Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended June 30, 2018

MELIOR RESOURCES INC.

Dated October 19, 2018

MELIOR RESOURCES INC.
(“Melior” or the “Corporation”)

Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the Fiscal Year ended June 30, 2018

This Management’s Discussion and Analysis (“**MD&A**”) of financial condition and results of operations of Melior Resources Inc. (“**Melior**” or the “**Corporation**”) constitutes management’s review of the Corporation’s financial and operating performance for the fiscal year ended June 30, 2018 and the Corporation’s financial condition and future prospects. Except as otherwise noted, this MD&A is dated October 19, 2018 and should be read in conjunction with the Corporation’s audited financial statements and the notes thereto for the fiscal year ended June 30, 2018 and the Corporation’s audited financial statements and the notes thereto and related MD&A for the fiscal year ended June 30, 2017. The Corporation prepares its financial statements in Canadian dollars and all amounts in this MD&A are expressed in Canadian dollars, unless otherwise stated. References in this MD&A to “US$” are to United States dollars and references to “A$” are to Australian dollars.

Forward Looking Information

Certain statements in this MD&A that are not current or historical factual information may constitute “forward-looking” statements within the meaning of applicable securities laws, regarding, among other things, the beliefs, plans, objectives, strategies, estimates, intentions or expectations of the Corporation, including as they relate to its financial results and the ability to execute on its investing and business strategies. Inherent in these forward-looking statements are known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements can often be identified by the use of words such as “may”, “will”, “expect”, “believe”, “plan”, “intend”, “anticipate”, “estimate” and other similar terminology. These statements reflect current expectations regarding future events and performance and speak only as of the date of this MD&A.

Similarly, statements contained in, but not limited to, the sections titled “Overview of the Corporation’s Business”, “Outlook”, “Liquidity and Capital Resources”, “Commitments and Contingencies” and “Off-Balance Sheet Arrangements” of this MD&A, including, but not limited to, the restart of operations at the Goondicum mine, an ilmenite and apatite mine located in Queensland, Australia (the “Goondicum Mine”) and the future of the ilmenite market, dependence on the Goondicum Mine, the ability of the Corporation to meet its capital requirements and to repay the Pala Facility, the anticipated benefits of the PEA, expectations concerning the Corporation’s financial condition, results of operations, business, assets, prices, foreign exchange rates, earnings, market conditions, capital expenditures, risks, availability of regulatory approvals, corporate objectives and plans or goals, are or may be forward-looking statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this MD&A are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure readers that actual results will be consistent with these forward-looking statements.

Investors and others should carefully consider risk factors including, without limitation, those set out under the heading “Risk Factors”, and not place undue reliance on forward-looking statements. The Corporation anticipates that subsequent events and circumstances may cause the Corporation's views to change. Forward-looking statements are made as of the date of this MD&A and the Corporation assumes no obligation to update or revise any forward looking statements to reflect new events or circumstances, except as required by law.

2018 Highlights

- ♦ Completed non-brokered private placement offering raising $1.3 million.
- ♦ Executed a life of mine off-take agreement for the supply of all Goondicum apatite at a price 50% higher than the price previously received for the product.
- ♦ Executed 600,000 tonne, 6 year off-take agreement with a leading Chinese producer of zircon, ilmenite and rutile products which includes pricing calculated at a premium to current traded market price of ilmenite imported into China.
- ♦ Completed updated PEA for the Goondicum project which confirmed the internal feasibility study upon which the board's restart decision was based.
- ♦ Finalised terms for debt facilities and announced the commencement of construction for the restart of the Goondicum Mine.
- ♦ Commenced negotiations to restructure the debt facilities with Pala Investments Limited (Pala) which subsequently resulted in increased balance sheet flexibility, reduced the cost of debt and eliminated the equity overhang and dilution effects through the cancellation of Pala's equity conversion option.

Overview of the Corporation's Business

On May 15, 2014, the Corporation completed the acquisition of 100% of the issued and outstanding shares of Goondicum Resources Pty Ltd, 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 August 27, 2014, the Corporation announced that it had commenced the upgrade and restart of the Goondicum Mine which it expected to complete during the quarter ending June 30, 2015.

On April 7, 2015, the Corporation announced the commencement of mineral commissioning of the upgraded and expanded site processing facilities at the Goondicum Mine. Highlights of the mineral commissioning announcement included:

- mineral commissioning commenced on April 7, 2015, with ramp up to target capacity of approximately 200,000 tonnes of product per annum continuing into the second half of 2015; and
- site components of the restart project completed on budget and ahead of schedule.

As part of the April 7, 2015 announcement, the Corporation disclosed that the total project (as further described below) at the Goondicum mine was completed on budget and ahead of the planned eight-month construction period. The total cost for the on-site upgrade and expansion of the process plant was A$7.60 million (budgeted expenditure A$7.74 million). The project consisted of an upgrade of the existing processing facilities to enhance product quality, increase plant recovery and availability as well as expanding the processing capacity by approximately 50% to 375 tonnes per hour. The Goondicum Mine plant commissioning was expected to continue for up to six months before target production capacity of approximately 17,000 tonnes per month of ilmenite was achieved.

As at June 30, 2015, the Goondicum Mine had produced 15,000 tonnes of ilmenite and 2,000 tonnes of apatite. The plant operated at approximately 50% of its design monthly capacity of ilmenite production, in line with the 6-month ramp-up plan. The first trial cargo of 6,600 tonnes of on-specification product was shipped on June 23, 2015.

Despite the commencement of mineral commissioning at the Goondicum Mine, on August 2, 2015, the Corporation decided that it was in the best interest of its shareholders to suspend production at the Goondicum Mine due to the weak conditions in the ilmenite market.

During the period of suspended operations at the Goondicum Mine, Melior continued to progress with the permitting of the eastern access road to ensure that when the restart occurs, the Goondicum Mine has the opportunity to reduce haulage costs to the Gladstone port by more than A$15 per tonne.

On August 2, 2015, the Corporation entered into a secured loan agreement with Pala to provide funds for expenditures on the Goondicum Mine during the temporary period of suspension, for support of the anticipated restart of operations in stronger market conditions and for general working capital purposes. Since then several amendments have been negotiated with Pala to extend the loan and as at 31 March 2018 the outstanding balance owing to Pala under this facility was US$5.1 million. Further details of the debt facility can be found below.

On April 10, 2018, the Company announced that it had completed and executed a US$5 million loan agreement and 600,000 tonne, six-year ilmenite off-take agreement with Hainan Wensheng, a leading Chinese producer of zircon, ilmenite and rutile products. In conjunction with this, the Company also executed a US$7.25 million restart debt facility with Pala.

On April 19, 2018, the Company announced the restart of the Goondicum Mine following the closing of its funding and offtake package and its subsequent receipt of the first US$2.5 million advance under the Hainan Wensheng agreement.

On April 20, 2018, the Corporation announced it had received an updated Preliminary Economic Assessment (“PEA”) of the Goondicum Mine. The PEA was independently prepared by TZ Minerals International Pty Ltd in accordance with the guidelines of Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

The key assumptions and findings of the PEA are as follows:

Financial Highlights:

- Before tax Project NPV of US$56.2 million
- Before tax Project IRR of 100%
- Before tax Project payback period of 1.5 years
- Prestart capital costs of US$7 million
- Total life of mine before tax cash flow of US$92 million with US$51 million generated in the first three full years of operation.
- Average unit operating cash cost of production of US$124 FOB per tonne of product produced

- Capital expenditure over the mine life of US$16 million
- TZMI forecast long term ex-works prices for Goondicum AA ilmenite and apatite of US$204/tonne FOB Australia and US$116/tonne respectively

Operating Metrics:

- Average annual ilmenite production of 160,000 tonnes with peak production of 198,000 tonnes
- Average annual apatite production of 38,000 tonnes with peak production of 56,000 tonnes
- Mine life of 9 years using a high-grade mine plan
- Total mineral resource processed over the life-of-mine of 23.25 million tonnes at an average ilmenite and apatite grade of 7.0% and 2.3% respectively

On August 29, 2018, the Corporation announced that a special meeting of shareholders had been held to vote on the Corporations' proposed continuance from British Columbia to Australia and associated resolutions in connection with the re-domiciling of the Company. The vote was resoundingly passed by shareholders with 99.9% of the votes cast voting in favour of the resolution. Should the continuance proceed, and the Corporation is registered in Australia, the Corporation intends, at the appropriate time, and in compliance with all relevant laws, to make an application to the Australian Securities Exchange (ASX) for official quotation of its shares. The Corporation will also remain listed on the TSX Venture Exchange (TSX-V) and the continuance is not conditional on the ASX listing occurring. In connection with the continuance, it is also proposed that the Corporation's name will change to Melior Resources Limited. At this time, the Corporation does not satisfy all of the criteria for eligibility to apply to the ASX for official quotation of its shares and there can be no guarantee that ASX will grant official quotation of its shares.

On August 9, 2018, the Corporation entered into a loan agreement with Pala to consolidate its two existing loan facilities into one new facility. The new facility is 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.

On September 12, 2018, the Corporation announced that it had entered into a binding arrangement agreement with ASX listed Metallica Minerals Limited (ASX:MLM) (Metallica) which sets out the terms and conditions of a merger of the two companies. The merger will be by way of a court approved plan of arrangement in which Metallica will acquire all of the issued and outstanding common shares of Melior in exchange for Metallica ordinary shares at an agreed exchange ratio of twenty Metallica shares for every one Melior share. On completion of the merger, Melior shareholders will hold 64% of Metallica's issued capital and Melior will become a wholly owned subsidiary of Metallica. Metallica will remain listed on the ASX and Melior will be de-listed from the TSX-V.

Outlook

The Corporation has commenced the restart of the Goondicum Mine which includes six months of pre-production time to complete the planned project upgrades and recruit and train approximately 50 personnel in preparation for commissioning. The construction project remains on budget and on schedule for the start of production in November 2018.

Production will ramp up to a life-of-mine average of over 160ktpa of ilmenite and 38ktpa of apatite over the initial twelve-month operating period. At full production, it is anticipated that project operating costs would be approximately $28 million per annum, most of which would be spent in Queensland, Australia.

Selected Financial Information

	Years Ending June 30 (in $ thousands)		
	2018	2017	2016
Revenue from continuing operations	-	-	-
(Loss) from continuing operations	(6,714)	(4,126)	(19,634)
Earnings (loss) from discontinued operations	-	-	-
Net income (loss) for year	(6,714)	(4,126)	(19,634)
Basic earnings (loss) per share ($)[(1)]:			
Continuing operations	(0.24)	(0.17)	(0.93)
Discontinued operations	-	-	-
Total assets	13,721	12,360	13,085
Total short-term obligations	7,294	6,209	5,119
Total long-term obligations	4,832	909	853

(1) Basic and dilutive loss per share is calculated by dividing the net loss by the weighted average number of shares in issue during the year. As a result of consolidated net losses, the potential effect of exercising stock options and, as applicable, warrants have not been included in the calculation of loss per share because to do so would be anti-dilutive.

	Three months ended June 30		Twelve months ended June 30	
($ thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Revenue from continuing operations	-	-	-	-
(Loss) income from continuing operations	(3,373)	(1,140)	(6,714)	(4,126)
Income from discontinued operations	-	-	-	-
Net (loss) income for period	(3,373)	(1,140)	(6,714)	(4,126)
Basic (loss) income per share ($):				
Continuing operations	(0.12)	(0.04)	(0.24)	(0.17)
Discontinued operations	-	-	-	-

Results of Operations

Three months and twelve months ended June 30, 2018, compared with the three and twelve months ended June 30, 2017.

The Corporation reported a loss from continuing operations of $3.4 million and $6.7 million for the three and twelve months ended June 30, 2018 respectively (2017 – losses of $1.1 million and $4.1 million respectively).

The increase in the net loss from continuing operations of $2.3 million and $2.6 million for the three and twelve months ended June 30, 2018 was principally due to impairment of an investment ($944,000), a revaluation of future rehabilitation expenses ($784,000) and finance and accretion charges on outstanding debt ($942,000).

Administrative Expenses

General and administrative expenses were $1.5 million and $3.6 million for the three and twelve months ended June 30, 2018, respectively (2017 - $647,000 and $2.8 million). General and administrative expenses relate primarily to salary and wages, consulting, professional and administration expenses for the continuing operations of the Corporation and the Goondicum Mine.

General and administrative expenses for the three and twelve months ended June 30, 2018 increased by $886,000 and $820,000 respectively as compared to the corresponding period in the prior year. The increase in expenses for the three months ended June 30, 2018 is a result of the restart preparations at the Goondicum Mine.

Interest Income, Interest Expense and Convertible Loan Accretion

Interest income earned on cash and deposits during the three and twelve months ended June 30, 2018, amounted to $2,000 and $14,000 respectively (2017 - $8,000 and $34,000) and was related to the interest earned on the Corporation's cash and cash equivalent balances. The decrease in interest income was directly related to lower average cash and deposit balances during the periods.

Total interest expense incurred during the three and twelve months ended June 30, 2018, amounted to $10,000 and $36,000 respectively (2017 - $116,000 and $463,000). The decrease in the finance expense is a result of the Corporation amending the existing debt facility to be convertible to equity. Accretion related to the convertible loan for the three and twelve months ended June 30, 2018, was $240,000 and $942,000 respectively (2017 – nil and nil).

Foreign Exchange Gains/Losses

Foreign currency exchange rates affected the Corporation's monetary assets and liabilities denominated in currencies other than Canadian dollars. During the three and twelve months ended June 30, 2018 the Corporation realised a net foreign exchange gain of $64,000 and a net foreign exchange loss of $17,000 respectively (2017 – loss of $1,000 and gain of $6,000).

As at June 30, 2018, the Corporation had $7.7 million of US dollar denominated liabilities, $3.5 million of Australian dollar denominated liabilities and $15.0 million of Australian dollar denominated assets on its balance sheet.

Share Based Compensation

The Corporation did not grant stock options during the twelve months ended June 30, 2018 (2017 – 11,500,000).

Subsequent to year end June 30, 2018, on July 13, 2018 the Corporation granted 125,000 options with an excise price of $0.80 and an expiry date of July 13, 2021 to Mr. George Lloyd following his appointment as Non-Executive Director of Melior.

Net Profit/Loss

As a result of the factors noted above, the Corporation recorded a net loss of $3.4 million ($0.12 per Share) for the three months ended June 30, 2018 compared to a net loss of $1.1 million ($0.05 per share) for the three months ended June 30, 2017. Net losses were $6.7 million ($0.24 per share) for the twelve months ended June 30, 2018 compared to a net loss of $4.1 million ($0.17 per share) for the twelve months ended June 30, 2017

Summary of Quarterly Results

	2018				2017			
Financial	**(in $ millions)**							
($ millions except per share)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue from continuing operations	-	-	-	-	-	-	-	-
Earnings/(loss) from continuing operations	(3.4)	(1.1)	(1.0)	(1.1)	(1.2)	(0.8)	(1.3)	(0.8)
Net earnings/(loss)	(3.4)	(1.3)	(1.5)	(0.6)	(1.2)	(0.8)	(1.3)	(0.8)
Earnings/(loss) per share from continuing operations	(0.12)	(0.04)	(0.04)	(0.04)	(0.05)	(0.03)	(0.06)	(0.04)
Net earnings/(loss) per share [(1)]	(0.12)	(0.04)	(0.04)	(0.04)	(0.05)	(0.03)	(0.06)	(0.04)
Cash (used in) provided by continuing operations	(0.6)	(1.0)	(0.7)	(1.2)	(0.6)	(0.8)	(1.0)	(0.6)
Capital expenditures	(1.4)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Cash and cash equivalents net of short-term debt	(5.6)	(0.5)	(0.9)	(0.6)	(5.9)	(5.1)	(4.6)	(5.4)

(1) Basic and dilutive loss per share is calculated by dividing the net loss by the weighted average number of shares in issue during the year. As a result of consolidated net losses, the potential effect of exercising stock options and, as applicable, warrants has not been included in the calculation of loss per share because to do so would be anti-dilutive.

Liquidity and Capital Resources

The continuing operations cash and cash equivalents balance as at June 30, 2018 was $1.7 million compared to $138,000 as at June 30, 2017.

The $1.6 million increase in cash balances at June 30, 2018 compared to June 30, 2017 reflects the receipt of the first drawdown of US$2.5 million under the Hainan Wensheng loan and off take agreement, off set by the cost associated with preparations to restart the Goondicum Mine.

As at June 30, 2018, the Corporation had $11.71 million available to be drawn down under debt facilities with Pala and Hainan Wensheng.

The Corporation continues to review its options with respect to ensuring that it has sufficient capital to meet its obligations as they come due and to facilitate the restart of its Goondicum Mine.

Commitments & Contingencies

As at June 30, 2018, $7.3 million of the Corporation's obligations were current and due within the year however, this included $5.3 million which was the debt portion of a secured convertible loan which was subsequently restructured on August 9, 2018 and now has a 24-month maturity and no conversion feature.

The Corporation's non-current obligations of $4.8 million as at June 30, 2018 were comprised primarily of unearned revenue resulting from the first advance under the Hainan Wensheng off-take agreement and a decommissioning liability, which is secured by a term deposit.

Debt

As at June 30, 2018 the Corporation had $6.9 million (2017 – $4.5 million) outstanding on a secured convertible loan constituting the Pala Facility and $3.3 million (2017- nil) outstanding by way of an advance under the off-take agreement with Hainan Wensheng.

On August 9, 2018, the Corporation entered into a loan agreement with Pala to consolidate its two existing loan facilities into one new facility. The new facility is 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.

Related-Party Transactions

Pala is a significant shareholder of Asian Mineral Resources (AMR) and owns either directly or indirectly 13,210,736 or approximately 45.6% of the Common Shares of the Corporation. As such, AMR is a "related party" of the Corporation for the purposes of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") and the Corporation's investment in AMR constituted a "related party transaction" within the meaning of MI 61-101. Further details with respect to the AMR share purchase transaction can be found in Melior's annual information form for the year ended June 30, 2014.

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

($ thousands)	**2018**	2017
Salaries and benefits	**590**	423
Directors fees	**67**	30
Shared based payments	**190**	217

The Corporation and Goondicum Resources have entered into an Advisory Services Agreement (ASA) with Pala (a significant shareholder) to provide the Corporation with consultancy support in evaluating potential capital investments and Goondicum Resources with support advisory services. The ASA was suspended indefinitely on January 1, 2017 and during the year ended June 30, 2018 the Corporation incurred no consultancy fees (June 30, 2017 US$50,000), under the terms of the Advisory Services Agreement, and as such, in accounts payable and accrued liabilities as at June 30, 2018 the fees and reimbursable expenses pertaining to the ASA was nil (June 30, 2017 US$216,000).

The Corporation entered into a secured loan agreement with Pala and the details of this loan are set out in notes 11 and 21. During the year the Corporation incurred interest and fees on the Pala loan of $592,000 (2017 – $395,000)

See also "Commitments and Contingencies" and "Debt" for details of the secured loan with Pala which constitutes a "related party transaction" within the meaning of MI 61-101.

Risk Factors

Business Risk Factors:

The Corporation is exposed to a number of risks and uncertainties. Such risks could materially affect the Corporation's future results and could cause actual events to differ materially from those described in forward-looking statements relating to the Corporation. The risks described herein, or in documents incorporated by reference herein, may not be the only risks facing the Corporation. Additional risks not currently known or not currently considered to be material may also have an adverse impact on the Corporation's business.

Dependence on the Goondicum Mine

The Corporation is primarily focused on the development of the Goondicum Mine. The Corporation does not own any significant assets other than the Goondicum Mine, which would be the Corporation's only mineral property and represents the Corporation's only immediate potential for future generation of operating revenues. Unless the Corporation acquires additional property interests, any adverse developments affecting the Goondicum Mine such as, but not limited to, delays in or failure to successfully restart production, obtaining project financing beyond the Corporation's initial investment on commercially suitable terms, hiring suitable personnel and mining contractors, or securing supply agreements on commercially suitable terms, could have a material adverse effect upon the Corporation and would materially and adversely affect the potential mineral resource production, profitability, financial performance and results of operations of the Corporation.

The Goondicum Mine may not meet its production targets or its cost estimates

The restart of the Goondicum Mine is premised on projected production, capital and operating cost estimates. The Corporation's ability to meet ilmenite production targets is dependent on the successful restart of the mine and expansion of mining operations in the future. Meeting these targets will also depend on the accuracy of predicted factors including capital and operating costs, metallurgical recoveries, resource estimates, future commodity prices, accuracy of applicable technical studies and reports, acquisition of land and surface rights and issuance of necessary permits/approvals. There is no assurance that the mining operations will be expanded or that mining operations will be profitable if expanded. Actual production and costs may vary from the estimates for a variety of reasons such as grade, tonnage, dilution and metallurgical and other characteristics of the ore mined varying from estimates, revisions to mine plans, risks and hazards associated with mining, adverse weather conditions, unexpected labor shortages or strikes, equipment failures and other interruptions in production capabilities. Production costs may also be affected by increased stripping costs, increases in level of ore impurities, labor costs, raw material costs, inflation and fluctuations in currency exchange rates. Failure to achieve production targets or cost estimates could have a material adverse impact on the Corporation's sales, profitability, cash flow and overall financial condition and performance.

Exploration and Estimates of Mineral Reserves and Resources

Mineral exploration and development involves a high degree of risk. Success in exploiting mineral resources and reserves is the result of a number of factors, including the level of geographical and technical expertise, the quality of land available for exploration and other factors. The economics of developing mineral properties are affected by many factors including the cost of operations, variations in grade, fluctuation in prices and fluctuation in exchange rates. Failure to meet project delivery timetables and budgets may impact potential performance, delay cash inflows and increase capital costs.

Mineral reserves and resources estimates for projects are based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades to be mined and processed. There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation however may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

Melior had previously elected to restart the Goondicum Mine based on management's objectives based on internal analysis and studies of project scope, capital costs and production plans (the "**Internal Analysis**") which details the scope of the project, calculates the required project capital to achieve production targets and shows the anticipated cash cost of production and return on capital. Pursuant to Section 4.2(6) of the Companion Policy to National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"), due to this work being undertaken on inferred resources, the Corporation does not disclose project reserves or any associated information pertaining to the project. The Corporation's Internal Analysis in respect of the Goondicum Mine is preliminary in nature, includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and there is no certainty that management's expectations will be realized.

Section 4.2(6) of the Companion Policy to NI 43-101 recognizes that there may be situations where the issuer decides to put a mineral project into production without first establishing mineral reserves. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resources estimated will be converted into mineral reserve. Historically, such projects have had a much higher risk of economic or technical failure. As the Internal Analysis in respect of the Goondicum Mine has been largely based around indicated and inferred resources, Melior acknowledges that this could result in increased uncertainty and technical and economic risks of project failure.

Mineral Titles

Although the Corporation has obtained a title opinion for the tenements underlying the Goondicum Mine, there is no guarantee that title to such mineral property interests will not be challenged or impugned and no assurances can be given that there are no title defects affecting its mineral properties. The Corporation's mineral property interests may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

Operating risks

Once the Goondicum Mine is operational, the activities of the Corporation will also be subject to all of the hazards and risks normally associated with exploration, development and operation of natural resource projects. These risks and uncertainties include environmental hazards, industrial accidents, labour disputes, mechanical failures of the mining equipment or other key plant or machinery, grade problems, transportation problems and periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Should any of the risks affect the Corporation, its business, operations or assets, it may significantly reduce production for prolonged periods and cause the cost of production to increase to a point where it would no longer be economical to continue operations.

Volatility of Mineral Prices

The future profitability of the Corporation will depend on the market price of ilmenite and apatite. Mineral prices fluctuate widely and are affected by numerous factors beyond the Corporation's control, including global supply and demand, political and economic conditions, advancements in mineral processing and currency exchange fluctuations. The effect of these factors on the price of the minerals that the Corporation sells cannot accurately be predicted.

Government Legislation & Policies

Melior's operations are subject to government legislation, policies and controls relating to prospecting, land use, trade, environmental protection, taxation, rates of exchange, return of capital and labour relations. Its exploration operations may be affected in varying degrees by the extent of political and economic stability and by changes in regulations or shifts in political or economic conditions that are beyond the control of the resource issuer. Such factors may adversely affect Melior's business and/or its property holdings. Although Melior's exploration activities may be carried out in accordance with all applicable rules and regulations at any point in time, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of Melior's operations. Amendments to current laws and regulations governing the operations of Melior or more stringent enforcement of such laws and regulations could have a substantial adverse impact on its financial results.

Government Regulations, Licenses and Permits

Exploration and development activities and mining operations are subject to laws and regulations governing health and worker safety, employment standards, environmental matters, mine development, prospecting, mineral production, exports, taxes, labour standards, reclamation obligations and other matters. It is possible that future changes in applicable laws and regulations, or changes in their enforcement or regulatory interpretation could result in changes in legal requirements or in the terms of permits applicable to the Corporation or its properties which could have a material adverse impact on the Corporation's business. Obtaining necessary permits and licences can be a complex, time consuming process and there can be no assurance that required permits will be obtainable on acceptable terms, in a timely manner, or at all. The costs and delays associated with obtaining permits and licenses and complying with these permits and licenses and applicable laws and regulations could stop, materially delay or restrict the Corporation from proceeding with the exploration and development activities or the operation or further development of a mine.

Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in enforcement actions, including orders issued by regulatory or judicial authorities causing interruption or closure of exploration, development or mining operations or material fines and penalties, including, but not limited to, corrective measures requiring capital expenditures, installation of additional equipment, remedial actions or other liabilities. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of these activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

In addition, amendments to current laws and regulations governing the Corporation's activities or more stringent implementation thereof could have a substantial adverse impact on the Corporation and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

<u>Uninsurable Risks</u>

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including fires, flooding and earthquakes may occur. It may not be possible to insure fully or at all against such risks and the Corporation may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such risks arise, they could reduce or eliminate the funds available to the Corporation to fund its operations or investments, increase costs to the Corporation, reduce future profitability and/or materially adversely affect the Corporation's financial condition.

<u>Environmental Regulation</u>

Melior's operations are subject to environmental regulations enacted by government agencies from time to time. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which has led, and is likely to continue to lead, to stricter standards and enforcement and greater fines and penalties for non-compliance. The cost of compliance and risk of non-compliance with government regulations may reduce the profitability of Melior's operations.

<u>Rehabilitation</u>

Costs associated with rehabilitating land disturbed during the mining process and addressing environmental, health and community issues are estimated and provided for based on the most current information available. Estimates may, however, be insufficient, inaccurate and/or further issues may be identified that were not previously anticipated or accounted for by management.

<u>Attraction and Retention of Personnel</u>

The Board may experience delays in hiring, or be unable to hire or retain, experienced and qualified new management for the Corporation within the timeframes necessary or upon terms acceptable to the Corporation. The competition for qualified personnel in the mining and metallurgical industry is intense and there can be no assurance that the Corporation will be able to attract and retain the personnel necessary for the implementation of its business strategy.

<u>Reliance on Key Personnel</u>

Melior is dependent upon the personal efforts, performance and commitment of its management and the Board, who are responsible for the future development of Melior's business. Melior will be relying upon the business judgment, expertise and integrity of Melior's management and the Board. To the extent that the services of any member of management or the Board became unavailable for any reason, a disruption to the operations of Melior could result and may delay the implementation of the Corporation's business strategy.

Conflicts of Interest

Melior's Directors and officers may serve as directors or officers of other companies in the same business as Melior, natural resource companies or companies providing services to Melior, or they may have significant shareholdings in natural resource companies. To the extent that such companies participate in transactions in which Melior participates, the Directors may have a conflict of interest in negotiating and concluding terms to the extent of such participation. Confidentiality and judiciary conflict issues may arise, and any Director may be recused from participating in or voting at a Board meeting. If a conflict of interest arises at a Board meeting, any Director who has a conflict will abstain from voting in connection with the transaction in accordance with the *Business Corporations Act* (British Columbia).

Financial Instruments and Associated Risks:

The Corporation has classified its cash and cash equivalents as cash and cash equivalents, which are measured at cost. Payables and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash and equivalents, deposits, receivables, accounts payable and accrued liabilities reflected in the consolidated statement of financial position approximate fair value because of the short-term nature of these instruments.

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

Foreign Currency Risk

Cash and cash equivalents are comprised of cash at banks and on hand, and short-term money market instruments with an original maturity of three months or less. As at June 30, 2018, A$1.7 million was held in Australian dollars and only a nominal portion of the Corporation's cash and cash equivalents were held in United States dollars. Accordingly, management believes that the Corporation is not exposed to material foreign exchange risk for cash and short-term money.

The Corporation's US dollar debt balance at June 30, 2018 was US$7.7 million. Accordingly, management believes that the Corporation is exposed to material foreign exchange risk until the Goondicum Mine is restarted. The rate published by the Bank of Canada at the close of business on June 30, 2018 was US$0.76 per Canadian dollar and at noon on June 30, 2018 was A$1.03 per Canadian dollar.

Once the Goondicum Mine comes back online the revenue stream for this project will be in US dollars. Therefore, once the project is restarted, the Corporation will be exposed to fluctuations in Australian and US dollars. Accordingly, the Corporation is subject to the risks inherent in exchange rate fluctuations.

The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.

Capital Risk Management

The Corporation defines capital as total shareholders' equity including share capital, other reserves and deficit. The Corporation manages its capital to ensure that adequate funds are available to settle its liabilities as they arise and reviews and evaluates investment opportunities that are achievable within existing resources.

The Corporation is not subject to any externally imposed capital requirements including by a regulator or lending institution.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Corporation is subject to credit risk primarily attributable to its cash and short-term investments.

The Corporation's main credit risk arises from its cash and cash equivalents deposits with banks. All of the Corporation's cash and cash equivalents are with one major Canadian or Australian chartered bank, from which management believes the risk of loss to be remote. The Corporation limits its counterparty credit risk on its deposits by dealing only with financial institutions with AA or above credit ratings.

Liquidity Risk Management

The Corporation manages liquidity risk by maintaining adequate cash balances and loan facilities in order to meet liabilities as they come due.

The financial liabilities or commitments of the Corporation that bear interest are the $5.33 million loan facility and $1,000 of equipment finance leases.

Interest Rate Risk Management

The Corporation has cash balances that earn interest subject to fluctuations in the prime rate. The Corporation's current policy is to invest excess cash in bank institution savings accounts. The Corporation periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes the interest rate risk is remote as investments have maturities of three months or less and the Corporation currently does not carry interest bearing debt at floating rates.

Outstanding Share Data

As at 19 October 2018, the Corporation has 28,979,963 Common Shares outstanding, which are listed on the TSX Venture Exchange under the symbol "MLR". The Corporation also has 866,667 stock options and 4,874,750 warrants (each exercisable for one common share) outstanding which, if exercised, would result in proceeds of approximately $5.3 million).

Additional Information

Additional information relating to the Corporation, is available for viewing on SEDAR at www.sedar.com and on the Corporation's web site at www.meliorresources.com. The Corporation cautions that information contained on, or accessible through, these websites is current only as at the date of such information.