

**Management's Discussion and Analysis of Financial Condition and Results of Operations for
the three and six months ended December 31, 2019**



MELIOR RESOURCES INC.

AMENDED

Dated March 25, 2021

Melior Resources Inc. (the "Company") has amended and restated its management's discussion and analysis (the "Amended MD&A") for the three and six months ended December 31, 2019. The Amended MD&A was re-filed in connection with a review of the Company's disclosure filings by the Ontario Securities Commission. The Amended MD&A has been revised as follows:

- to amend financial information to align with the amended Condensed Interim Financial Statements for the six months ended December 31, 2019 which were refiled on March 25, 2021.
- to update the expiration date of the standstill agreement with Pala Investments Ltd. from May 31, 2020, to April 30, 2021, as per the subsequent amendment dated December 31, 2020.
- to update the Overview and the Outlook to reflect the subsequent termination of the option agreement with Bear Mountain Gold Mines Limited and the subsequent proposed transaction with Rancho Gold Corp.

The Amended MD&A replaces and supersedes the previously filed management's discussion and analysis for the three and six months ended December 31, 2019 as filed on SEDAR on May 5, 2020.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the Three and six months ended December 31, 2019

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 three and six months ended December 31, 2019 and the Corporation’s financial condition and future prospects. Except as otherwise noted, this MD&A is dated March 25, 2021 and should be read in conjunction with the Corporation’s unaudited financial statements and the notes thereto for the three and six months ended December 31, 2019 and the Corporation’s audited financial statements and the notes thereto and related MD&A for the fiscal year ended June 30, 2019. 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”, “Operations”, “Outlook”, “Liquidity and Capital Resources”, “Commitments and Contingencies” and “Off-Balance Sheet Arrangements” of this MD&A, including, but not limited to, the appointment of a voluntary administrator by the Australian subsidiaries, the ability of the Corporation to meet its capital requirements and to repay the Pala Facility, 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.

Overview

Melior Resources Inc. (Melior) is a TSX Venture Exchange listed company focused on assessing, developing and operating resource projects.

Melior’s major current asset is the Goondicum Ilmenite and Apatite Mine located at Monto in Queensland, Australia.

The Corporation commenced the restart of the Goondicum Mine in November 2018 which included a six-month pre-production program to complete project upgrades and recruit and train approximately 50 personnel prior to commissioning. The restart construction project was completed on budget and on schedule.

Ilmenite sales from the Goondicum Mine commenced in March 2019, with 26,910 tonnes shipped to customers in China during the financial year. Apatite sales commenced in January 2019, with 753 tonnes trucked to a domestic off-take partner.

On September 9, 2019, the Corporation announced that its Australian wholly-owned subsidiaries appointed a voluntary administrator, as the subsidiaries were unable to obtain additional funding necessary to satisfy the ongoing cash needs of the business as resulting from the continuing production underperformance at the Goondicum mine. As such, in the opinion of the directors of the subsidiaries, the subsidiaries were insolvent or were likely to become insolvent at some future time.

As of September 9, 2019, the appointed administrator has taken full control of the operations and assets of the subsidiaries. The appointment of the administrator is expected to provide the subsidiaries with some limited statutory protection from creditors with a view to enabling the subsidiaries, their creditors, both secured and unsecured, and their shareholder, Melior, to pursue a technical review and work-out plan or sales strategy to maximize any recovery from the subsidiaries. There is, however, no assurance of success in this endeavor or of recovery of value from the subsidiaries or their assets by Melior.

On November 20, 2020 Melior announced that it had entered into an option agreement with Bear Mountain Gold Mines Limited (“Bear”) for the exclusive right to acquire up to 60% interest in five mineral titles totaling 716.31 hectares situated 2.5km northeast of Harrison Hot Springs in British Columbia. This option is subject to final TSXV approval.

On November 2, 2020 Melior announced that it has entered into a non-binding letter of intent dated October 31, 2020 with Rancho Gold Corp. (“Rancho”) with respect to a proposed transaction (the “Proposed Transaction”) whereby Melior will acquire all of the issued and outstanding common shares in the capital of Rancho. Rancho holds an indirect 99.9% interest in a 22,367-hectare gold exploration property located in the Sierra Madre Occidental gold-belt in eastern Sonora, Mexico, known as the Santa Daniela property.

On December 31, 2020, further to a default notice received by the Corporation on October 30, 2020 pursuant to the non-payment by the Corporation of the first \$25,000 instalment payment and in the context of the requirements for the Proposed Transaction, the Corporation took the decision to allow the option agreement with Bear to terminate in accordance with its terms.

Operations

Commissioning at Goondicum commenced in November 2018 and saw successful testing of various parts of the process plant and its upgrades. While individual components of the plant were successfully delivered and met performance related targets, the ramp-up took longer than was expected which placed significant cashflow pressure on the company and ultimately led to the appointment of administrators and the cessation of operations.

Annual ilmenite and apatite production volumes were 45,196 tonnes and 4,463 tonnes respectively, against budget goals of 59,100 tonnes and 13,800 tonnes respectively. Sales of ilmenite were 26,910 tonnes and apatite were 753 tonnes compared to budgeted sales of 53,500 tonnes and 13,300 of ilmenite and apatite respectively.

The key factor affecting production was the slimes content of the mine feed, which was 13% higher than planned. The higher slimes content resulted in the desliming circuits reaching maximum capacity at a lower throughput rates, limiting overall production.

Sales and revenue from ilmenite were impacted by delayed implementation of the dephos circuit which was designed to reduce the phosphate content of the ilmenite. As such sales during the period incurred a discount of approximately US\$30/t of product.

Sales and revenue from apatite were affected by production issues with the mines' off take partner and a weak domestic fertilizer market due to large parts of Australia suffering from an extended drought.

The combination of the slower than planned production ramp up, the revenue discount from the ilmenite product quality, weak apatite sales and higher than expected initial operating costs consumed the groups cash resources.

Outlook

As previously noted, operations at the Goondicum Mine ceased in September 2019 following the appointment of voluntary administrators. The Goondicum Mine is secured against the loans payable to Pala Investments Limited (Pala) and Hainan Wensheng High-Tech Materials Co. Ltd (Wensheng) totalling US\$23.4 million as at 30 June 2019. The Corporation does not expect that the value realised from the Goondicum Mine will exceed that owed to creditors.

The appointment of the administrator provides the subsidiaries with some limited statutory protection from creditors of the subsidiary including Wensheng, however the loan payable to Pala is held by the Corporation. The Corporation is continuing discussions with the Pala over the debt and had entered into a standstill agreement with Pala. The standstill agreement provides that Pala will not (on certain terms and conditions) proceed with enforcement actions against the Corporation (excluding the Subsidiaries) for a period until April 30, 2021. The Corporation is reliant on this standstill agreement to remain as a going concern.

The Corporation has decided to re-focus on exploring new investment opportunities in resource-based companies and as per the announcement on November 2, 2020, the Corporation announced that it entered into a non-binding letter of intent dated October 31, 2020 with Rancho.

The Proposed Transaction will constitute an arm's length reverse take-over pursuant to the policies of the TSX Venture Exchange (the "TSXV"), and following the Proposed Transaction, it is anticipated that the Company will be a Tier 2 Mining Issuer on the TSXV.

The Proposed Transaction is subject to a number of terms and conditions, including, but not limited to: (i) the equity interests in the Company's Australian subsidiaries having been transferred to third parties pursuant to insolvency proceedings under Australian law or otherwise disposed of, (ii) all indebtedness held by Pala in the Company shall either have been converted in accordance with its terms, assigned to Rancho or forgiven by Pala such that the Company has been released from all liabilities associated with any Pala indebtedness, (iii) as at the closing of the Proposed Transaction, the Company will have no payables (less cash) other than ordinary course trade payables not to exceed an agreed amount and any expenses incurred by the Company in connection with the Proposed Transaction, (iv) completion of the Concurrent Financing and receipt of proceeds thereunder, (v) the approval of the TSXV in respect of the Proposed Transaction and the Resulting Issuer meeting the applicable minimum listing requirements of the TSXV, (vi) approval of the shareholders of the Company and Rancho to the Proposed Transaction, (vii) the termination of the Company's existing Mineral Property Option & Joint Venture Agreement with Bear Mountain Gold Mines Ltd. (the "Bear Mountain Agreement"), (viii) the execution of a definitive agreement in respect of the Proposed Transaction (the "Definitive Agreement"), (ix) the completion of mutual due diligence, and (x) receipt of any required third party consents.

It is currently anticipated that the Proposed Transaction will close during March or April of 2021.

The Corporation continues to look at other options for the reconstruction of the Corporation.

Selected Financial Information

	Years Ending June 30		
	(in \$ thousands)		
	2019	2018	2017
Revenue from continuing operations		-	-
(Loss) from continuing operations	(32,328)	(6,714)	(4,126)
Earnings (loss) from discontinued operations	-	-	-
Net income (loss) for year	(32,328)	(6,714)	(4,126)
Basic earnings (loss) per share (\$) ⁽¹⁾ :			
Continuing operations	(1.10)	(0.24)	(0.17)
Discontinued operations	-	-	-
Total assets	9,011	13,721	12,360
Total short-term obligations	42,589	7,294	6,209
Total long-term obligations	1,727	4,832	909

(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		Six months ended	
	December 31		December 31	
(\$ thousands, except per share data)	2019	2018	2019	2018
Revenue from continuing operations	-	-	-	-
(Loss) income from continuing operations	(1,057)	(5,216)	1,438	(7,660)
Income from discontinued operations	-	-	-	-
Net (loss) income for period	(1,057)	(5,216)	(10)	(7,660)
Basic (loss) income per share (\$):				
Continuing operations	(0.04)	(0.18)	0.00	(0.26)
Discontinued operations	-	-	-	-

Results of Operations

Three and six months ended December 31, 2019, compared with the three and six months ended December 31, 2018.

The Corporation reported a gain (loss) from continuing operations of (\$1.1 million) and (\$10,000) for the three and six months ended December 31, 2019 respectively (2018 – losses of \$5.2 million and \$7.7 million respectively).

The net gain from continuing operations of \$1.4 million for the six months ended December 31, 2019 was principally due to a gain on deconsolidation of \$12.1 million offset by a loss on derecognition of a derivative component of a loan (\$4.9 million) and operating losses of \$1.6 million.

Administrative Expenses

General and administrative expenses were \$128,000 and \$1.9 million for the three and six months ended December 31, 2019, (2018 - \$1.6 million and \$3.3 million). General and administrative expenses relate primarily to salary and wages, consulting, professional and administration expenses.

General and administrative expenses for the three and six months ended December 31, 2019 decreased by \$1.4 million and \$1.5 million as compared to the corresponding period in the prior year. The decrease in expenses for the three and six months ended December 31, 2019 was a result of the commencement and subsequent suspension of operations at the Goondicum Mine.

Interest Expense

Total interest expense incurred during the three and six months ended December 31, 2019, amounted to \$930,000 and \$1.9 million respectively (2018 - \$1.2 million and 1.6 million). The increase in the finance expense over the six-month period is a result of the Corporation issuing additional debt.

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 six months ended December 31, 2019 the Corporation realised a net foreign exchange loss of nil and \$6,000 respectively (2018 - nil and nil).

As at December 31, 2019, the Corporation had \$30.6 million of US dollar denominated liabilities, and \$1.9 million of Australian dollar denominated assets on its balance sheet.

Share Based Compensation

The Corporation did not grant stock options during the three and six months ended December 31, 2019 (2018 – 125,000 options with an exercise price of \$0.80 and an expiry date of July 13, 2021).

Net Profit/Loss

As a result of the factors noted above, the Corporation recorded a net loss of \$10,000 (\$0.00 per Share) for the six months ended December 31, 2019 compared to a net loss of \$7.6 million (\$0.26 per share) for the six months ended December 31, 2018.

Liquidity and Capital Resources

The continuing operations cash and cash equivalents balance as at December 31, 2019 was \$167,000 compared to \$1.7 million as at June 30, 2019.

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 is reliant on the standstill agreement with Pala to remain solvent. See "Debt" for details of the Pala standstill agreement.

Commitments & Contingencies

As at December 31, 2019, \$31.0 million of the Corporation's obligations were current and due within the year and comprised primarily of loans to Pala. See also "Debt" for details of the secured loan and promissory note with Pala.

Debt

As at December 31, 2019 the Corporation had \$30.5 million (2018 - \$18.1 million) outstanding on a secured convertible loan constituting the Pala Facility and \$138,000 (2018 - nil) outstanding on a unsecured promissory note.

On September 13, 2019, the Corporation announced that as a consequence of the appointment of the voluntary administrators to the Subsidiaries, the Company and its Subsidiaries have 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, the Pala demanded that Melior 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 Melior (excluding the Subsidiaries) for a period until April 30, 2021.

On November 20, 2019, the Corporation entered into a demand promissory note with Pala for US\$105,550 and the details of this loan are set out in note 7.

Related-Party Transactions

Pala is a significant shareholder of the Corporation, holding approximately 47.26% of the Corporation. Pala is beneficially controlled by Vladamir Iorich.

Additionally, Pala is a significant shareholder of Asian Mineral Resources (AMR) and owns either directly or indirectly 1,743,134 or approximately 7.8% of the Common Shares of AMR. At the time of the Corporation's investment in AMR, AMR was 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.

The Corporation entered into a secured loan agreement with Pala and the details of this loan are set out in notes 11 and 22 of the consolidated annual financial statements. During the six months the Corporation incurred interest and fees on the Pala loans of \$1.8 million (2018 – \$1.5 million).

As noted above, the Corporation entered into a demand promissory note with Pala for US\$105,550 on November 20, 2019 and the details of this loan are set out in note 7.

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.

Net Current Asset Deficiency

The Corporation currently has a net current asset deficiency, has no means to address the deficiency and is reliant on the standstill agreement with Pala to remain solvent. There is no assurance that the standstill agreement will be extended or that the Pala loan can be settled or amended.

Negative Cashflows

The Corporation currently has a negative operating cash flow and will require additional capital in order to fund its future activities. The Corporation does not have any arrangements in place for this funding and there is no assurance that such funding will be achieved when required.

Potential Dilution

The issue of common shares of the Corporation upon the exercise of the options and warrants will dilute the ownership interest of the Corporation's current shareholders. The Corporation may also issue additional options and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Corporation's then current shareholders could also be diluted.

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.

Mineral Titles

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Corporation has investigated its title to the mineral properties for which it holds concessions or mineral leases or licenses, there can be no assurance that the Corporation has valid title to such mineral properties or that its title thereto will not be challenged or impugned. The Corporation does not carry title insurance with respect to its mineral properties. A successful claim that the Corporation does not have title to a mineral property could cause the Corporation to lose its rights to mine that property, perhaps without compensation for its prior expenditures relating to the property.

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.

Uninsurable Risks

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.

Environmental Regulation

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.

Rehabilitation

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.

Attraction and Retention of Personnel

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.

Reliance on Key Personnel

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 December 31, 2019, US\$122,000 thousand was held in United States dollars.

The Corporation's US dollar debt balance at December 31, 2019 was US\$23.7 million. Accordingly, management believes that the Corporation is exposed to material foreign exchange risk. The rate published by the Bank of Canada at the close of business on December 31, 2019 was US\$0.77 per Canadian dollar.

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 ability to remain as a going concern in the near-term is reliant on a continued standstill of the demand notice from Pala (See Debt section).

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 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 US\$23.7 million of Pala loans. The Corporation's ability to remain as a going concern in the near-term is reliant on a continued standstill of the demand notice from Pala (See Debt section).

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 05 May 2020, the Corporation has 29,901,770 Common Shares outstanding, which are listed on the TSX Venture Exchange under the symbol "MLR". The Corporation also has 125,000 stock options (each exercisable for one common share) outstanding which, if exercised, would result in proceeds of approximately \$3,750).

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.