

# **MELIOR RESOURCES INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2015 AND 2014**

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### **NOTICE TO READER**

The accompanying unaudited condensed interim consolidated financial statements of the Corporation have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Corporation's auditors.

# Melior Resources Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in Thousands of Canadian Dollars)

(Unaudited)

As at	December 31, 2015	June 30, 2015
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 783	\$ 3,676
Prepaid expenses and other receivables	452	1,166
Inventories (Note 6)	88	85
	<b>1,323</b>	<b>4,927</b>
Non Current Assets		
Investment in Asian Mineral Resources Limited (Note 4)	1,182	2,127
Deposits (Note 5)	1,624	1,209
Property, plant and equipment (Note 3)	12,070	11,842
Mineral properties (Note 7)	9,885	7,829
	<b>\$ 26,084</b>	<b>\$ 27,934</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 11 and 14)	\$ 1,216	\$ 4,060
Current portion of obligation under finance leases (Note 8)	40	54
Loan payable (Note 10)	2,682	-
	<b>3,938</b>	<b>4,114</b>
Non-Current Liabilities		
Long-term portion of finance leases (Note 8)	3	48
Decommissioning liability (Note 9)	863	819
	<b>\$ 4,804</b>	<b>\$ 4,981</b>
<b>Shareholders' Equity</b>		
Share capital (Note 12(a))	381,027	381,027
Contributed surplus	159,058	159,058
Accumulated other comprehensive loss	(3,802)	(4,047)
Deficit	(515,003)	(513,085)
	<b>21,280</b>	<b>22,953</b>
	<b>\$ 26,084</b>	<b>\$ 27,934</b>

**Nature of Operations and Going Concern (Note 1)**

**Commitments and Contingencies (Note 11)**

Approval on behalf of Board:

"Joseph Connolly"  
Director

"Mark McCauley"  
Director

**Melior Resources Inc.****Condensed Interim Consolidated Statements of Operations and Comprehensive Loss****(Expressed in Thousands of Canadian Dollars)****(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
<b>Administrative Expenses</b>				
Office and administration (Note 13 and 14)	\$ 602	\$ 1,018	\$ 1,276	\$ 1,770
Depreciation (Note 3)	343	165	570	344
Loss before other income, (expenses)	(945)	(1,183)	(1,846)	(2,114)
<b>Other income (Expense)</b>				
Interest income	28	95	34	167
Gain on sale of property plant & equipment (Note 3)	44	0	44	0
Finance expense	(64)	(2)	(123)	(4)
Foreign exchange gain/(loss)	1	(2)	(27)	(3)
	9	91	(72)	160
<b>Net Loss For The Period</b>	\$ (936)	\$ (1,092)	\$ (1,918)	\$ (1,954)
<b>Other Comprehensive Gain/(Loss)</b>				
Items that will be reclassified subsequently into income:				
Foreign currency translation adjustment	1,536	(635)	1,190	(1,320)
Unrealized (loss)/gain on available-for-sale financial assets	(473)	236	(945)	(709)
	1,063	(399)	245	(2,029)
<b>Total Comprehensive Gain/(Loss)</b>	\$ 127	\$ (1,491)	\$ (1,673)	\$ (3,983)
<b>Loss per common share, basic and fully diluted</b>	\$ (0.004)	\$ (0.005)	\$ (0.009)	\$ (0.009)
<b>Weighted average number of shares outstanding</b>	211,468,945	211,468,945	211,468,945	211,468,945

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

# Melior Resources Inc.

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

	Common Shares		Contributed	Accumulated		Total
	Number	Amount	Surplus	Other Comprehensive Loss	Deficit	
<b>Balance, June 30, 2014</b>	<b>211,468,945</b>	<b>\$ 381,027</b>	<b>\$ 159,058</b>	<b>\$ (2,874)</b>	<b>\$ (510,150)</b>	<b>\$ 27,061</b>
Foreign currency translation adjustment	-	-	-	(1,320)	-	(1,320)
Net loss for the period	-	-	-	-	(1,954)	(1,954)
Unrealized loss on available-for-sale financial assets	-	-	-	(709)	-	(709)
<b>Balance, December 31, 2014</b>	<b>211,468,945</b>	<b>\$ 381,027</b>	<b>\$ 159,058</b>	<b>\$ (4,903)</b>	<b>\$ (512,104)</b>	<b>\$ 23,078</b>
<b>Balance, June 30, 2015</b>	211,468,945	381,027	159,058	(4,047)	(513,085)	22,953
Foreign currency translation adjustment	-	-	-	1,190	-	1,190
Net loss for the period	-	-	-	-	(1,918)	(1,918)
Unrealized (loss) on available-for-sale financial assets	-	-	-	(945)	-	(945)
<b>Balance, December 31, 2015</b>	<b>211,468,945</b>	<b>\$ 381,027</b>	<b>\$ 159,058</b>	<b>\$ (3,802)</b>	<b>\$ (515,003)</b>	<b>\$ 21,280</b>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

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

<b>For the Six Months Ended December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Cash and cash equivalents (used in) provided by:</b>		
<b>Operating Activities</b>		
Cash paid to suppliers, employees, and others	\$ (3,041)	\$ (2,627)
Interest received	34	165
Cash flows from operating activities	<b>(3,007)</b>	<b>(2,462)</b>
<b>Investing Activities</b>		
Payments for property, plant and equipment	(354)	(4,636)
Payments for mineral properties	(3,325)	(59)
Cash receipts from pre-production	1,523	-
Cash flows from investing activities	<b>(2,156)</b>	<b>(4,695)</b>
<b>Financing Activities</b>		
Loan proceeds	2,445	-
Arrangement fee on loan	(132)	-
Finance lease repayments	(43)	-
Cash flows from financing activities	<b>2,270</b>	<b>-</b>
<b>Change in cash and cash equivalents during the period</b>	<b>(2,893)</b>	<b>(7,157)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,676</b>	<b>18,544</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 783</b>	<b>\$ 11,387</b>

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements*

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

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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 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.

These consolidated interim financial statements have been prepared under the assumption that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Corporation has incurred ongoing losses and had a cumulative deficit of \$515,003 as at December 31, 2015 (June 30, 2015 \$513,085). The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future, and repay its liabilities arising from normal business operations as they become due. As at December 31, 2015 the amount outstanding on the loan from Pala investments was \$2,682. This amount is due to be repaid on August 27, 2016. There is a significant risk that if the Corporation is unable to extend the repayment date on the loan, or find alternative sources of finance and it will be unable to meet the repayment of the loan as it falls due. These material uncertainties may cast significant doubt upon the Corporation's ability to continue as a going concern.

As at December 31, 2015, Pala Investments Limited ("Pala") owned directly or indirectly 44.7% of the Corporation's issued and outstanding common shares.

### 2. Summary of Significant Accounting Policies

#### 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 February 18, 2015, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2015. Any subsequent changes to IFRS that are given effect in the Corporation's annual financial statements for the year ending June 30, 2016 could result in restatement of these condensed interim consolidated financial statements.

#### New Standards Not Yet Adopted and Interpretations Issued But Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for annual periods commencing after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Corporation and have been excluded from the table below. The following have not yet been adopted and are being evaluated to determine their impact on the Corporation and the expected adoption date.

- (i) IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective as at January 1, 2018. The Corporation is in the process of assessing the impact of this pronouncement.

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

### 3. Property, Plant and Equipment

<b>Cost</b>			<b>Plant and Equipment</b>			<b>Total</b>
	<b>Vehicles</b>					
Balance, June 30, 2014	\$	325	\$	3,850	\$	4,175
Additions		168		8,704		8,872
Foreign exchange		(11)		(330)		(341)
Balance, June 30, 2015	\$	482	\$	12,224	\$	12,706
Additions		-		354		354
Disposals		(119)		-		(119)
Foreign exchange		18		458		476
Balance, December 31, 2015	\$	381	\$	13,036	\$	13,417
<b>Accumulated Depreciation</b>						
Balance, June 30, 2014	\$	15	\$	55	\$	70
Depreciation		82		712		794
Balance, June 30, 2015	\$	97	\$	767	\$	864
Depreciation		42		528		570
Disposals		(87)		-		(87)
Balance, December 31, 2015	\$	52	\$	1,295	\$	1,347
<b>Carrying Value</b>						
<b>At June 30, 2015</b>	<b>\$</b>	<b>385</b>	<b>\$</b>	<b>11,457</b>	<b>\$</b>	<b>11,842</b>
<b>At December 31, 2015</b>	<b>\$</b>	<b>329</b>	<b>\$</b>	<b>11,741</b>	<b>\$</b>	<b>12,070</b>

During the quarter ended December 31, 2015 the Corporation sold vehicles with a net book value of \$32 for \$76 resulting in a gain of \$44.

### 4. 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 \$5,200 (the "Strategic Investment"). The common shares are recorded at fair value. The Corporation owns and controls, directly and indirectly, a total of 47,272,727 AMR Shares representing approximately 6% of the issued and outstanding AMR Shares on an undiluted basis.

### 5. Deposits

<b>As at</b>	<b>December 31, 2015</b>		June 30, 2015
Term Deposits - Ergon utility deposit	\$	152	\$ 238
Term Deposits - State of Queensland (Note 9)		1,430	932
Office lease deposit		42	39
	\$	1,624	\$ 1,209

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

### 6. Inventories

As at	December 31, 2015	June 30, 2015
Supplies	\$ 88	\$ 85

### 7. Mineral Properties

	Six Months Ended December 31, 2015	Year Ended June 30, 2015
Opening balance	\$ 7,829	\$ 3,320
Additions	3,225	4,646
Depreciation	112	712
Pre-production revenue	(1,523)	(890)
Change in decommissioning estimate	-	192
Foreign exchange	242	(151)
Closing balance	\$ 9,885	\$ 7,829

The Goondicum ilmenite Project comprises two mining leases located in Central Queensland, Australia and is wholly-owned by Goondicum Resources. Goondicum Resources mined the deposit for a period of nine months between fiscal 2012 and 2013 before placing the mine on care and maintenance in June of 2013. Goondicum Resources commenced the upgrade and the necessary work to restart the Goondicum mine, in August 2014. Goondicum Resources commenced mineral commissioning of the upgraded Goondicum mine processing facility in April 2015.

In August of 2015 the Corporation suspended operations at its Goondicum operations due to unfavourable movements in the ilmenite market. Consequently, the Corporation undertook an impairment test on the cash generating unit being the plant, property and equipment and mineral properties. For the impairment test, a value in use model ("VIU") was used to determine the recoverable amount as this was expected to be higher than sale value less costs of disposal.

The key assumptions and estimates used in determining the VIU were calculated using discounted after-tax cash flows based on cash flow projections in the Corporation's current life of mine plans. These projected cash flows were based on the latest expectation of future ilmenite prices, future capital expenditures, production costs estimates, discount rates and exchange rates. VIU was determined by calculating the net present value ("NPV") of the future cash flows expected to be generated by the mine. The key assumptions used by the Corporation for impairment testing are: ilmenite price per tonne US\$145-US\$220; discount rate of 20%; life of mine years of 13. For the three and six months ended December 31, 2015, impairment charges totalled \$nil (2014 - \$nil). A 10% decrease in the price of forecasted ilmenite, holding all other assumptions constant would result in a decrease in fair value of \$8,490. Management continues to monitor and assess impairment of the Corporation's assets, particularly in light of the weakness in the ilmenite market.

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

### 8. Obligation Under Finance Leases

As at	December 31, 2015	June 30, 2015
Obligation under finance leases	\$ 43	\$ 102
Less: Current portion	(40)	(54)
Long-term portion	\$ 3	\$ 48

During the three months ended December 31, 2015, \$41 was paid to terminate leases relating to sold vehicles.

### 9. Decommissioning Liability

For the Corporation, asset retirement obligations primarily relate to the dismantling of the Goodicum 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.

	Six Months Ended December 31, 2015	Year Ended June 30, 2015
Opening balance	\$ 819	\$ 638
Accretion	-	22
Re-measurement of estimate	-	192
Foreign exchange	44	(33)
Closing balance	\$ 863	\$ 819

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 \$1,282;
- Weighted average risk-free interest rate at 3.25%; and
- The \$863 undiscounted provision is expected to be fully disbursed in fiscal 2029.

The Corporation has posted rehabilitation deposits totalling \$1,430 with the State of Queensland as security for the Corporation's obligation under the mine closure plan.

### 10. Loan Payable

On August 17, 2015, the Corporation entered into a US\$5,000 loan facility agreement with Pala Investments Limited 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, upon the initial draw down against the loan facility. The Loan facility is secured by the assets of the Corporation.

Initial draw down on facility, August 28, 2015	\$ 2,445
Interest	63
Commitment fee on unused portion of loan facility	25
Foreign exchange	149
<b>Balance, December 31, 2015</b>	<b>\$ 2,682</b>

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

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### 11. Commitments and Contingencies

There are currently two separate entities that have a contractual entitlement to receive a royalty based on the gross income of Goondicum Resources derived from all mineral sales from tenements. The total of these royalties is 1.2375% of gross income. A third entity holds the right to receive a gross income royalty of 1.0125% of gross income derived from tenements on all minerals except ilmenite and apatite.

Goondicum Resources pays the state government a royalty of 5% of the revenue for all ilmenite sales and approximately \$A0.80/tonne for all phosphate rock sales. Included in accounts payable and accrued liabilities is A\$482 (\$476) (June 30, 2015 - A\$494 (\$475)) pertaining to royalties.

A separate entity is also entitled to a success fee of A\$419 (\$422) if gross revenues of Goondicum Resources exceed A\$23,000 (\$23,190) in any rolling 12 month period.

### 12. Share Capital

#### (a) Authorized

Unlimited preferred shares without par value

Unlimited common shares without par value

#### Issued

	Number of Common Shares	Stated Value
<b>Balance, June 30, 2014, and December 31, 2014</b>	<b>211,468,945</b>	<b>\$ 381,027</b>
<b>Balance, June 30, 2015 and December 31, 2015</b>	<b>211,468,945</b>	<b>\$ 381,027</b>

#### (b) Stock Options

As at December 31, 2015, 19,436,895 common shares remain available for grant under the stock option plan ("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	Weighted Average Exercise Price
<b>Balance, June 30, 2014 and December 31, 2014</b>	<b>1,710,000</b>	<b>\$ 0.17</b>
<b>Balance, June 30, 2015 and December 31, 2015</b>	<b>1,710,000</b>	<b>\$ 0.17</b>

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

### 12. Share Capital (Continued)

As at December 31, 2015 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
Sept. 21, 2018	1,710,000	1,710,000	2.73	0.17

### 13. General and Administrative

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Investigation of investments	\$ -	\$ 12	\$ -	\$ 66
Salaries and benefits	237	414	604	741
Professional fees	139	58	271	107
Director fees	-	35	16	68
General and office	63	272	56	395
Utilities and fuel	70	33	177	57
Filing and regulatory fees	6	12	11	18
Environmental compliance	1	16	1	74
Travel	11	57	17	80
Insurance	45	23	64	55
Repairs and maintenance	30	86	59	109
	\$ 602	\$ 1,018	\$ 1,276	\$ 1,770

# Melior Resources Inc.

## Notes to Condensed Interim Consolidated Financial Statements Three and Six Months Ended December 31, 2015 and 2014 (Expressed in Thousands of Canadian Dollars) (Unaudited)

### 14. Related Party Transactions and Balances

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Salaries and benefits	\$ 63	\$ 115	\$ 156	\$ 224
Directors fees	\$ -	\$ 35	\$ 16	\$ 68

The Corporation and Goondicum resources have entered into an Advisory Services Agreement with Pala Investments Limited (a significant shareholder) ("Pala") to provide the Corporation with consultancy support in evaluating potential capital investments and Goondicum Resources with support advisory services. During the three and six months ended December 31, 2015, the Corporation incurred consultancy fees of US\$50 and US\$50 (three and six months ended December 31, 2014 - US\$25 and US\$25), under the terms of the Advisory Services Agreement, included in office and administration expenses. Additionally, the Corporation paid US\$100 (\$132) as an arrangement fee for the loan payable undertaken on August 27, 2015 (three and six months ended December 31, 2014 - \$nil). Included in accounts payable and accrued liabilities as at December 31, 2015 is US\$50 (June 30, 2015 - US\$55) pertaining to these fees and reimbursable expenses.

### 15. Segmented Information

The Corporation operates in one segment and has one head office segment - the exploration and development of mineral properties, which are located in Australia. Identifiable assets are:

December 31, 2015	Canada	Australia	Total
Property, plant and equipment	\$ -	\$ 12,070	\$ 12,070
Mineral properties	-	9,885	9,885
Corporate and other assets	1,926	2,203	4,129
<b>Total assets</b>	<b>\$ 1,926</b>	<b>\$ 24,158</b>	<b>\$ 26,084</b>
Net loss for the six months ended December 31, 2015	\$ (501)	\$ (1,417)	\$ (1,918)

December 31, 2014	Canada	Australia	Total
Property, plant and equipment	\$ -	\$ 11,842	\$ 11,842
Mineral properties	-	7,829	7,829
Corporate and other assets	4,084	4,179	8,263
<b>Total assets</b>	<b>\$ 4,084</b>	<b>\$ 23,850</b>	<b>\$ 27,934</b>
Net loss for the six months ended December 31, 2014	\$ (372)	\$ (1,582)	\$ (1,954)

### 15. Comparative Information

Certain comparative amounts have been reclassified to conform to current period financial statement presentation.