreement entered into on August 9, 2018 and amended on November 16, 2018 (Note 13).

On June 6, 2019, the Corporation signed and closed an amendment to the loan agreement with Pala. In connection with the signing of the amendment, Pala was issued 171,807 common shares in the capital of The Corporation (the "Arrangement Fee Shares") in settlement of a US\$50,000 arrangement fee payable by The Corporation to Pala. The Arrangement Fee Shares are subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange and applicable securities laws.

	Number of Warrants outstanding and exercisable	Weight Average Exercise Price (\$)
Balance, June 30, 2018 & March 31, 2019	1,624,750	1.05
Balance, June 30, 2019	1,624,750	1.05
Warrants expired during the period	(1,624,750)	(1.05)
Balance, June 30, 2020	-	-

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

16. Share Capital - continued

(b) Stock Options

As at June 30, 2020, 3,731,844 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 Stock Options	Weight Average Exercise Price
Balance, June 30, 2018	741,667	0.60
Stock options issued during the period	125,000	0.80
Balance, March 31, 2019	866,667	0.63
Balance, June 30, 2019	866,667	0.63
Options expired during period	(741,667)	0.60
Balance, June 30, 2020	125,000	0.80

As at June 30, 2020, the Corporation had the following stock options outstanding and exercisable:

Expiry Date	Number of Options Exercisable	Weighted Average Number of Options Outstanding	Remaining Contractual Life (Years)	Exercise Price (\$)
Jul.07, 2021	-	125,000	1.04	\$ 0.80

In February 2017, the Corporation granted 1,150,000 stock options to directors and senior executives of the Corporation at an exercise price of \$0.60. 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 \$549,660 was determined using the Black-Scholes option pricing model. The following assumptions were used: risk-free interest rate - 0.92%; 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 - \$0.55.

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.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

17. General and Administrative Expenses

		Year Ended June 30,		
		2020		2019
Salaries and benefits	\$	1,388	\$	4,919
Professional fees		157		1,054
Directors fees		51		155
General and office		75		1,214
Process Technology		5		1
Travel		207		191
Filing and regulatory fees		43		95
Environmental compliance		83		534
Insurance		16		120
	\$	2,025	\$	8,283

18. Related Party Transactions and Balances

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

		Year Ended June 30,		
		2020		2019
Salaries and benefits	\$	272	\$	573
Directors fees		51		233
Shared based payments		30		146
Consulting fees		-		85
	\$	353	\$	1,037

As at June 30, 2020, remuneration of \$271,966 (2019 - \$85,319) remained payable to related party and included in trade and other payables.

The Corporation entered into loan agreements with Pala and the details of this loan are set out in notes 13 and 14.

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

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

19. Income Taxes

The following table reconciles the expected tax recovery at the Canadian Federal and Provincial statutory rate of 26.50% (2019 - 26.50%) to the amount recognized in the consolidated statements of operations and comprehensive loss:

	2020	2019
Loss before Income Taxes	(3,530)	(32,328)
Statutory Income Tax Rate	26.5%	26.5%
Expected tax (Recovery)	(935)	(8,567)
Difference in foreign tax rates	-	(287)
Tax rate changes and other adjustments	1,707	4,190
Impact of deconsolidation	21,052	-
Non-deductible expenses and other	(1,195)	(32)
Unrealized foreign exchange	-	1,011
Change in unrecognized deductible temporary difference	(20,629)	3,685
Difference	-	-

Deferred Taxes

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following items:

	2020	2019
Non-capital Loss Carryforward - CAD	\$ 116,001	\$ 114,564
Non-capital Loss Carryforward - AUS	-	46,409
Capital Losses Carried Forward	508	-
Mineral Properties	1,434	1,434
PPE	4,763	36,778
Investment in Asian Minerals	5,130	5,200
Reserves	6,253	-
Investment in GRPL	(1,158)	-
Share Issuance Costs	1,976	2,515
	\$ 134,907	\$ 206,900

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

19. Income Taxes - continued

At June 30, 2020 the Corporation had Canadian non-capital loss carried forwards of approximately \$116 million for income tax purposes. The losses may be utilized to reduce future years taxable income earned in Canada and expire between 2027 and 2040. Deductible temporary differences and exploration expenditures do not expire under current tax legislation and can be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

20. Capital Disclosures

The Corporation's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Corporation includes, deficit of \$579.4 million; share capital of \$384.1 million, and contributed surplus \$161.9 million.

The Corporation's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt (secured, unsecured, convertible and/or other types of debt instruments), acquire or dispose of assets or adjust the amount of cash and cash equivalents. The Corporation is currently not subject to externally imposed capital requirements.

21. Financial Instruments

Fair Values

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3).

The Corporation's financial instruments measured at fair value include cash and cash equivalents, the investment in Asian Mineral Resources Limited and the derivative liability. Cash and cash equivalents and investments are reported at Level 1 of the fair value hierarchy and derivative liability is reported at Level 3 of the fair value hierarchy. The value of the derivative liability is based on the Black Scholes model with observable market information as inputs as noted in Note 13. Trade and other payables and loans payables approximate their carrying values due to their short-term maturity.

Risk Management

The Corporation's risk exposures and their impact on the Corporation's financial instruments are summarized below:

Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Corporation. Current credit exposure relates to the loss that would be incurred if the Corporation's counterparties were to default on their current obligations. To minimize the Corporation's exposure to credit risk, the Corporation holds all its cash and cash equivalent balances at major Canadian and Australian financial institutions with an AA rating from Standard and Pours.

The accompanying notes are an integral part of these financial statements

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

21. Financial Instruments - continued

Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at June 30, 2020 the Corporation had cash and cash equivalents of \$0.10 million (June 30, 2019 - \$1.7 million) to settle current liabilities of \$34.6 million (June 30, 2019 - \$38.2 million). Most of the Corporation's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

As per notes 1 and 9, the Corporation has placed its Australian operating subsidiary into Voluntary Administration and entered into a Standstill Agreement with its major financier, Pala.

The Corporation is working with various groups on recapitalisation opportunities.

Market Risk

Market risk is the risk of loss that may arise from changes in interest rates, foreign exchange rates and commodity prices.

(a) Interest Rate Risk

Interest on the Corporation's cash and cash equivalents is based on both fixed and variable rates and exposes the Corporation to interest rate risk. The Corporation has not entered into any derivative agreements to mitigate this risk. The Corporation's loan payable is subject to a fixed interest rate and therefore is not exposed to changes in interest rates. The impact of a change in interest rates of 1% in either direction at June 30, 2020 would not have a material affect on the comprehensive profit or loss.

(b) Foreign Currency Risk

As at June 30, 2020, approximately 57% of the Corporation's cash and cash equivalents were held in United States dollars. The Corporation is exposed to foreign exchange risk associated with the potential fluctuation of the Canadian dollar relative to the US dollars. A plus or minus 5% change in foreign exchange rates at the end of the reporting period would not have a material affect on the comprehensive profit or loss. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates.

22. 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.

23. Commitments and Contingencies

During the year ended June 30, 2019, the Corporation was subject to a claim from the Department of Environment and Science, Queensland Government which holds a possible, but not yet determinable monetary penalty for contravention of a condition of an environmental authority. The Corporation has recorded a current provision of \$Nil (2018 - \$229,421) for the estimated penalty. Upon the deconsolidation of GRPL (Note 5), the provision was derecognised.

Melior Resources Inc.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

23. SUBSEQUENT EVENTS

Pala Promissory Note

Subsequent to the end of the year, on September 7, 2020 the Corporation entered into an amended and restated promissory note, the terms of which included increasing the principal sum to US\$155,550 and extending the term until December 31, 2020.

Liquidation of Australian Subsidiaries

Subsequent to the year end, the liquidation of the Australian subsidiaries is still under process.

Sale of AMR Shares

Subsequent to year end, the Company sold it's 236,363 shares in Asian Mineral Resources Inc. for a net proceeds of \$69,737.

The accompanying notes are an integral part of these financial statements