



RANCHERO GOLD CORP.  
(FORMERLY MELIOR RESOURCES INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

October 21, 2021

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



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Ranchero Gold Corp. (formerly Melior Resources Inc.)**

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Ranchero Gold Corp. (formerly Melior Resources Inc.) (the Company), which comprise the consolidated statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of operations and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

#### Basis for Opinion

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

#### Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$773,390 during the year ended June 30, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Information Other than the Consolidated financial statements and Auditor's Report Thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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



**CLEARHOUSE LLP**  
CHARTERED PROFESSIONAL ACCOUNTANTS

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

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

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

*Clearhouse LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Mississauga, Ontario  
October 21, 2021

**Ranchero Gold Corp.** (Formerly Melior Resources Inc.)  
**Consolidated Statements of Financial Position**  
(Expressed in Thousands of Canadian Dollars)

As at	June 30, 2021	June 30, 2020
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 3	\$ 109
Other current assets (Note 6)	139	49
Investment in AMR (Note 8)	-	70
Investment in GRPL - held for sale (Note 9)	138	1,147
<b>Total assets</b>	<b>\$ 280</b>	<b>\$ 1,375</b>
<b>LIABILITIES</b>		
Current		
Trade and other payables	\$ 472	\$ 526
Promissory note (Notes 11 & 14)	206	148
Loans payable (Notes 10 & 14)	33,637	33,969
<b>Total liabilities</b>	<b>\$ 34,315</b>	<b>\$ 34,643</b>
<b>EQUITY</b>		
Share capital (Note 13)	384,116	384,116
Contributed surplus	161,969	161,963
Accumulated other comprehensive income	-	70
Accumulated losses	(580,120)	(579,417)
<b>Total equity (deficiency)</b>	<b>(34,035)</b>	<b>(33,268)</b>
<b>Total equity (deficiency) and liabilities</b>	<b>\$ 280</b>	<b>\$ 1,375</b>

Nature of Operations (Note 1)

Subsequent Events (Note 19)

Approved on behalf of the Board:

"Gustavo Mazón "  
Director

" William Pincus "  
Director

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

**Ranchero Gold Corp. (Formerly Melior Resources Inc.)**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed in Thousands of Canadian Dollars)**

	<b>Year Ended</b>	
	<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ -	\$ 3,788
Cost of Sales	-	(5,132)
Depreciation	-	(47)
<b>Loss before other income (expenses)</b>	<b>-</b>	<b>(1,391)</b>
Other Income (Expense)		
Accretion decommissioning liability	-	(9)
Finance expense	<b>(3,665)</b>	(4,054)
Foreign exchange (loss)/gain	<b>3,007</b>	(621)
Gain on deconsolidation (Note 5)	-	10,681
Gain on sale of investment in AMR	<b>70</b>	-
General and administrative expenses (Note 14)	<b>(87)</b>	(2,025)
Impairment of plant and equipment	-	(525)
Loss on fair value of derivative	-	(4,829)
Share based payments (Note 15)	<b>(6)</b>	(30)
Impairment of investment in GRPL – held for sale	<b>(22)</b>	(727)
	<b>(703)</b>	<b>(2,139)</b>
<b>Net loss for the year</b>	<b>\$ (703)</b>	<b>\$ (3,530)</b>
Items that will be reclassified subsequently to income:		
Foreign currency translation adjustment	-	1,074
Fair value adjustment on investment in AMR	<b>(70)</b>	70
	<b>(70)</b>	<b>1,144</b>
<b>Total Comprehensive loss</b>	<b>\$ (773)</b>	<b>\$ (2,386)</b>
<b>Net loss per common share, basic and diluted (i)</b>	<b>\$ (0.77)</b>	<b>\$ (35.33)</b>
<b>Weighted average number of shares outstanding (i)</b>	<b>915,088</b>	<b>915,088</b>

(i) Adjusted for 32.6764:1 share consolidation effective October 7, 2021 (note 12).

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

## Ranchero Gold Corp. (Formerly Melior Resources Inc.)

### Consolidated Statements of Changes in Equity (Expressed in Thousands of Canadian Dollars)

	Common Shares		Contributed	Accumulated			
	Number (i)	Amount	Surplus	Other	Comprehensive	Deficit	Total
				Income (Loss)			
<b>Balance, June 30, 2019</b>	<b>915,088</b>	<b>\$ 384,116</b>	<b>\$ 161,933</b>	<b>\$ (1,074)</b>	<b>\$ (575,887)</b>	<b>\$ (30,912)</b>	
Foreign currency translation adjustment	-	-	-	1,074	-	1,074	
Net loss for the year	-	-	-	-	(3,530)	(3,530)	
Share-based payments	-	-	30	-	-	30	
Unrealized gain on FVTOCI asset	-	-	-	70	-	70	
<b>Balance, June 30, 2020</b>	<b>915,088</b>	<b>\$ 384,116</b>	<b>\$ 161,963</b>	<b>\$ 70</b>	<b>\$ (579,417)</b>	<b>\$ (33,268)</b>	
<b>Balance, June 30, 2020</b>	<b>915,088</b>	<b>\$ 384,116</b>	<b>\$ 161,963</b>	<b>\$ 70</b>	<b>\$ (579,417)</b>	<b>\$ (33,268)</b>	
Net loss for the year	-	-	-	-	(703)	(703)	
Share-based payments	-	-	6	-	-	6	
Reversal of unrealized gain on FVTOCI asset	-	-	-	(70)	-	(70)	
<b>Balance, June 30, 2021</b>	<b>915,088</b>	<b>\$ 384,116</b>	<b>\$ 161,969</b>	<b>\$ -</b>	<b>\$ (580,120)</b>	<b>\$ (34,035)</b>	

(i) On October 7, 2021, the Company completed a share consolidation of its capital on the basis of 32.6764 existing common shares for 1 new common share consolidation. All common shares, per common share amounts and stock options in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

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

**Ranchero Gold Corp. (Formerly Melior Resources Inc.)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Thousands of Canadian Dollars)**

<b>For the Year Ended June 30,</b>	<b>2021</b>	<b>2020</b>
<b>Cash and cash equivalents (used in) provided by:</b>		
<b>Operating Activities</b>		
Receipts from customers	-	3,916
Cash paid to suppliers, employees and others	<b>(119)</b>	(6,544)
Cash flow used in operating activities	<b>(119)</b>	(2,628)
<b>Investing Activities</b>		
Payments for plant and equipment	-	(563)
Disposal of FVTOCI investment	<b>70</b>	-
Cash flow used in investing activities	<b>(70)</b>	(563)
<b>Financing Activities</b>		
Cash payments for financing activities	<b>(112)</b>	-
Loan proceeds	-	1,499
Promissory note proceeds	<b>55</b>	143
Cash flow (use in) provided by financing activities	<b>(57)</b>	1,642
Change in cash and cash equivalents during the year	<b>(106)</b>	(1,549)
Cash and cash equivalents, beginning of year	<b>109</b>	1,658
Cash and cash equivalents, end of year	<b>\$ 3</b>	<b>\$ 109</b>

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

# **Ranchero Gold Corp. (Formerly Melior Resources Inc.)**

## **Notes to Consolidated Financial Statements**

**Years Ended June 30, 2021 and 2020**

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

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### **1. NATURE OF OPERATIONS**

Ranchero Gold Corp., (the “Company” or the “Corporation”), is a Canadian company focused on making strategic investments in, and developing, resource-based opportunities offering cash flow and capital appreciation potential.

The Corporation is incorporated under the laws of the province of British Columbia, Canada. The Corporation’s principal place of business is 666 Burrard Street, Suite 1700, Vancouver, British Columbia, Canada.

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

On September 9, 2019, the Corporation’s wholly owned subsidiaries, GRPL and its holding company, Melior Australia Pty Ltd (“MAPL”) appointed a voluntary administrator pursuant to Section 436A of the Corporations Act 2001 (Australia). On September 13, 2019, the Corporation announced that as a consequence of the appointment of the voluntary administrators to GRPL, the Corporation and its subsidiaries received a notice of default and demand from their senior lender under the loan agreement dated August 9, 2018, as amended. Under the Default Notice, Pala Investments Limited (“Pala”) demanded that the Corporation and its subsidiaries make payment to it in the amount of US\$22,714,700, representing the amount outstanding under the loan payable (Note 10) as at September 9, 2019, together with related interest, costs and charges, on or before 4:00 p.m. Australian Western Standard Time on September 13, 2019.

The Corporation has entered into a standstill agreement with Pala pursuant to which Pala has agreed (on certain terms and conditions) not to proceed with enforcement actions against the Corporation (excluding the subsidiaries) for a period until October 31, 2021.

On October 7, 2021, the Corporation completed a share consolidation of its capital on the basis of 32.6764 existing common shares for 1 new common share post consolidation. All common shares, per common share amounts and stock options in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing repay its liabilities. The Corporation has incurred a comprehensive loss of \$773,000 and had a cumulative deficit of \$580.1 million as at June 30, 2021. These conditions raise material uncertainties which cast significant doubt upon the Corporation’s ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets, liabilities and reported expenses should the Corporation be unable to continue as a going concern. These adjustments could be material.

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds. While the Company for a period of time slowed business activities to ensure the safety of staff and consultants, the Company’s operation has been able to continue moving forward on its exploration activities despite the significant global disruptions in business operations.

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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### 2. STATEMENT OF COMPLIANCE

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

The financial statements were authorized for issue by the Board of Directors of the Corporation on October 21, 2021.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

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

(b) Basis of consolidation:

These consolidated financial statements incorporate the financial statements of the Corporation and its wholly owned Subsidiary, 1274169 B.C. Ltd, incorporated under the laws of the British Columbia, Canada. All intercompany transactions, balances, income, and expenses are eliminated upon consolidation.

(c) Translation of foreign currencies:

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

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

(d) Financial Instruments:

Recognition

The Corporation recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value and are derecognized either when the Corporation has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled, or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Corporation has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Measurement

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

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# Rancho Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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

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

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

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

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

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

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

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

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Corporation. If this is the case, the individual assets of the Corporation are grouped together into cash generating units (“CGU”) for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent

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# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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of the cash flows from other assets of the Corporation. This generally results in the Corporation evaluating its non-financial assets on a geographical basis.

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

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

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

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

(f) Cash and cash equivalents:

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

(g) Plant and equipment:

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

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

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

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

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

(h) Decommissioning liabilities:

The Corporation recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are

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# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in finance costs. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates.

(i) Leases:

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

(j) Revenue recognition:

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

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

(k) Income taxes:

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

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

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

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

(l) Related party transactions

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

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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(m) Stock-based compensation:

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

(n) Mineral Properties:

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

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

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

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

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

(o) Per share information:

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

# **Ranchero Gold Corp. (Formerly Melior Resources Inc.)**

## **Notes to Consolidated Financial Statements**

**Years Ended June 30, 2021 and 2020**

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

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(p) Business Combinations:

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

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

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

(q) Provisions:

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

(r) New standards and interpretations

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

# **Rancho Gold Corp. (Formerly Melior Resources Inc.)**

## **Notes to Consolidated Financial Statements**

**Years Ended June 30, 2021 and 2020**

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

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### **4. Critical Accounting Estimates and Judgments**

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

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

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

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

(ii) Valuation of stock options

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

(iii) Going Concern

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

(iv) Deconsolidation of subsidiaries

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

### 5. DECONSOLIDATION

On September 9, 2019, the Corporation announced that its wholly owned subsidiaries, GRPL and MAPL appointed a voluntary administrator pursuant to Section 436A of the Corporations Act 2001 (Australia). Accordingly, the Corporation no longer controls GRPL or MAPL with effect from September 9, 2019. As a result, the assets and liabilities of GRPL and MAPL have been derecognised from the consolidated statement of financial position and the remaining investment has been recognised at its fair value, see note 9.

#### Deconsolidated assets and liabilities of form subsidiaries

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

#### Fair value of deconsolidated operations at September 9, 2019

Net carrying value of deconsolidated operations	\$	8,807
Fair value of deconsolidation operations		1,874

**Gain on deconsolidation** **\$ 10,681**

Please note that the investment in GRPL is held in the name of Ranchero Gold Corp., and any liquidation surplus will flow to Pala Investments Inc against the Pala loans outstanding, see note 10.

### 6. OTHER CURRENT ASSETS

	June 30, 2021	June 30, 2020
Trade and Other receivables	\$ 112	\$ -
HST/GST Receivable	27	18
Prepayments and bonds	-	31
	<b>\$ 139</b>	<b>\$ 49</b>

The accompanying notes are an integral part of these financial statements

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

### 7. PLANT AND EQUIPMENT

Cost	Vehicles	Plant And Equipment	Total
Balance, June 30, 2019	\$ 366	5,386	\$ 5,752
Additions	-	563	563
Impairment	-	(525)	(525)
Deconsolidation (Note 5)	(366)	(5,424)	(5,790)
Balance, June 30, 2020 & June 30 2021	\$ -	-	-
<b>Accumulated Depreciation</b>			
Balance, June 30, 2019	\$ 171	3,660	3,831
Depreciation	-	47	47
Deconsolidation (Note 5)	(171)	(3,707)	(3,878)
Balance, June 30, 2020 & June 30 2021	\$ -	-	-
<b>Carrying Value</b>			
At June 30, 2020 & June 30, 2021	\$ -	-	-

### 8. INVESTMENT IN ASIAN MINERAL RESOURCES LIMITED

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

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

### 9. INVESTMENT IN GRPL - HELD FOR SALE

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

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

### 9. INVESTMENT IN GRPL – HELD FOR SALE – continued

In June 2021, the Company recorded an impairment charge of \$22,000 (2020 \$727,000) to account for the decrease in the GRPL investment fair value to incorporate the impact of the COVID19 outbreak and the increased administrator's fee.

During the year, \$997,000 was paid by the administrator to Pala as the secured creditor, with the same amount being deducted from accrued interest payable to Pala.

<b>Balance, June 30, 2020</b>	<b>\$</b>	<b>1,147</b>
Funds distributed to the secured creditor, Pala		(997)
Impairment		(22)
Foreign exchange		10
<b>Balance, June 30, 2021</b>	<b>\$</b>	<b>138</b>

### 10. LOANS PAYABLE

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

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

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

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

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

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

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

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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### 10. LOANS PAYABLE – continued

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

On February 1, 2019, the Corporation entered into a loan amendment agreement with Pala to advance a 3rd tranche of the previous loan. Tranche 3 was for US\$2 million with a 3% arrangement fee and a 5% issuer discount accrued on drawdown. The new facility was for an aggregate principal amount of US\$15.75 million with a 24-month maturity date. The Corporation also incurred a fee which was paid with 750,000 common shares valued at \$450,000. The amendment has been accounted for as a modification of debt.

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

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

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

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

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

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

On August 21, 2019 the Corporation entered into amendment to loan agreement entered into on August 9, 2018 and amended on November 16, 2018, February 1, 2019 and -6 June 2019 to advance a 5th and 6th tranche of the previous loan. Both Tranche 5 and 6 were for US\$1.0 million each.

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

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

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

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

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### 10. LOANS PAYABLE – continued

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

The Corporation has entered into multiple standstill agreements with Pala pursuant to which Pala has agreed (on certain terms and conditions) not to proceed with enforcement actions against the Corporation (excluding the Subsidiaries). The latest agreement dated as of September 30, 2021 whereby the standstill period extended October 31, 2021.

As a result of the receipt of the Default Notice the Corporation has derecognised the derivative component, which arose from the conversion feature of the loan, and revalued the debt component. During the year ended 30 June 2020, the Corporation recorded a loss on derecognition of the derivative component of \$4,829,344.

On October 7, 2021, concurrent to the amalgamation agreement between Melior Resources and Ranchero Gold Corp., the Corporation settled its loans owing to Pala through the conversion of approximately \$32.0 million of the outstanding loan for common shares in the Corporation with the remainder being forgiven by Pala, pursuant to the terms of a debt settlement agreement between Pala and the Corporation.

<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>5,721</b>
Draw downs on facility		1,363
Transaction costs added to loan principal		136
Interest accrued		3,777
Derivative component derecognised		22,282
Foreign exchange		690
<b>Balance, June 30, 2020</b>	<b>\$</b>	<b>33,969</b>
Repayments		(997)
Interest accrued		3,651
Foreign exchange		(2,986)
<b>Balance, June 30, 2021</b>	<b>\$</b>	<b>33,637</b>

### *Derivative Liability*

<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>17,543</b>
Derivative component additions		(22,282)
Gain on fair value change of derivative		4,829
<b>Balance, June 30, 2020 &amp; June 30, 2021</b>	<b>\$</b>	<b>-</b>

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

### 11. PROMISSORY NOTE

On June 6, 2019, the Corporation entered into a demand promissory note with Pala. The Promissory Note is for an aggregate principal amount of US\$105,550.00 and carries an interest rate of 5% per annum payable on maturity. In addition, the Promissory Note is unsecured and cannot be called in for repayment prior to October 31, 2021. The Corporation may at any time repay some or all of the Promissory Note (without restriction or prepayment charges).

On October 7, 2021, concurrent to the amalgamation agreement between Melior Resources and Ranchero Gold, the debt owing under the Promissory Note was forgiven by Pala, pursuant to the terms of a debt settlement agreement between Pala and the Corporation.

<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>-</b>
Draw downs on facility		137
Interest accrued		4
Foreign exchange		7
<b>Balance, June 30, 2020</b>	<b>\$</b>	<b>148</b>
Draw downs on facility		64
Interest accrued		9
Foreign exchange		(15)
<b>Balance, June 30, 2021</b>	<b>\$</b>	<b>206</b>

### 12. DECOMMISSIONING LIABILITY

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

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

	<b>2021</b>	<b>2020</b>
Opening Balance	-	1,693
Discounted value of additions	-	-
Accretion	-	9
Foreign Exchange	-	(41)
Deconsolidation	-	(1,661)
Closing Balance	-	-

### 13. SHARE CAPITAL

On October 7, 2021, the Corporation completed a share consolidation of its capital on the basis of 32.6764 existing common shares for 1 new common share consolidation. All common shares, per common share amounts, stock and options in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

#### (a) Authorized

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

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

Issued	Number of Common Shares	Amount
Balance, June 30, 2019, 2020 & 2021	915,088	\$ 384,116

### (b) Stock Options

As at June 30, 2021, 91,509 common shares options remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Corporation's common shares on the date of grant or the price determined by the Board of Directors, not being less than the market price, and an option's maximum term is ten years. Options are granted upon approval by the Board of Directors.

	Number of Stock Options	Weight Average Exercise Price
Balance, June 30, 2019	26,523	20.59
Options expired during period	(22,697)	19.61
Balance, June 30, 2020	3,825	26.14
Balance, June 30, 2020	3,825	26.14
Options expired during period	(3,825)	26.14
Balance, June 30, 2021	-	-

## 14. GENERAL AND ADMINISTRATIVE

	Year Ended June 30,		
	2021		2020
Salaries and benefits	\$ 206	\$	1,388
Professional fees	39		157
Directors fees	-		51
General and office	30		75
Process Technology	-		5
Travel (i)	(228)		207
Filing and regulatory fees	18		43
Environmental compliance	-		83
Insurance	22		16
	\$ 87	\$	2,025

(i) Reversal of estimated travel expenses to Pala recorded in the FY 2020 and reversed in the current year.

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# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

### 15. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Year Ended June 30,	
	2021	2020
Salaries and benefits	\$ 206	\$ 272
Directors fees	-	51
Shared based payments	6	30
	<u>\$ 212</u>	<u>\$ 353</u>

The Corporation entered into loan agreements with Pala and the details of this loan are set out in notes 10 and 11.

As at June 30, 2021 and June 30, 2020, Pala owned directly or indirectly 47.26% of the Corporation's issued and outstanding common shares.

As June 30, 2021 included in accounts payable and accrued liabilities due to related parties was \$251 (2020 - \$380).

### 16. INCOME TAXES

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

	2021	2020
Loss before Income Taxes	(703)	(3,530)
Statutory Income Tax Rate	26.5%	26.5%
Expected tax (Recovery)	(187)	(935)
Tax rate changes and other adjustments	-	(1,707)
Non-current asset held for sale	(267)	-
Impact of deconsolidation	-	21,502
Non-deductible expenses and other	(1)	(1,195)
Unrealized foreign exchange	(797)	-
Change in unrecognized deductible temporary difference	1,252	(20,629)
Difference	-	-

### Deferred Taxes

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

	2021	2020
Non-capital Loss Carryforward	\$ 116,761	\$ 116,001
Capital Losses Carried Forward	5,638	508
Mineral Properties	1,434	1,434
PPE	4,763	4,763

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

# Ranchero Gold Corp. (Formerly Melior Resources Inc.)

## Notes to Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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

Investment in Asian Minerals	-	5,130
Reserves	9,917	6,253
Investment in GRPL	(187)	(1,158)
Share Issuance Costs	1,304	1,976
	<u>\$ 139,630</u>	<u>\$ 134,907</u>

At June 30, 2021 the Corporation had Canadian non-capital loss carried forwards of approximately \$117 million for income tax purposes. The losses may be utilized to reduce future years taxable income earned in Canada and expire between 2027 and 2041. Deductible temporary differences and exploration expenditures do not expire under current tax legislation and can be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

### 17. CAPITAL DISCLOSURES

The Corporation's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Corporation includes, deficit of \$580.1 million; share capital of \$384.1 million, and contributed surplus \$162.0 million.

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

### 18. FINANCIAL INSTRUMENTS

#### Fair Values

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

The Corporation's financial instruments measured at fair value include cash and cash equivalents, the investment in Asian Mineral Resources Limited and the derivative liability. Cash and cash equivalents and investments are reported at Level 1 of the fair value hierarchy and derivative liability is reported at Level 3 of the fair value hierarchy. The value of the derivative liability is based on the Black Scholes model with observable market information as inputs as noted in Note 12. Trade and other payables and loans payables approximate their carrying values due to their short-term maturity.

#### Risk Management

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

#### Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Corporation. Current credit exposure relates to the loss that would be incurred if the Corporation's counterparties were to default on their current obligations. To minimize the Corporation's exposure to credit risk, the Corporation

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

# **Ranchero Gold Corp. (Formerly Melior Resources Inc.)**

## **Notes to Consolidated Financial Statements**

**Years Ended June 30, 2021 and 2020**

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

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holds all its cash and cash equivalent balances at major Canadian and Australian financial institutions with an AA rating from Standard and Poors.

### Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at June 30, 2021 the Corporation had cash and cash equivalents of \$3,000 (June 30, 2020 - \$109,000) to settle current liabilities of \$34.3 million (June 30, 2020 - \$34.6 million). Most of the Corporation's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

The Corporation is working with various groups on recapitalisation opportunities.

### Market Risk

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

#### (a) Interest Rate Risk

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

#### (b) Foreign Currency Risk

As at June 30, 2021, approximately 27% of the Corporation's cash and cash equivalents were held in United States dollars. The Corporation is exposed to foreign exchange risk associated with the potential fluctuation of the Canadian dollar relative to the US dollars. A plus or minus 5% change in foreign exchange rates at the end of the reporting period would not have a material affect on the comprehensive profit or loss. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates.

## **20. SEGMENTED INFORMATION**

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

## **21. SUBSEQUENT EVENTS**

### **Liquidation of Australian Subsidiary**

Subsequent to the year end, a further \$92,553 was distributed by the administrator to Pala as the secured creditor and offset against accrued interest payable to Pala. The liquidation of the former Australian subsidiary remains in process.

### **Name Change and Consolidation**

Subsequent to the year end, on October 7, 2021, the Corporation changed its name to "Ranchero Gold Corp." and consolidated its common shares on the basis of 32.6764 pre-consolidation common shares for one post-consolidation common share of the Corporation.

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

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### Reverse Takeover Transaction

Subsequent to the year end, on October 7, 2021, Melior, Ranchero and Melior's wholly-owned subsidiary 1274169 B.C. Ltd ("Newco") completed an amalgamation agreement whereby Ranchero amalgamated with Newco to form Amalco and Melior issued Melior post-consolidation shares to the Ranchero shareholders on the basis of one Melior post-consolidation share for every Ranchero shares held. Prior to giving effect to the transaction, Melior completed the consolidation of outstanding Melior Shares. The deemed price of the transaction was \$0.55

### Amalgamation

Under the terms of the amalgamation agreement, the Corporation acquired all of the issued and outstanding Ranchero Shares by way of an amalgamation ("Amalco") of Ranchero and Newco under the provisions of the *Business Corporations Act* (British Columbia) ("BCBCA") pursuant to the terms of the amalgamation agreement. The following are the principal steps to the transaction:

- (a) Newco and Ranchero amalgamated and continued as one company, being Amalco, pursuant to the provisions of Section 269 of the BCBCA; and
- (b) (i) all of the Ranchero shares outstanding immediately prior to the amalgamation were cancelled, and holders of Ranchero Shares outstanding immediately prior, other than Melior, Newco and dissenting shareholders, received, in exchange for their Ranchero shares so cancelled, one fully paid and non-assessable Melior post-consolidation share for every Ranchero Share so cancelled. Neither Melior nor Newco received any repayment of capital in respect of any Ranchero Shares held by them that were cancelled pursuant to the amalgamation agreement;  
  
(ii) Melior received one fully paid and non-assessable common share in the capital of Amalco for each one common share in the capital of Newco held by Melior, following which all such common shares of Newco were cancelled; and  
  
(iii) each Ranchero compensation option outstanding immediately prior to the amalgamation were exchanged for one resulting issuer replacement option.

As a result of the Amalgamation:

- (a) in accordance with section 282 of the BCBCA, among other things, the property, rights and interests of each of Ranchero and Newco continued to be the property, rights and interests of Amalco, and Amalco continued to be liable for the obligations of each of Ranchero and Newco; and
- (b) Amalco is a wholly-owned subsidiary of Melior.

Following the transaction, the table below shows the ownership structure of the Corporation post amalgamation.

Description of Issue	Number of Shares Issued	Percentage of Total
Held by former Melior shareholders	7,875,000	12.0%
Issued to current Ranchero shareholders	46,707,773	71.1%
Issued to new shareholders	11,154,549	17.0%
<b>Fully Diluted Total</b>	<b>65,737,322</b>	<b>100.0%</b>

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# **Ranchero Gold Corp. (Formerly Melior Resources Inc.)**

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**Years Ended June 30, 2021 and 2020**

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### Debt Settlement and Success Fee

As a condition to closing of the amalgamation, the Corporation settled its debt of approximately C\$35.5 million owing to Pala through the conversion of approximately C\$32.0 million of the outstanding indebtedness into an aggregate of 6,449,759 common shares of the Corporation, on a post-consolidation basis, and Pala forgave the remaining indebtedness of approximately C\$3.5 million pursuant to the terms of a debt settlement agreement between Pala and the Corporation.

As Pala was a control person of the Corporation prior to the amalgamation, the debt settlement was a related party transaction pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”). The Corporation relied on the financial hardship exemptions from valuation and minority approval contained in sections 5.5(g) and 5.7(e) of MI 61-101. The debt settlement was unanimously approved by the board of directors of the Corporation. Prior to the debt settlement and amalgamation, Pala owned 47.3% of the issued and outstanding shares of the Corporation, and following the debt settlement and amalgamation, Pala owns approximately 11.6% of the issued and outstanding shares of the Corporation. The Corporation also issued an aggregate of 510,154 common shares of the Corporation, on a post-consolidation basis, to LACG Capital Inc. (“LACG”) in consideration for LACG’s assistance in introducing Ranchero to the Corporation.

The common shares of the Corporation issued to Pala and LACG are subject to a hold period expiring on February 8, 2022, and the shares issued to Pala are also subject to a TSXV Form 5D – Escrow Agreement.