CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

THREE-MONTH AND 141 DAY PERIODS ENDED

MARCH 31, 2021

MONARCH MINING CORPORATION

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Three-month and 141 day periods ended March 31, 2021

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

	NOTES	MARCH 31, 2021
		$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		**19,013,624**
Commodity taxes and other receivables		**342,696**
Inventory		**997,441**
Prepaid expenses and deposits		**658,849**
		21,012,610
NON-CURRENT ASSETS		
In trust deposits	10	**1,458,099**
Property, plant and equipment	5	**13,435,259**
Mining properties	6	**8,923,179**
Exploration and evaluation assets	7	**16,382,712**
		40,199,249
		61,211,859
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		**1,810,066**
Current portion of long-term debt	8	**34,024**
		1,844,090
NON-CURRENT LIABILITIES		
Long-term debt	8	**9,049**
Other liabilities	9	**3,194,533**
Deferred income taxes and mining taxes		**4,825,009**
Asset retirement obligations	10	**4,877,741**
		12,906,332
		14,750,422
SHAREHOLDERS' EQUITY		
Share capital and warrants	11	**46,362,630**
Contributed surplus		**99,282**
Deficit		**(475)**
		46,461,437
		61,211,859

Reporting entity and nature of operations (Note 1); Commitments (Note 13).

The accompanying notes are an integral part of the consolidated condensed interim financial statements.

On behalf of the Board:

'Jean-Marc Lacoste', Director

'Michel Bouchard', Director

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(UNAUDITED)

PERIODS OF THREE-MONTH AND 141 DAY ENDED MARCH 31, 2021

	NOTES	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
		$	**$**
Administration	14	**(585,444)**	**(585,444)**
Care and maintenance	14	**(962,859)**	**(962,859)**
Exploration		**(1,242,142)**	**(1,242,142)**
Operating loss		**(2,790,445)**	**(2,790,445)**
Finance income		**2,328**	**2,328**
Finance expense	14	**(69,106)**	**(69,106)**
Loss on foreign exchange		**(892)**	**(892)**
Management fee income		**84,197**	**84,197**
Other income related to flow-through shares		**36,486**	**36,486**
Loss before taxes		**(2,737,432)**	**(2,737,432)**
Deferred income and mining taxes		**(23,219)**	**(23,219)**
Net loss and comprehensive loss		**(2,760,651)**	**(2,760,651)**
Basic and diluted net loss per share		**(0.05)**	**(0.08)**
Weighted average number of shares outstanding		**51,795,044**	**33,060,667**

The accompanying notes are an integral part of the consolidated condensed interim financial statements.

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	$	$	$	$
BALANCE AS AT BEGINNING	–	–	–	–
EQUITY FINANCING				
Initial issuance of shares (note 11)	1	–	–	**1**
Issuance of shares in relation with the business combination (note 4)	43,027,328	–	–	**43,027,328**
Elimination of initial share	(1)	1	–	**–**
Issuance of flow-through shares (note 11)	5,081,721	–	–	**5,081,721**
Premium on flow-through shares (note 11)	(1,751,339)	–	–	**(1,751,339)**
Share issuance costs	–	–	(542,677)	**(542,677)**
Exercise of warrants	4,920	–	–	**4,920**
OPTIONS				
Options granted to employees, officers, directors, consultants or I.R. representatives (note 12)	–	99,281	–	**99,281**
Effect of the business acquisition under common control (note 4)	–	–	3,302,853	**3,302,853**
	46,362,630	99,282	2,760,176	**49,222,088**
NET LOSS FOR THE PERIOD	–	–	(2,760,651)	**(2,760,651)**
BALANCE AS AT MARCH 31, 2021	**46,362,630**	**99,282**	**(475)**	**47,461,437**

The accompanying notes are an integral part of the consolidated condensed interim financial statements.

	NOTES	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAYS PERIOD ENDED MARCH 31, 2021
		$	$
Operating activities			
Net loss for the period		**(2,760,651)**	**(2,760,651)**
Adjustments for:			
Amortization	5	**17,754**	**17,754**
Share-based payments		**99,281**	**99,281**
Accretion expense on asset retirement obligations		**12,330**	**12,330**
Interest on lease liabilities	8	**936**	**936**
Interest on the royalty buy-back option		**36,810**	**36,810**
Other income related to flow-through shares		**(36,486)**	**(36,486)**
Income taxes and deferred mining taxes		**23,219**	**23,219**
Change in non-cash operating working capital	15	**975,258**	**975,258**
		(1,631,549)	**(1,631,549)**
Financing activities			
Proceeds from issuance of shares	11	**5,081,721**	**5,081,722**
Share issuance costs		**(542,677)**	**(542,677)**
Exercise of warrants	11	**4,920**	**4,920**
Repayment of lease liabilities	8	**(7,221)**	**(7,221)**
		4,536,743	**4,536,744**
Investing activities			
Business combination under common control	4	**14,283,329**	**14,283,329**
In trust deposit		**(27,496)**	**(27,496)**
Proceeds from balance of sale		**2,000,000**	**2,000,000**
Increase in exploration and evaluation assets	7	**(147,404)**	**(147,404)**
		16,108,429	**16,108,429**
Increase in cash and cash equivalents		**19,013,623**	**19,013,624**
Cash and cash equivalents, beginning of period		**1**	**–**
Cash and cash equivalents, end of period		**19,013,624**	**19,013,624**

Other cash flow information (Note 15)

The accompanying notes are an integral part of the consolidated condensed interim financial statements.

1. REPORTING ENTITY AND NATURE OF OPERATIONS

Monarch Mining Corporation (the «Company») incorporated on November 11, 2020, under the *Canada Business Corporations Act*, is engaged in the exploitation and exploration of mining properties. Its shares trade on the Toronto TSX under the symbol GBAR since January 27, 2021. Its activities are in Canada.

Since its incorporation, the Company has incurred operating losses and cash outflows related to the operation, exploration and development of its properties. To date, the Company has financed its activities via cash received in the transaction with Yamana Gold on January 21, 2021 (note 4) and the issuance of shares (note 11). The Company's ability to ultimately achieve operating income in the future depends on the ability to develop its mining properties and achieve commercial production.

The Company believes that it has sufficient liquidity to meet its obligations over the next 12 months. The Company's business plan is dependent on raising additional funds to pursue the development of its projects. Despite the Company's ability to obtain financing as stated above, there can be no assurance that the Company will be able to obtain financing in the future, and there can be no assurance that such financing sources or initiatives will be available to the Company or that they will be available on terms acceptable to the Company.

The address of the Company's head office is 68, avenue de la Gare, Suite 205, Saint-Sauveur, Québec, Canada J0R 1R0 and its website is www.monarchmining.com.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Company's independent auditor has not performed a review of these unaudited consolidated condensed interim financial statements for the three-month and 141 day periods ended March 31, 2021 in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the Company's auditor.

These unaudited consolidated condensed interim financial statements have been prepared in accordance with IFRS ("IFRS") issued by the International Accounting Standards Board ("IASB"). These unaudited consolidated condensed interim financial statements have been prepared in accordance with IFRS applying to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. Some information ordinarily included in the audited annual financial statements prepared in accordance with IFRS, in particular the notes thereto, has been omitted or condensed. Accordingly, these unaudited Consolidated Condensed Interim Financial Statements do not contain all the information required for full annual financial statements. On May 11, 2021, the Board of Directors of the Company approved the consolidated condensed interim financial statements.

B) BASIS OF PREPARATION AND MEASUREMENT

The consolidated condensed interim financial statements have been prepared on the historical cost basis.

The consolidated condensed interim financial statements have been prepared on a going concern basis, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

2. BASIS OF PREPARATION (CONTINUED)

C) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

D) OPERATING SEGMENTS

The Company operates in one operating segment, the exploitation and exploration of mining properties. All of the Company’s assets are located in Quebec, Canada.

E) USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are described below:

i) Mineral reserves and resources

Key sources of estimation uncertainty

Mineral reserves and resources have been estimated by qualified persons as defined in accordance with Canadian Securities Administrators’ National Instrument 43-101 Standards of Disclosure for Mineral Projects requirements. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data and require estimates of the future price for the commodity and the future cost of operations. The mineral reserve and resource estimates are subject to uncertainty and actual results may vary significantly from these estimates. Results from drilling, testing and production, as well as material changes in metal prices and operating costs subsequent to the date of an estimate, may justify revision of such estimates.

A number of accounting estimates, as described in the relevant accounting policy notes, are impacted by the mineral reserves and resources estimates:

- Exploration and evaluation of mineral resources and determination of technical feasibility and commercial viability. The application of the Company’s accounting policy for exploration and evaluation expenditures requires judgment in determining whether future economic benefits may be realized, which are based on assumptions about future events and circumstances.
- Impairment and reversal of impairment analysis of non-financial assets including evaluation of estimated future cash flows of cash-generating units (“CGU”).
- Estimates of the outlays and their timing for asset retirement obligations.

2. BASIS OF PREPARATION (CONTINUED)

E) USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

ii) Impairment and reversal of impairment of non-financial assets

Key sources of estimation uncertainty

Management's assumptions and estimates of future cash flows used in the Company's impairment determination of non-financial assets are subject to risk and uncertainties, particularly in market conditions where higher volatility exists, and may be partially or totally outside of the Company's control.

If an indication of impairment or reversal of a previous impairment charge exists, an estimate of the CGU's recoverable amount is calculated. The recoverable amount is based on the higher of fair value less costs of disposal ("FVLCD") and value-in-use ("VIU") using a discounted cash flow method taking into account assumptions that would be made by market participants, unless there is a market price available based on a recent purchase or sale of a mine. Cash flows cover periods up to the date that mining is expected to cease, which depends on a number of variables including recoverable mineral reserves and resources, expansion plans and the forecasted selling prices for such production.

Judgments made in relation to accounting policies

Both internal and external sources of information are required to be considered when determining whether there is any indication of impairment or that a previous impairment has reversed. Judgment is required around adverse changes in the business climate which may be indicators for impairment such as a significant decline in the asset's market value, decline in resources and/or reserves as a result of geological re-assessment or change in timing of extraction of resources and/or reserves which would result in a change in the discounted cash flow obtained from the site, and lower metal prices or higher input cost prices than would have been expected since the most recent valuation of the site. Judgment is also required when considering whether significant positive changes in any of these items indicate a previous impairment may have reversed.

Judgment is required to determine whether there are indications that the carrying amount of an exploration project is unlikely to be recovered in full by the successful development of the project or by sale. Judgment is also required when considering whether significant positive changes might indicate a reversal of a previous impairment of exploration and evaluation.

iii) Provisions and recognition of a liability for loss contingencies

Key sources of estimation uncertainty

Provisions related to present obligations, including AROs, are management's best estimate of the amount of probable future outflow, expected timing of payments, and discount rates.

2. BASIS OF PREPARATION (CONTINUED)

E) USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

iv) Royalty buy-back option

Judgments made in relation to accounting policies

Management exercised its judgment in evaluating the appropriate accounting treatment for the sale of the Beaufor property royalty and the allocation of the proceeds between the property, plant and equipment disposed of and the royalty buy-back option. The Company reviewed the specific terms of the agreement to determine whether it had disposed of an interest in the reserves and resources of the Beaufor property. The evaluation considered the rights attributed to the counterparty and the risks and rewards associated with it during the life of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these the consolidated condensed interim financial statements, unless otherwise indicated.

A) BASIS OF CONSOLIDATION

i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company reassesses control on an ongoing basis.

The financial statements of subsidiaries are included in the consolidated condensed interim financial statements from the date on which control is acquired until the date on which control ceases.

The consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries, X-Ore Resources Inc. ("X-Ore"), Beacon Gold Mill Inc. ("Beacon") Louvem Mines Inc. ("Louvem"), and 11306448 Canada Inc. ("Canada").

ii) Transactions eliminated between the Company and the subsidiaries

Inter-company balances and transactions, and any unrealized losses and profits arising from inter-company transactions, have been eliminated in preparing the consolidated condensed interim financial statements.

B) MINING PROPERTIES AND DEVELOPMENT COSTS

The Company may own interests in mining properties in different forms, including prospecting permits, exploration and mining concessions, mining leases and surface rights. The Company capitalizes, as mining properties, payments made in the process of acquiring legal title to such properties.

At the time of the exploration phase, the Company capitalizes exploration and evaluation costs. Exploration and evaluation costs include expenses associated with geological and geophysical studies, expenses related to initial exploration activities for deposits with economic potential such as exploration drilling, sampling and activities related to the assessment of the technical feasibility and commercial viability of mineral resource exploration.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) MINING PROPERTIES AND DEVELOPMENT COSTS (CONTINUED)

Mining property acquisition costs and development costs are recognized at cost. Mine development costs incurred to increase mining capacity, explore new mineral deposits or develop mining areas before production is possible are capitalized. Pre-production expenses incurred before the mine can be mined as planned by management are capitalized. Borrowing costs related to qualifying assets are capitalized and incorporated in mine development costs while construction and development of the property continues. Any proceeds from metal sales received during a project's development and commissioning phase are recorded against capitalized expenses. The development and commissioning phase ends when commercial production commences.

Beginning of the development phase

The Company evaluates the potential of each project to determine when it should progress from the exploration and evaluation phase to the development phase. Technical feasibility and commercial viability will be considered to have been achieved when the Entity has met the following conditions:

- Obtaining a technical feasibility and commercial viability study
- Decision of the Entity on this basis to proceed to the development phase
- Obtaining extraction permits
- Obtain the necessary funding to carry out the development plan

Once management has determined that a project has demonstrated development potential based on these criteria and once approved by the Board of Directors of the Company, the project enters the development phase.

Beginning of the commercial production phase

The Company assesses the status of each mining asset under development to determine when it will begin commercial production, usually when the mine is substantially complete and ready for use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of the project and its location. The Company considers various criteria relevant to assessing when the production phase is considered to have commenced. At this point, all corresponding amounts are reclassified from mining assets under construction to mining properties. Some of the criteria used to identify the start date of commercial production include, but are not limited to:

- when the mine is substantially completed and ready for use;
- the ability to maintain current production at a constant or increasing level;
- mineral recovery is equal to or close to the expected production level; and
- the completion of a reasonable trial period for the mine facility and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) MINING PROPERTIES AND DEVELOPMENT COSTS (CONTINUED)

Beginning of the commercial production phase (continued)

Once commercial production has commenced, additional development costs incurred in a mining property are incorporated into the cost of the mining property when it is probable that additional future economic benefits relating to the expense will flow to the Company. Otherwise, these expenses are classified as exploration expenses in the consolidated condensed interim statement of net loss and comprehensive loss. Once the commercial production phase has commenced, the mining properties are depreciated over the useful life of the mine using the unit of production method, based on the mine's estimated proven and probable mineral reserves and the portion of measured, indicated and inferred mineral resources expected to be classifiable as reserves for the corresponding mines. The Company determines the portion of mineral resources expected to be classified in reserves by considering the extent to which cost-effective mining is probable, which depends on assumptions on long-term metal prices, cut-off grade assumptions, and drilling results. These assessments are made for each individual mine.

The expected useful lives used to calculate depletion are determined in view of the facts and circumstances associated with the mining property. Any change in the estimated useful lives is accounted for prospectively as of the date of the change.

C) POST-EMPLOYMENT BENEFITS AND SHORT-TERM EMPLOYEE BENEFITS

The Company provides post-employment benefits through a defined benefit plan under which the Company makes defined contributions based on a percentage of the employees' salary to an independent entity. The Company has no legal or constructive obligation to make contributions in addition to the defined contributions. The Company also contributes to government plans for certain employees, which are considered defined benefit plans. The plan contributions are recognized as an expense in the period in which the services of employees are received. Short-term employee benefits, including vacation entitlement, are current liabilities included in "trade and other payables" and are measured at the undiscounted amount the Company expects to pay due to unused entitlement.

D) INVENTORY

Supply, ore and precious metals inventories are valued at the lower of cost and net realizable value. The cost of supply, ore and precious metals inventories is determined using the weighted average cost formula. The cost of ore and precious metals inventories includes all expenses directly attributable to the ore extraction and processing process, including a systematic allocation of fixed and variable production overheads that are incurred in extracting and processing ore.

Net realizable value is the estimated selling price in the ordinary course of business less any estimated cost to completion and estimated selling expenses. The cost of inventory recognized as an expense is included in the cost of sales.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, net of related government assistance, accumulated depreciation and accumulated impairment. Cost includes all costs incurred initially to acquire or construct an item of property, plant and equipment, 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 and costs incurred subsequently to add to or replace part thereof.

Depreciation of the Beaufor mining property

Property, plant and equipment of the Beaufor mining site is depreciated using the units-of-production method. The depreciation rate is calculated in accordance with the number of ounces of gold produced using proven and probable reserves. The estimated period of depreciation is determined based on the reserves of each mining site in production.

Depreciation is presented within cost of sales.

Depreciation of other property, plant and equipment

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of other property, plant and equipment is calculated on a straight-line basis over their expected useful lives as follows:

- Buildings: 20 years
- Leasehold improvements: 10 years
- Equipment and mobile equipment: 5 to 10 years

Depreciation of other property, plant and equipment (continued)

Depreciation of an asset ceases when it is classified as held for sale or when it is derecognized. Consequently, depreciation does not cease when the asset becomes idle or is retired from active use, unless the asset is fully depreciated.

Material residual value estimates, estimates of useful life, proven and probable reserves and the depreciation methods are reviewed as required, at least annually. Any changes in residual value, useful life and proven and probable reserves are recognized prospectively as they occur.

The carrying amount of an item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the proceeds of disposal and the carrying amount of the asset and are recognized separately in the combined carve-out statement of net earnings (net loss) and comprehensive income.

Borrowing costs are capitalized and charged specifically to qualifying assets at the time the funds are borrowed, either specifically to finance a project or as general borrowings during the construction period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership of the transferred asset.

Financial assets and financial liabilities are offset and the net balance is presented in the consolidated statement of financial position when there is an unconditional and legally enforceable right to offset the recognized amounts and an intention either to settle net or to realize the asset and settle the liability simultaneously.

All financial instruments must be measured at fair value on initial recognition. Fair value is based on quoted market prices unless the financial instruments are not traded in an active market. In this case, fair value is determined using valuation techniques such as the Black-Scholes option pricing model or other valuation techniques.

Measurement subsequent to initial recognition depends on the classification of the financial instrument. The Company has classified its financial instruments into the following categories based on their purpose for which they were acquired and their characteristics.

The Company has classified its financial instruments as follows:

CATEGORY	FINANCIAL INSTRUMENT
Financial assets at amortized cost	➢ Cash and cash equivalents ➢ In trust deposits
Financial liabilities at amortized cost	➢ Trade and other payables ➢ Royalty buy-back option

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

G) IMPAIRMENT

The Company uses the prospective model based on expected losses to calculate the impairment of financial assets. The application of the expected loss model requires considerable judgment, including consideration of the impact of changes in economic factors on expected credit losses, which will be determined on a probability weighted basis. At each reporting date, this new impairment model is applied to financial assets measured at amortized cost or those measured at fair value through profit or loss, with the exception of investments in equity instruments and contractual assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G) IMPAIRMENT (CONTINUED)

Impairment losses, if incurred, would be recorded in the Company's administration expenses in the consolidated condensed interim statement of loss and comprehensive loss, and the carrying amount of the financial asset or group of financial assets would be reduced by an allowance account for credit losses. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed in the consolidated condensed interim statement of loss and comprehensive loss. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

The carrying amounts of mining properties and exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances apply:

- Exploration rights have or will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities are discovered, and exploration and evaluation activities will be discontinued.

Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the asset’s recoverable amount is estimated.

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether indicators of impairment exist. Indicators of impairment of property, plant and equipment are different of those related to mining properties and exploration and evaluation assets.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The level identified by the Company for the purposes of testing mining properties and exploration and evaluation assets for impairment corresponds to each mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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 depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H) PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

I) SHARE CAPITAL AND WARRANTS

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares, and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through shares

The Canadian tax legislation allows an entity to issue securities to investors whereby the deductions for tax purposes relating to resource expenditures may be claimed by the investors and not by the Company. These securities are referred to as flow-through shares. The Company finances a portion of its exploration programs with flow-through shares.

At the time of the share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a liability related to flow-through shares. The Company estimates the fair value of the liability related to flow-through shares using the residual method, by deducting the quoted price of common shares from the price of the flow-through shares at the date of the financing announcement.

A company may renounce the deductions for tax purposes under either what is referred to as the “general” method or the “look-back” method.

When tax deductions are renounced under the general method, the Company records a deferred tax liability with the corresponding charge to income tax expense when the Company has the expectation of renouncing and has capitalized the expenditures for the current year. At the same time the liability related to flow-through shares is reduced, with a corresponding increase to income.

When tax deductions are renounced under the look-back method, the Company records a deferred tax liability with a corresponding charge to income tax expense when expenditures are incurred and capitalized. At the same time, the liability related to flow-through shares would be reduced to nil, with a corresponding increase to income.

Warrants

Warrants are classified as equity when they are derivatives over the Company’s own equity and will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company’s own equity instruments; otherwise they are classified as liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J) SHARE-BASED PAYMENTS

The grant date fair value of share-based payment awards granted to employees, members of the Board of Directors, consultants and brokers is recognized as an expense, with a corresponding increase in contributed surplus, over the period during which the participants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company. The Company measures the goods or services received, and the direct corresponding increase in equity at the fair value of the goods or services received, except when that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

Restricted share unit

Restricted share units ("RSU") may be granted to employees, directors and officers as part of their long-term compensation package, entitling them to receive a payment in the form of common shares, cash (based on the Company's share price at the relevant time) or a combination of common shares and cash, at the sole discretion of the Company. The fair value of the RSU to be settled in common shares is measured on the grant date and is recognized over the vesting period under contributed surplus with a corresponding charge to share-based compensation. A liability for the RSU to be settled in cash is measured at fair value on the grant date and is subsequently adjusted at each balance sheet date for changes in fair value. The liability is recognized over the vesting period with a corresponding charge to share-based compensation.

K) INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net loss, except to the extent that it relates to a business combination or to items recognized directly in equity or in other comprehensive income or loss.

Current tax is the tax that is expected to be paid or recovered on account of taxable income or deductible loss for a year, based on tax rates enacted or substantively enacted at the balance sheet date, and also includes any adjustment to tax payable in respect of prior years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K) INCOME TAX (CONTINUED)

Deferred taxes are recognized as income or expense in profit or loss, except to the extent that tax arises from business combinations and transactions recognized in equity.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities which intend to settle current tax liabilities and assets on a net basis or realize their tax assets and liabilities simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

L) REFUNDABLE CREDIT ON MINING DUTIES AND REFUNDABLE TAX CREDIT RELATED TO RESOURCES

The Company is eligible for a refundable credit on mining duties under the Quebec Mining Duties Act. This refundable credit on mining duties is equal to 16% and applicable to 50% of the eligible expenses. The accounting treatment for refundable credit on mining duties depends on management's intention to go into production in the future or to sell its mining properties to another mining producer once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property.

In the first case, the credit on mining duties is recorded as an income tax recovery under IAS 12, Income Taxes, which generates a deferred tax liability and deferred tax expense since the exploration and evaluation assets have no more tax basis following the Entity's election to claim the refundable credit.

In the second case, it is expected that no mining duties will be paid in the future and, accordingly, the credit on mining duties is recorded as a government grant under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, which is recorded against exploration and evaluation assets.

Currently, it is management's intention to go into production in the future. Credits on mining duties are therefore recorded as recovery of income taxes.

The Company is also eligible for a refundable resource tax credit for mining industry companies on eligible expenses incurred. The refundable resource tax credit represents up to 31% for eligible expenses incurred and is recorded as a government grant against exploration and evaluation assets. Since the expenses for exploration and evaluation assets have been financed with flow-through shares, the Company is not currently eligible for these tax credits since they have been transferred to investors.

Credits related to resources recognized against exploration and evaluation expenditures are recorded at fair value when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the grant. The credits are recognized in profit or loss on a systematic basis and over the useful life of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M) LEASES

At inception of a contract, the Company assesses whether a contract is or contains a lease by determining whether it confers the right to control the use of a specified asset for a certain period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the inception date of the lease. The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted to reflect lease payments made on or before the commencement date, plus any initial direct costs incurred and the estimated costs of dismantling and removing the underlying asset or restoring it or the site on which it is located, less any lease incentive received.

The right-of-use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms, including options to renew for which the Company is reasonably certain to exercise, range from 1 to 3 years for equipment and rent. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its marginal borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising mainly due to a change in index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or when the Company changes its assessment regarding the possible exercise of a purchase, renewal or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of net loss and comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

Payments related to short-term leases (12 months or less) and leases of low value assets are recorded as expenses in the consolidated condensed interim statement of net loss and comprehensive loss on a straight-line basis.

N) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the aggregate of the fair values, at the acquisition date, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Where appropriate, the consideration transferred includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value.

A business combination is defined in IFRS 3, Business Combinations, as a transaction in which an acquirer obtains control of a business, which is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to investors. For an integrated set of activities and assets to be considered as a business, the set must include inputs and processes.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O) EARNINGS PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year, after adjusting for shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, after adjusting for shares held, for the effects of all dilutive potential common shares, which comprise warrants, RSU and share options granted.

P) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and amounts deposited with banks. Cash equivalents include all highly liquid short-term investments with original maturities of three months or less, or cashable at any time without penalty.

Q) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The following new standard and interpretation is not yet effective and has not been applied in the preparation of these financial statements:

Property, Plant and Equipment - Revenue Prior to Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB published Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16).

The amendments apply to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

The amendments provide guidance on the recognition of the proceeds from the sale of items that a Company produces and sells so that an item of property, plant and equipment can be used as intended, as well as the related costs of production. In particular, proceeds from the sale of items that have been produced before the related property, plant and equipment is ready for use should be recognized in net income, together with the related production costs.

4. BUSINESS COMBINATION UNDER COMMON CONTROL

On January 21, 2021, Yamana Gold ("Yamana") acquired all of the outstanding shares of Monarch Gold Corporation as part of a plan of arrangement (the "Arrangement"). Under the Arrangement, Monarch Gold Corporation completed a spin-out to its shareholders through Monarch Mining Corporation. Monarch Mining Corporation received all assets and liabilities that were not sold to Yamana, which comprised the following:

i) The Beaufor mine, the McKenzie Break property, the Croinor Gold property, the Swanson property and the Beacon Gold mill and property and all assets and liabilities related to these properties (collectively the "Transferred Assets"); and

ii) A net cash amount of $14 million.

4. BUSINESS COMBINATION UNDER COMMON CONTROL (CONTINUED)

In exchange, the Company issued 66,195,889 shares.

In addition, on January 21, 2021, Monarch Gold Corporation had 11,289,473 warrants (the "Certificated Warrants") outstanding issued pursuant to standalone warrant certificates and 10,042,000 warrants (the "Indenture Warrants") outstanding issued pursuant to a warrant indenture dated September 17, 2020 between Monarch Gold Corporation and Computershare Trust Company of Canada (the "Warrant Indenture").

As part of the Arrangement, for each unexercised Certificated Warrant outstanding at January 21, 2021, the holder received:

i) one Yamana warrant (a "Replacement Yamana Warrant") to purchase from Yamana 0.0376 of a Yamana share at an exercise price of $0.074.

ii) one Monarch Mining Corporation warrant (a "Replacement Monarch Warrant") to purchase from the Company 0.2 of a Company share at a weighted average exercise price of $0.051.

Each Indenture Warrant of Monarques Gold Corporation shall continue to be governed by and be subject to the terms of the Warrant Indenture, subject to any supplemental indenture, warrant certificate or exercise documents, as applicable, issued provided by the Yamana and Monarch Mining Corporation (as they mutually agree, each acting reasonably) to holders of the Indenture Warrants to facilitate the exercise of the Indenture Warrants and the payment of the corresponding portion of the exercise price therefor. As part of the Arrangement, for each Indenture Warrant outstanding at January 21, 2021, the holder will be entitled to receive:

i) 0.0376 of a Yamana share for a net exercise price of $0.311 per Indenture Warrant.

ii) 0.2 of a Company share for a net exercise price of $0.097 per Indenture Warrant.

4. BUSINESS COMBINATION UNDER COMMON CONTROL (CONTINUED)

The above transaction was accounted for as a business combination under common control since it occurred between companies under common control. As a result, the transaction was measured in the accounts of the Company using the historical carrying values from the accounts of Monarch Gold Corporation. The Company has also elected not to restate comparatives for periods prior to the acquisition and has elected to recognize the difference between the consideration paid and the carrying values transferred ("Acquisition Adjustment") as an adjustment to retained earnings.

The following table shows the accounting for the business combination under common control on January 21, 2021:

	$
Consideration paid:	
Common shares issued	43,027,328
Carrying values based on the amounts from Monarch Gold Corporation:	
Cash	14,283,329
Other current assets	3,802,469
In trust deposits	1,430,603
Property, plant and equipment	13,453,013
Mining properties under exploration	25,107,672
Current liabilities	(587,476)
Leases liabilities	(49,358)
Non current liabilities	(1,442,870)
Asset retirement obligations	(4,865,411)
Deferred income and mining taxes	(4,801,790)
Retained earnings (including Acquisition Adjustment)	(3,302,853)
	43,027,328

5. PROPERTY, PLANT AND EQUIPMENT

	EQUIPMENT, AND LEASEHOLD IMPROVEMENTS	RIGHTS-OF-USE	MINING ASSETS UNDER CONSTRUCTION (A)	BEAUFOR MINING PROPERTY	BEAUFOR BUILDINGS AND EQUIPMENT	TOTAL
	$	$	$	$	$	$
COST						
Balance at beginning	**–**	**–**	**–**	**–**	**–**	**–**
Business combination (note 4)	408,034	45,816	10,506,782	644,885	1,847,496	13,453,013
Balance as at March 31, 2021	**408,034**	**45,816**	**10,506,782**	**644,885**	**1,847,496**	**13,453,013**
CUMULATIVE AMORTIZATION						
Balance at beginning	**–**	**–**	**–**	**–**	**–**	**–**
Amortization	11,537	6,217	–	–	–	17,754
Balance as at March 31, 2021	**11,537**	**6,217**	**–**	**–**	**–**	**17,754**
NET CARRYING AMOUNT						
Balance as at March 31, 2021	**396,497**	**39,599**	**10,506,782**	**644,885**	**1,847,496**	**13,435,259**

(A) Since these items are not available for use, the mining assets under construction have not yet been depreciated.

6. MINING PROPERTIES

PROPERTIES [(1) (2)]	NOVEMBER 11, 2020	BUSINESS COMBINATION (NOTE 4)	MARCH 31, 2021
	$	$	$
McKenzie Break	–	3,957,574	**3,957,574**
Croinor Gold	–	3,013,049	**3,013,049**
Swanson and other	–	1,952,556	**1,952,556**
	–	**8,923,179**	**8,923,179**

(1) All mining properties are located in the province of Québec, Canada.

(2) Mineral claims included in the properties have been acquired with different agreements or by map designation and, therefore, the applicable royalties, if any, are covered by specific agreements.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are as follows:

	NOVEMBER 11, 2020	BUSINESS COMBINATION (NOTE 4)	EXPLORATION AND EVALUATION EXPENSES	MARCH 31, 2021
	$	$	$	$
Croinor Gold	–	11,363,032	52,370	**11,415,402**
McKenzie Break	–	4,563,261	139,288	**4,702,549**
Swanson and other	–	258,200	6,561	**264,761**
	–	**16,184,493**	**198,219**	**16,382,712**

Exploration and evaluation assets by nature are as follows:

	MARCH 31, 2021
	$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	**74,882**
Geology and geophysics	**53,718**
Test, sampling and prospecting	**69,619**
Increase in exploration and evaluation expenses	**198,219**
Business combination (note 4)	**16,184,493**
Balance, beginning of period	**–**
Balance, end of period	**16,382,712**

8. LONG-TERM DEBT

	LEASES LIABILITIES
	$
Balance at beginning	–
Business combination under common control (note 4)	49,358
Accrued interest for the period	936
Repayment	(7,221)
Balance as at March 31, 2021	**43,073**
Current portion	34,024
Non-current portion	9,049

The Company have a credit facility with RBC of $2,000,000 bearing interest at prime rate plus 2,5%. The facility is guarantee with the same amount of Guaranteed Investment Certificate. The facility is not use as at March 31, 2021.

9. OTHER LIABILITIES

	MARCH 31, 2021
	$
Flow-through share liabilities	1,714,853
Royalty buy-back option	1,479,680
	3,194,533

The royalty buy-back option is accounted for as a financial instrument and the accretion expense is recognized as a financial expense in the consolidated statement of net loss. An accrued interest of $36,810 is accounted for the three-month and 141 day periods ended March 31, 2021.

10. ASSET RETIREMENT OBLIGATIONS

A) FINANCIAL GUARANTEES

The following table shows the allocation of financial guarantees issued as at March 31, 2021:

	MARCH 31, 2021
	$
Beaufor Mine	851,043
Beacon Mill	2,437,500
McKenzie Break	122,480
Croinor Gold	555,315
	3,966,338
Cash deposit	416,155
Bond	3,550,183

10. ASSET RETIREMENT OBLIGATIONS (CONTINUED)

B) OBLIGATIONS ALLOCATION

The following table shows the allocation of asset retirement obligations as at March 31, 2021:

	MARCH 31, 2021
	$
Beaufor Mine	1,044,725
Beacon Mill	2,995,469
Croinor Gold	555,315
McKenzie Break	282,232
	4,877,741

Changes in asset retirement obligations were as follows, for the period:

	MARCH 31, 2021
	$
Balance, beginning of period	–
Business combination under common control (note 4)	4,865,411
Accretion expense	12,330
Balance as at March 31, 2021	4,877,741

11. SHARE CAPITAL AND WARRANTS

Authorized:

Unlimited number of common shares without par value

Changes in the Company's share capital and warrants were as follows:

	NUMBER OF WARRANTS (2)	NUMBER OF SHARES ISSUED	AMOUNT
			$
Balance at beginning	–	–	–
Initial issuance of share	–	1	1
Share and warrant issuance in relation to the business combination under common control (note 4)	11,289,473	66,195,889	43,027,328
Elimination of initial share	–	(1)	(1)
Flow-through shares (1)	–	3,450,984	3,330,382
Exercise of warrants	(105,000)	21,000	4,920
Warrants granted	207,059	–	–
Balance as at March 31, 2021	**11,391,532**	**69,667,873**	**46,362,630**

(1) The carrying value of flow-through shares is presented net of the liability for the flow-through share premium of $1,751,339 that was recorded related to the issuance of the flow-through shares as at March 4, 2021.

(2) Excluding the Indenture warrants issued by Monarch Gold Corporation (Note 11 C)

On March 4, 2021, the Company completed a flow-through financing of 863,143 provincial flow-through units at a price of $1.75 and 2,587,841 federal flow-through units at a price of $1.38 for gross proceeds of $5,081,721.

11. SHARE CAPITAL AND WARRANTS (CONTINUED)

A) REPLACEMENT MONARCH WARRANTS

Changes in the Replacement Monarch Warrants were as follows. Each Replacement Monarch Warrant can be converted into 0.2 common share of the Company:

	141 DAY PERIOD ENDED MARCH 31, 2021	
	Number of warrants	Weighted average exercise price
		$
Outstanding, beginning of period	–	–
Warrant issuance in relation to the business combination under common control (note 4)	11,289,473	0.051
Exercised	(105,000)	0.047
Outstanding, end of period	**11,184,473**	**0.052**

The following table summarizes the information relating to the Replacement Monarch Warrants:

NUMBER OF WARRANTS OUTSTANDING AS AT MARCH 31, 2021	EXERCISE PRICE	EXPIRY DATE
	$	
118,182 (exercisable)	0.053	April 2021
1,380,040 (exercisable)	0.083	September 2022
9,751,251 (exercisable)	0.047	June 2023
11,184,473		

B) WARRANTS GRANTED TO BROKERS

Changes in the Company's warrants granted to brokers were as follows. Each warrant can be converted into one common share of the Company:

	141 DAY PERIOD ENDED MARCH 31, 2021	
	Number of warrants	Weighted average exercise price
		$
Outstanding, beginning of period	–	–
Granted	207,059	1.38
Outstanding, end of period	**207,059**	**1.38**

The following table summarizes the information relating to the warrants granted to brokers:

NUMBER OF WARRANTS OUTSTANDING AS AT MARCH 31, 2021	EXERCISE PRICE	EXPIRY DATE
	$	
207,059 (exercisable)	1.38	March 2023

11. SHARE CAPITAL AND WARRANTS (CONTINUED)

C) INDENTURE WARRANTS

The following table summarizes the information relating to the Indenture warrants:

NUMBER OF INDENTURE WARRANTS OUTSTANDING AS AT MARCH 31, 2021	EXPIRY DATE
10,042,000 (exercisable)	September 2022

Each warrant can be converted into 0.2 common share of the Company for a net exercise price of $0.097 per Indenture Warrant, see note 4 for detail.

D) RESTRICTED SHARES UNITS ("RSUS")

The Company established the Monarch Mining Corporation Restricted Share Unit Plan, whereby the Company's Board of Directors may, from time to time, grant RSUs to officers, employees and consultants of the Company.

Each RSU entitles the participant to receive, at the Company's discretion, one common share, its cash equivalent or a combination of common share and cash. The Company intends to settle these RSUs in the form of common shares and therefore, the Monarch Mining Corporation Restricted Share Unit Plan is considered an equity-settled plan. At the time of granting RSUs under the Monarch Mining Corporation Restricted Share Unit Plan, the Board of Directors determines, in its sole discretion, any vesting conditions, settlement period or other conditions applicable to such grant.

RSUs give the holder the right to receive a specified number of common shares at the specified vesting date. Compensation expense related to RSUs is recognized over the vesting period based upon the fair value of the Company's common shares on the grant date and the awards that are expected to vest. The fair value is calculated with reference to the closing price of the Company's common shares on the TSX on the business day prior to the date of grant. On the settlement date, one common share is issued for each RSU, after deducting any income taxes payable on the benefit earned by the RSU holder that must be remitted by the Company to the tax authorities Set out below are summaries of RSUs granted under the Monarch Mining Corporation Restricted Share Unit Plan:

	141 DAY PERIOD ENDED MARCH 31, 2021	
	Number of RSUs	**Weighted average intrinsic value at grant date**
		$
Outstanding, beginning of period	–	–
Granted	1,235,500	0.85
Outstanding, end of period	**1,235,500**	**0.85**
Vested, end of period	–	–

The fair value of the RSUs is recognized as compensation expense over the vesting period. For the three-month and 141 day periods ended March 31, 2021, the total share-based compensation related to RSUs amounted to $53,481 and is classified under share-based compensation in the consolidated statement of loss and comprehensive loss.

12. SHARE PURCHASE OPTIONS

The shareholders of the Company approved a share purchase option plan (the "Plan") whereby the Board of Directors may grant to employees, officers, directors and consultants of the Company share purchase options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board of Directors. The exercise price may not be lower than the market price of the common shares at the time of grant.

The Plan provides that the maximum number of common shares of the Company that may be reserved for issuance under the Plan shall not be greater than 10% of the issued and outstanding shares of the Company.

The maximum number of common shares which may be reserved for issuance with regards to the Plan to a single holder may not exceed 5% of the outstanding common shares at the time of vesting and may not exceed 2% of the outstanding common shares for consultants and investor relations representatives. These options are not assignable or transferable unless by legacy or inheritance and expire no later than five years after being granted. If an option holder leaves the Company, his options normally expire no later than one year following his departure, subject to the conditions established under the Plan. The vesting period for the share purchase options varies from immediate vesting up to 36 months following the acquisition date and the life of the options varies from two to five years.

Changes in the Company's share purchase options granted to directors, officers, employees and consultants were as follows:

	141 DAY PERIOD ENDED MARCH 31, 2021	
	Number of options	**Weighted average exercise price**
		$
Outstanding, beginning of period	–	–
Granted	2,049,000	1.00
Outstanding, end of period	**2,049,000**	**1.00**
Exercisable, end of period	–	–

The following table summarizes the information relating to the share purchase options:

NUMBER OF OPTIONS OUTSTANDING AS AT MARCH 31, 2021		EXERCISE PRICE	EXPIRY DATE
OUTSTANDING	EXERCISABLE	$	
2,049,000	–	1.00	MARCH 2026

For the three-month and 141 days periods ended March 31, 2021, the application of the fair value model resulted in an expense of $45,800 recorded under share-based compensation in the consolidated statement of loss and comprehensive loss.

12. SHARE PURCHASE OPTIONS (CONTINUED)

The fair value of share options granted is determined using the Black-Scholes option pricing model with the following assumptions:

	141 DAY PERIOD ENDED MARCH 31, 2021
Risk-free interest rate	**0.87%**
Expected dividend rate	**–%**
Expected volatility	**80%**
Expected life of options	**5 years**
Weighted average price per share	**$0.85**
Weighted average exercise price of options granted	**$1.00**
Weighted average fair value of share purchase options granted during the period	**$0.52**

13. COMMITMENTS

Flow-through shares

The Company is committed to disbursing, prior to certain dates, amounts in eligible exploration and evaluation expenses, in accordance with the *Income Tax Act (Canada) and the Quebec Taxation Act*, and to transfer these tax deductions to the subscribers of the completed flow-through share investments of each of the financing. In connection with these commitments, the table below provides important details:

DATE OF THE FINANCING	AMOUNT OF FINANCING	DEADLINE FOR DISBURSEMENTS	RESERVED FUNDS AS AT MARCH 31, 2021	LIABILITIES RELATED TO FLOW-THROUGH SHARES AS AT MARCH 31, 2021
	$		$	$
March 4, 2021	5,081,721	December 31, 2022	4,936,604	1,714,853

14. OTHER INFORMATION STATEMENT OF NET LOSS

A) ADMINISTRATION

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	**$**
Salaries, directors' fees and related benefits	**294,103**	**294,103**
Share-based compensation	**99,281**	**99,281**
Consultants and professional fees	**110,281**	**110,281**
Office expenses, insurance, taxes and permits	**53,742**	**53,742**
Investor relations and representation expenses	**10,283**	**10,283**
Amortization	**11,537**	**11,537**
Amortization of rights-of-use	**6,217**	**6,217**
	585,444	**585,444**

14. OTHER INFORMATION STATEMENT OF NET LOSS (CONTINUED)

B) CARE AND MAINTENANCE

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Beaufor	797,725	797,725
Beacon	165,134	165,134
	962,859	962,859

C) FINANCE EXPENSE

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Interest on lease liabilities	936	936
Accretion expense	12,330	12,330
Others	55,840	55,840
	69,106	69,106

15. OTHER CASH FLOW INFORMATION

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Change in non-cash working capital items:		
Commodity taxes and other receivables	(233,965)	(233,965)
Inventory	(28,402)	(28,402)
Prepaid expenses and deposits	65,850	65,850
Trade and other payables	1,171,775	1,171,775
	975,258	975,258

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Non-cash items:		
Change in trade and other payables related to exploration and evaluation assets	50,815	50,815

16. COMPENSATION

A) TOTAL COMPENSATION

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Salaries, directors' fees, premiums and other benefits	473,643	473,643
Share-based compensation	99,281	99,281
Defined contribution plan	27,554	27,554
Government plans	53,445	53,445
	653,923	653,923

As at March 31, 2021, trade and other payables included an amount of $339,590 payable relating to salaries and other benefits.

B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include members of the Board of Directors and the Company's senior executives, namely the President and Chief Executive Officer, VP Finance and Chief Financial Officer and VP Corporate Development.

Key management personnel compensation includes the following expenses:

	THREE-MONTH PERIOD ENDED MARCH 31, 2021	141 DAY PERIOD ENDED MARCH 31, 2021
	$	$
Salaries, directors' fees, premiums and other benefits	135,706	135,706
Share-based compensation	64,313	64,313
Defined contribution plan	6,215	6,215
Government plans	20,825	20,825
	227,059	227,059

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instrument

Current financial assets and liabilities, which include cash and cash equivalents, other receivables and trade and other payables, approximate their fair value due to their immediate or short-term maturity. Therefore, no details regarding their fair value are presented below.

The carrying value of non-current liabilities, which includes the royalty buy-back option, approximates its fair value. The fair value of these financial liabilities is calculated based on the present value of principal and interest cash outflows that are discounted at market rates at the reporting date taking into account the Company's credit risk.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial instrument (continued)

The following table shows the carrying amount and fair value of financial assets and liabilities, and their level in the fair value hierarchy:

AS AT MARCH 31, 2021	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	$	$	$	$	$
Financial liabilities measured at amortized cost					
Royalty buy-back option	1,479,680	1,479,680	–	–	1,479,680

Risk exposure and management

The Company is exposed to several risks at different levels. The type of risk and the way the exposure is managed are described hereafter:

A) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash equivalents and trust deposits bear interest at a fixed rate. In connection with these, the Company is exposed to a limited change in fair value as they are redeemable at any time or the Company intends to use them in the short term for its operations. The Company's exposure to cash flow risk related to the interest rate on its non-current financial liabilities is limited, as they does not bear interest.

B) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and cash equivalents and the carrying amount of these financial assets represents the Company's maximum exposure to credit risk as at the date of the consolidated financial statements. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and the Government of Canada.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk exposure and management (continued)

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they fall due. The Company manages liquidity risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows.

As at March 31, 2021, all of the Company's financial liabilities and other obligations were due within the next 12 months (except for the royalty buy-back option) and the Company had sufficient funds available to meet its current financial liabilities.

The following table shows the Company’s financial liabilities based on the contractual maturities, including any interest payable, as at March 31, 2021:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	$	$	$	$	$
Trade and other payables	1,470,476	1,470,476	1,470,476	–	–
Royalty buy-back option	1,479,680	2,500,000	–	–	2,500,000
	2,950,156	**3,970,476**	**1,470,476**	–	**2,500,000**