



CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED

JUNE 30, 2021

MONARCH MINING CORPORATION

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232-day period ended June 30, 2021

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Monarch Mining Corporation

Opinion

We have audited the accompanying consolidated financial statements of Monarch Mining Corporation (the "Company"), which comprise:

- the consolidated statement of financial position as at June 30, 2021
- the consolidated statement of net loss and comprehensive income for the 232-day period then ended
- the consolidated statement of changes in shareholders' equity for the 232-day period then ended
- the consolidated statement of cash flows for the 232-day period then ended
- as well as the notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and its consolidated financial performance and consolidated cash flows for the 232-day period then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the 232-day period ended June 30, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of indicators of impairment for exploration and evaluation assets and mining properties

Description of the Matter

We draw attention to Notes 2, 6 and 7 of the financial statements. The Company has mining properties of \$8,923,179 and exploration and evaluation assets of \$17,337,901. The carrying amounts of mining properties and exploration and evaluation assets are assessed by the Company for impairment when indicators of impairment exist, typically when one of the following circumstances apply:

- Exploration rights have expired or will expire in the near future
- No significant future exploration expenditures are foreseen
- 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.

The Company completes an evaluation at each reporting period of potential impairment indicators. If any such indicator exists, then the asset's recoverable amount is estimated.

Why the matter is a key audit matter

We identified the evaluation of indicators of impairment for mining properties and exploration and evaluation assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of mining properties and exploration and evaluation assets. This matter was of most significance due to the difficulties in evaluating the results of our audit procedures to assess the Company's determination of whether the factors, individually and in the aggregate, resulted in indicators of impairment.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We assessed that the Company's evaluation of potential impairment indicators was consistent with:

- Information included in Company's press releases
- Evidence obtained in other areas of the audit, including the results of exploration activities and any updates to estimates of mineral reserves and resources
- Information obtained from:
 - (i) Reading internal communications to management and the Board of Directors
 - (ii) Inspecting publicly available information for changes in the price of applicable commodity prices.



We assessed the status of the Company's rights to explore by discussing with management if any rights were not expected to be renewed and by inspecting government registries.

We assessed if substantive expenditures on further exploration for the evaluation of mineral resources in each area that the Company has a right to explore are planned or discontinued by inspecting budgeted expenditures.

Accounting for the business combination under common control

Description of the matter

We draw attention to Note 4 of the financial statements. 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 the Company. The Company received all assets and liabilities that were not sold to Yamana, which comprised the following:

- The Beaufor mine, the McKenzie Break property, the Croinor Gold property, the Swanson property and the Beacon mill and property and all assets and liabilities related to these properties; and
- A net cash amount of \$14 million.

In exchange, consideration transferred was \$43,027,328, consisting of shares and warrants of the Company.

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.

Why the matter is a key audit matter

We identified the accounting for the business combination under common control as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the transaction.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We read the plan of arrangement legal documents to understand the terms of the arrangement.
- We compared the carrying values of the assets acquired and liabilities assumed to the carrying values of the assets and liabilities of Monarch Gold Corporation at the date of the transaction
- We evaluated the fair value of the consideration transferred by the Company in relation to the arrangement.



Other information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Giuseppe Funicello.

A handwritten signature in black ink that reads 'KPMG LLP*'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Montréal, Canada

September 27, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

	NOTES	JUNE 30, 2021
		\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		20,480,457
Commodity taxes and other receivables		656,847
Inventory		1,004,200
Prepaid expenses and deposits		609,469
		22,750,973
NON-CURRENT ASSETS		
In trust deposits	10	1,458,099
Property, plant and equipment	5	13,954,321
Mining properties	6	8,923,179
Exploration and evaluation assets	7	17,337,901
		41,673,500
		64,424,473
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		3,699,522
Current portion of the lease liabilities	8	34,882
Current portion of other liabilities	9	1,527,964
		5,262,368
NON-CURRENT LIABILITIES		
Other liabilities	9	1,667,518
Deferred income taxes and mining taxes	17	2,737,072
Asset retirement obligations	10	4,945,134
		9,349,724
		14,612,092
SHAREHOLDERS' EQUITY		
Share capital and warrants	11	52,733,523
Contributed surplus		404,572
Deficit		(3,325,714)
		49,812,381
		64,424,473

Reporting entity and nature of operations (Note 1); Commitments (Note 13); Subsequent events (Note 20).

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

On behalf of the Board:

'Jean-Marc Lacoste', Director

'Michel Bouchard', Director



CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE INCOME

232-DAY PERIOD ENDED JUNE 30, 2021

	NOTES	232-DAY PERIOD ENDED JUNE 30, 2021
		\$
Administration	14	(1,761,466)
Care and maintenance	14	(2,757,758)
Exploration		(3,471,155)
Operating loss		(7,990,379)
Finance income		12,103
Finance expense	14	(164,594)
Loss on foreign exchange		(1,431)
Other income		194,596
Other income related to flow-through shares		584,396
Loss before taxes		(7,365,309)
Recovery of deferred income taxes and mining taxes	17	1,766,907
Net loss and comprehensive income		(5,598,402)
Basic and diluted net loss per share		(0,12)
Weighted average number of shares outstanding		47,524,713

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

232-DAY PERIOD ENDED JUNE 30, 2021

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
BALANCE AT BEGINNING	-	-	-	-
EQUITY FINANCING				
Initial issuance of shares (Note 11)	1	-	-	1
Issuance of shares and warrants in a business combination under common control (Note 4)	43,027,328	-	-	43,027,328
Cancellation of the initial share (Note 11)	(1)	1	-	-
Issuance of flow-through shares (Note 11)	5,081,721	-	-	5,081,721
Premium on flow-through shares (Note 11)	(2,251,914)	-	-	(2,251,914)
Issuance of shares (Note 11)	6,655,600	-	-	6,655,600
Share issuance expenses	-	-	(1,123,814)	(1,123,814)
Exercise of replacement Monarch warrants (Note 11)	16,626	-	-	16,626
Grant of warrants to brokers (Note 11)	204,162	-	(204,162)	-
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives (Notes 11 and 12)	-	404,571	-	404,571
Deferred income taxes related to shares issuance expenses of current period	-	-	297,811	297,811
Effect of the acquisition of the company under common control (Note 4)	-	-	3,302,853	3,302,853
	52,733,523	404,571	2,272,688	55,410,783
NET LOSS FOR THE PERIOD	-	-	(5,598,402)	(5,598,402)
BALANCE AS AT JUNE 30, 2021	52,733,523	404,572	(3,325,714)	49,812,381

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



CONSOLIDATED STATEMENT OF CASH FLOWS

232-DAY PERIOD ENDED JUNE 30, 2021

	NOTES	232-DAY PERIOD ENDED JUNE 30, 2021
		\$
Operating activities		
Net loss for the period		(5,598,402)
Adjustments for:		
Amortization	5	38,292
Share-based payments		404,571
Accretion expense on asset retirement obligations		28,096
Interest on lease liabilities	8	1,944
Interest on the royalty buy-back option	9	85,094
Other income related to flow-through shares		(584,396)
Deferred income taxes and mining taxes	17	(1,766,907)
Change in non-cash operating working capital	15	1,925,669
		(5,466,039)
Financing activities		
Proceeds from the issuance of shares	11	6,655,601
Proceeds from the issuance of flow-through shares	11	5,081,721
Share issuance expenses		(1,123,814)
Proceeds from the exercise of warrants	11	16,626
Repayment of lease liabilities	8	(16,420)
		10,613,714
Investing activities		
Business combinations under common control	4	14,283,329
In trust deposits		(27,496)
Collection of balance of sale		2,000,000
Acquisition of property, plant and equipment	5	(487,973)
Increase in exploration and evaluation assets	7	(435,078)
		15,332,782
Net increase in cash and cash equivalents		20,480,457
Cash and cash equivalents, beginning of the period		-
Cash and cash equivalents, end of the period		20,480,457

Other cash flow information (Note 15)

The accompanying notes are an integral part of these consolidated 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*, specializes in the development and exploration of mining properties. Its shares have been trading on the Toronto Stock Exchange since January 27, 2021 under the symbol GBAR. Its activities are in Canada.

On incorporation, the Company's balance sheet included cash and share capital valued at \$1. Since then, the Company has incurred operating losses and cash outflows related to the operation, exploration and development of its mining properties. To date, the Company has financed its operations through cash received from the Yamana Gold transaction on January 21, 2021 (Note 4), the issuance of shares (Note 11), the sale of royalties (Note 20) and the obtaining of debt (Note 20). The Company's ability to ultimately achieve operating income in the future is dependent upon its ability to develop its mining properties and achieve commercial production.

The Company's head office address 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**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

As the Company has not previously prepared stand-alone financial statements, these consolidated financial statements are the first IFRS financial statements of the Company in which IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general-purpose financial statements. The Company's date of transition to IFRS is November 11, 2020.

Since the Company did not previously prepare consolidated financial statements, it does not have any previous GAAP for purposes of the consolidated financial statements, and therefore the Company is not required to present reconciliations as per IFRS 1.

The accounting policies applied in these consolidated financial statements are based on IFRS issued and in effect at the reporting date. On September 27, 2021, the Board of Directors approved these consolidated financial statements.

B) BASIS OF MEASUREMENT

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

The consolidated 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.

C) FUNCTIONAL AND PRESENTATION CURRENCY

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

2. BASIS OF PREPARATION (CONTINUED)**D) BUSINESS SEGMENT**

The Company operates in one business segment, namely the mining 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 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.

These estimates and assumptions are based on historical experience, other relevant factors and expectations about the future and are reviewed regularly. Any revisions to accounting estimates are recognized in the period in which the estimates are revised as well as in future periods affected by such revisions.

Information about assumptions and estimation uncertainties that have a significant risk of causing a material adjustment in the next fiscal year is 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 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 assessment for non-financial assets***Key sources of estimation uncertainty*

Management's assumptions and estimates of future cash flows used in the Company's impairment assessment 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. Management is required to make significant estimates in order to determine the recoverable amount of the CGU, including estimates of fair value, cost of sales or discounted future cash flows relating to the CGU. The cash flows cover periods up to the expected end of operations, which vary depending on a number of variables, including recoverable mineral reserves and resources, expansion plans and expected selling prices of production. Differences in estimates could affect whether and how much the non-financial assets are actually impaired.

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 of impairment such as a significant decline in the asset's market value, decline in resources and/or reserves as a result of geological reassessment 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) Asset retirement obligations*Main sources of uncertainty in the estimates*

Asset retirement obligations are determined using management's best estimates of the probable amounts of future cash outflows, the expected timing of payments and discount rates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated 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 financial statements from the date when control is acquired until the date when 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 on consolidation

Inter-company balances and transactions, and any unrealized losses and gains arising from inter-company transactions, have been eliminated in preparing the consolidated 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.

Beginning of the exploration and evaluation phase

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.

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. Mine development costs for the current period are recognized in inventory. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**B) MINING PROPERTIES AND DEVELOPMENT COSTS (CONTINUED)*****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 Company has met the following conditions:

- Obtaining a technical feasibility and commercial viability study
- Decision of the Company 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, 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.

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 statement of net earnings (net loss) and comprehensive income. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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

Inventories are valued at the lower of cost and net realizable value. The cost of inventories is determined using the weighted average cost method.

Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The expensed cost of inventories is included in care and maintenance expenses.

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 are depreciated using the units-of-production method to write down the cost to estimated residual value.

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 property, plant and equipment is calculated on a straight-line basis over their expected useful lives as follows:

- Equipment and leasehold improvements: 5 to 10 years
- Rights of use: 3 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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, amortization 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 method 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 is recognized separately in the consolidated 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.

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 balance sheet when there is an unconditional and legally enforceable right to offset the recognized amounts and an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 the 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	<ul style="list-style-type: none"> ➤ Cash and cash equivalents ➤ Other receivables ➤ In trust deposits
Financial liabilities at amortized cost	<ul style="list-style-type: none"> ➤ Trade and other payables ➤ Royalty buy-back option

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**G) IMPAIRMENT*****Financial instruments***

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 other comprehensive income, except for investments in equity instruments and contract assets.

Impairment losses, if incurred, would be recorded in the Company's administration expenses in the consolidated statement of net earnings (net loss) and comprehensive income, 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 statement of net loss and comprehensive income. The impairment reversal would be limited to the decrease in impairment and the carrying amount, after the reversal, of the financial asset at the date the impairment is reversed may not exceed the amortized cost that would have been obtained had the impairment not been recognized.

Non-financial assets

The carrying amount of mining properties and exploration and evaluation assets is tested for impairment only when indicators of impairment exist, typically when one of the following circumstances applies:

- Exploration rights have expired or will expire in the near future.
- No significant future exploration expenditures are foreseen.
- No commercially mineable quantity has been discovered, and exploration and evaluation activities on this property will cease.
- The recovery of the value of the exploration and evaluation assets through their development or sale is unlikely.

If such circumstances exist, the recoverable amount of the asset is estimated.

The carrying amount of property, plant and equipment and right-of-use assets are reviewed at each reporting date to determine whether there is any indication of impairment. The indicators of impairment for these assets are different from 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**G) IMPAIRMENT (CONTINUED)*****Non-financial assets (continued)***

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.

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 "retrospective" 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**I) SHARE CAPITAL AND WARRANTS (CONTINUED)*****Flow-through shares (continued)***

When tax deductions are renounced under the retrospective 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.

The Company applies the retrospective method.

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.

J) SHARE-BASED PAYMENT TRANSACTIONS

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 share-based payments. 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 units

Restricted share units ("RSUs") may be granted to employees, directors and officers as part of their long-term compensation program, entitling them to receive payment in the form of common shares, cash (based on the Company's share price at the time) or a combination of common shares and cash, at the Company's sole discretion. The fair value of the RSU to be settled in common shares is measured at the date of grant and is recognized over the vesting period in 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 at 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 expense in share-based compensation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K) INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings (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 profit or loss, nor taxable income (deductible loss), and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that these differences will not reverse in the foreseeable future.

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 tax credits 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 Tax 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 Company'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 an income tax recovery.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**L) REFUNDABLE CREDIT ON MINING DUTIES AND REFUNDABLE TAX CREDIT RELATED TO RESOURCES (CONTINUED)**

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% of 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.

M) LEASE CONTRACTS

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

The Company recognizes a right-of-use asset and a lease obligation at the inception of the lease. The right-of-use asset is initially measured at the original amount of the lease obligation, adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and estimated costs to dismantle and remove or restore the underlying asset or the site on which it is located, net of any inducements received.

Right-of-use assets are subsequently depreciated from the date of commencement to the end of the useful life of the right-of-use asset, or to the end of the lease term if earlier, on a straight-line basis. The lease term includes consideration of a renewal or termination option if the Company is reasonably certain of exercising that option. The lease terms, including renewal options that the Company is reasonably certain of exercising, range from 1 to 3 years for equipment and rent. In addition, the right-of-use asset is periodically written down for impairment, if any, and is adjusted for certain revaluations of the lease obligation.

The lease obligation is initially measured at the present value of the unpaid lease payments at the inception date, calculated using the interest rate implicit in the lease agreement or, if such rate is not readily determinable, the Company's incremental borrowing rate. The Company generally uses its incremental borrowing rate as the discount rate. The lease obligation is measured at amortized cost using the effective interest rate method. It is revalued when there is a change in future lease payments primarily due to a change in index or rate, or a change in the amounts the Company expects to be payable under a residual value guarantee, or when the Company changes its assessment of the potential exercise of a purchase, renewal or termination option.

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

Payments associated with short-term (12 months or less) and low-value asset leases are recognized as an expense in the consolidated statement of net income and comprehensive income on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N) BUSINESS COMBINATION

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

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 operations and assets that can be conducted and managed to provide a return to investors.

O) EARNINGS PER SHARE

The Company presents basic and diluted earnings for its common shares. Basic earnings are calculated by dividing the profit or loss attributable to the Company's common shareholders by the weighted average number of common shares outstanding during the year, adjusted for shares held. For the purpose of calculating diluted earnings per share, income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for shares held, must be adjusted for the effects of all potentially dilutive common shares, which include warrants, RSUs and stock 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 consolidated 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 July 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 the outstanding shares of Monarch Gold Corporation pursuant to a plan of arrangement (the "Arrangement"). Pursuant to the Arrangement, Monarch Gold Corporation was spun off to its shareholders through the Company. The Company received all the assets and liabilities that were not sold to Yamana, namely the following:

- The Beaufor Mine, the McKenzie Break property, the Croinor Gold property, the Swanson property and the Beacon property and mill, together with all assets and liabilities related to these properties (collectively, the "Transferred Assets"); and
- A net cash amount of \$14 million.

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 individual 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").

Under the Arrangement, for each unexercised Certificated warrant outstanding as at January 21, 2021, the holder received:

- one Yamana warrant (a "Replacement Yamana Warrant") to purchase from Yamana 0.0376 of a share of Yamana at an exercise price of \$0.074
- one Company 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 Monarchs Gold Corporation Indenture Warrant will continue to be governed by and subject to the terms of the Warrant Indenture, subject to any supplemental indenture, warrant certificate or exercise document, as the case may be, issued by Yamana and the Company (as mutually agreed, each acting reasonably) to the holders of the Indenture Warrants to facilitate the exercise of the Indenture Warrants and the payment of the corresponding portion of the corresponding exercise price. As part of the Arrangement, for each Indenture Warrant outstanding as at January 21, 2021, the holder will be entitled to receive:

- 0.0376 of a Yamana share for a net exercise price of \$0.311 per Indenture Warrant.
- 0.2 shares of the Company for a net exercise price of \$0.097 per Indenture Warrant.

The above transaction has been accounted for as a combination of businesses under common control as it occurred between companies under common control. Accordingly, the transaction has been measured in the Company's accounts using the historical carrying values from the accounts of Monarch Gold Corporation. The Company also elected not to restate the comparatives for the periods prior to the acquisition and elected to recognize the difference between the consideration paid and the carrying amounts transferred ("Acquisition Adjustment") as an adjustment to the deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

4. BUSINESS COMBINATION UNDER COMMON CONTROL (CONTINUED)

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

	\$
Consideration paid:	
Common shares issued and warrants	43,027,328
Book values based on Monarch Gold Corporation amounts	
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)
Lease liabilities	(49,358)
Non-current liabilities	(1,442,870)
Asset retirement obligations	(4,865,411)
Deferred income and mining taxes	(4,801,790)
Deficit (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 ^(B)	TOTAL
	\$	\$	\$	\$	\$	\$
COST						
Balance as at November 11, 2020	–	–	–	–	–	–
Business combination (Note 4)	550,714	95,040	10,506,782	962,688	3,627,998	15,743,222
Adjustments related to asset retirement obligations (Note 10 B)	–	–	100,902	(49,275)	–	51,627
Acquisitions	85,564	–	392,409	–	10,000	487,973
Balance as at June 30, 2021	636,278	95,040	11,000,093	913,413	3,637,998	16,282,822
ACCUMULATED AMORTIZATION						
Balance as at November 11, 2020	–	–	–	–	–	–
Business combination (Note 4)	142,680	49,224	–	317,803	1,780,502	2,290,209
Amortization	24,155	14,137	–	–	–	38,292
Balance as at June 30, 2021	166,835	63,361	–	317,803	1,780,502	2,328,501
NET CARRYING AMOUNT						
Balance as at June 30, 2021	469,443	31,679	11,000,093	595,610	1,857,496	13,954,321

(A) As these items are not ready for use, mining assets under construction have not yet been amortized.

(B) As these items are in care and maintenance mode, the Beaufor buildings and equipment are not amortized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

6. MINING PROPERTIES

PROPERTIES ^{(1) (2)}	NOVEMBER 11, 2020	BUSINESS COMBINATION (NOTE 4)	JUNE 30, 2021
	\$	\$	\$
McKenzie Break	–	3,957,574	3,957,574
Croinor Gold	–	3,013,049	3,013,049
Swanson and others	–	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

	NOVEMBER 11, 2020	BUSINESS COMBINATION (NOTE 4)	EXPLORATION AND EVALUATION EXPENSES	JUNE 30, 2021
	\$	\$	\$	\$
Croinor Gold	–	11,363,032	54,186	11,417,218
McKenzie Break	–	4,563,261	1,081,835	5,645,096
Swanson and others	–	258,200	17,387	275,587
	–	16,184,493	1,153,408	17,337,901

Exploration and evaluation expenses by nature are as follows:

	JUNE 30, 2021
	\$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	139,719
Geology and geophysics	441,600
Test, sampling and prospecting	90,309
Drilling, equipment rental and other material	481,780
Increase in exploration and evaluation expenses	1,153,408
Business combination (Note 4)	16,184,493
Balance, beginning of period	–
Balance, end of period	17,337,901

8. LEASE LIABILITIES

	LEASE LIABILITIES
	\$
Balance at beginning	–
Business combination (Note 4)	49,358
Accrued interest for the period	1,944
Repayment	(16,420)
Balance as at June 30, 2021	34,882
Current portion	34,882
Non-current portion	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

9. OTHER LIABILITIES

	JUNE 30, 2021
	\$
Flow-through share liabilities (Note 13)	1,667,518
Option to buy back a 1% NSR royalty on the Beaufor mining property (Note 20)	1,527,964
Balance as at June 30, 2021	3,195,482
Current portion	1,527,964
Non-current portion	1,667,518

The buy-back option of a 1% NSR royalty on the Beaufor mining property is accounted for as a financial instrument and the accretion expense is recognized as financial expense in the consolidated statement of net loss and comprehensive income. Accrued interest of \$85,094 is recorded for the 232-day period ended June 30, 2021.

The Company also has a credit facility with a Canadian bank of \$2,000,000 bearing interest at prime rate plus 2.5%. The facility is secured by the same amount of guaranteed investment certificates. The facility is undrawn as at June 30, 2021.

10. ASSET RETIREMENT OBLIGATIONS

The Company's production and exploration operations are subject to federal and provincial environmental protection laws and regulations. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment. The Company has recorded the asset retirement obligations of its mining sites on the basis of management's best estimates of future costs, based on information available at the reporting date. Best estimates of future costs are the amount the Company would reasonably pay to settle its obligation at the site closing date. Future costs are discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liability. Such estimates are subject to change based on amendments to laws and regulations or as new events occur.

The inflation rate (adjusted for risks specific to this liability) used to determine the future value of the bonds is based on the expected life of the transactions, is 3.5%. The rate reflecting current market assessments used to determine the present value of the bonds is 1.8%. The payment schedule was determined taking into account the proven and probable reserves, the expected annual production level and the estimated life of the mines and the plant.

The following table presents the estimated undiscounted cash flows resulting from the future restoration costs used in the calculation of the asset retirement obligations for the 232-day period ended June 30, 2021:

	TOTAL ESTIMATED CASH FLOW	EXPECTED TIMING OF CASH FLOW PAYMENT
	\$	
Beaufor Mine	1,100,482	2028 and subsequent
Beacon Mill	4,014,615	2035 and subsequent
Croinor Gold	555,315	2035 and subsequent
McKenzie Break	282,232	2035 and subsequent
	5,952,644	

10. ASSET RETIREMENT OBLIGATIONS (CONTINUED)

A) FINANCIAL GUARANTEES

The following table shows the allocation of financial guarantees issued as at June 30, 2021:

	JUNE 30, 2021
	\$
Beaufor Mine	851,043
Beacon Mill	2,437,500
McKenzie Break	141,117
Croinor Gold	416,155
	3,845,815

As at June 30, 2021, the Company has entered into an agreement with an insurance company to provide bonds for \$3,411,023 to the Government of Quebec in accordance with the requirements of the remediation plans approved by the Government of Quebec. The Company has also made cash deposits with the Government of Quebec for an amount of \$434,792 and with the insurance company in connection with the bonds for an amount of \$1,023,307. These deposits total \$1,458,099 as at June 30, 2021.

B) OBLIGATIONS ALLOCATION

The following table presents the allocation of asset retirement obligations as of June 30, 2021:

	JUNE 30, 2021
	\$
Beaufor Mine	999,527
Beacon Mill	3,108,060
Croinor Gold	555,315
McKenzie Break	282,232
	4,945,134

Asset retirement obligations varied during the period as follows:

	JUNE 30, 2021
	\$
Balance as at November 11, 2020	-
Business combination (Note 4)	4,865,411
Assumption changes	51,627
Accretion expense	28,096
Balance as at June 30, 2021	4,945,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

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 share issue	–	1	1
Cancellation of the initial share	–	(1)	(1)
Issuance of shares and warrants in connection with the business combination under common control (Note 4)	11,289,473	66,195,889	43,027,328
Issuance of flow-through shares ⁽¹⁾	–	3,450,984	2,829,807
Issuance of shares and warrants	4,159,750	8,319,500	6,655,600
Exercise of Replacement Monarch warrants	(333,182)	66,636	16,626
Grant of warrants to brokers	706,229	–	204,162
Balance as at June 30, 2021	15,822,270	78,033,009	52,733,523

⁽¹⁾ The carrying value of flow-through shares is presented net of the liability for the flow-through share premium of \$2,251,914 that was recorded on the issuance of the flow-through shares during the March 4, 2021 financing round.

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

On March 4, 2021, the Company completed a flow-through financing of 863,143 provincial flow-through shares at a price of \$1.75 and 2,587,841 federal flow-through shares at a price of \$1.38 for gross proceeds of \$5,081,721. The Company paid expenses of \$542,677 and granted 207,059 broker warrants at an exercise price of \$1.38 expiring on March 4, 2023.

On June 29, 2021, the Company closed a private placement for the issuance of 8,319,500 units at a price of \$0.80 per unit for gross proceeds of \$6,655,600. Each unit consists of one common share and one half of one warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$1.05 for a period of 24 months following the closing of the financing. The Company paid fees of \$581,137 and granted 499,170 warrants to the brokers at an exercise price of \$0.87 expiring on June 29, 2023.

A) COMPANY WARRANTS

The changes in the Company's warrants are detailed as follows. Each warrant entitles the holder to acquire one common share of the Company:

	232-DAY PERIOD ENDED JUNE 30, 2021	
	Number of warrants	Weighted average exercise price
		\$
Outstanding, as at November 11, 2020	–	–
Granted	4,159,750	1.05
Outstanding, end of the period	4,159,750	1.05

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

11. SHARE CAPITAL AND WARRANTS (CONTINUED)

A) COMPANY WARRANTS (CONTINUED)

The following table summarizes the information relating to the warrants:

NUMBER OF WARRANTS OUTSTANDING AS AT JUNE 30, 2021	EXERCISE PRICE	EXPIRATION DATE
	\$	
4,159,750 (exercisable)	1.05	June 2023

B) MONARCH REPLACEMENT WARRANTS

The changes in the Monarch Replacement warrants were as follows. Each Monarch Replacement warrant entitles the holder to acquire 0.2 common shares of the Company:

	232-DAY PERIOD ENDED JUNE 30, 2021	
	Number of warrants	Weighted average exercise price
		\$
Outstanding, as at November 11, 2020	–	–
Issuance of warrants in connection with the business combination under common control (Note 4)	11,289,473	0.05
Exercised	(333,182)	0.05
Outstanding, end of the period	10,956,291	0.05

See Note 4 for details on Monarch Replacement warrants.

The following table summarizes information about the Monarch Replacement Warrants:

NUMBER OF WARRANTS OUTSTANDING AS AT JUNE 30, 2021	EXERCISE PRICE	EXPIRATION DATE
	\$	
1,375,040 (exercisable)	0.08	September 2022
9,581,251 (exercisable)	0.05	June 2023
10,956,291		

C) 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:

	232-DAY PERIOD ENDED JUNE 30, 2021	
	Number of warrants	Weighted average exercise price
		\$
Outstanding, as at November 11, 2020	–	–
Granted	706,229	1.02
Outstanding, end of the period	706,229	1.02

11. SHARE CAPITAL AND WARRANTS (CONTINUED)

C) WARRANTS GRANTED TO BROKERS (CONTINUED)

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

NUMBER OF WARRANTS OUTSTANDING AS AT JUNE 30, 2021	EXERCISE PRICE	EXPIRATION DATE
	\$	
207,059 (exercisable)	1.38	March 2023
499,170 (exercisable)	0.87	June 2023
706,229		

The fair value of warrants granted is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	232-DAY PERIOD ENDED JUNE 30, 2021
Risk-free interest rate	0.39%
Expected dividend yield	– %
Expected volatility	80%
Expected life of the warrants	2 years
Weighted average price per share	\$0.87
Weighted average exercise price of warrants granted to brokers	\$1.02
Weighted average fair value of warrants granted to brokers during the period	\$0.29

D) INDENTURE WARRANTS

The following table summarizes the warrant information in the Indenture warrants:

NUMBER OF OUTSTANDING INDENTURE WARRANTS AS AT JUNE 30, 2021	EXPIRATION DATE
10,042,000 (exercisable)	September 2022

Each Indenture warrant entitles the holder to acquire 0.2 common shares of the Company for a net exercise price of \$0.097 per warrant (see note 4 for more details).

E) RESTRICTED SHARE UNITS

The Company has established the Monarch Mining Corporation Restricted Share Unit ("RSU") Plan, pursuant to which the Board of Directors of the Company may, from time to time, grant RSUs to officers, employees and consultants of the Company.

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

11. SHARE CAPITAL AND WARRANTS (CONTINUED)

E) RESTRICTED SHARE UNITS (CONTINUED)

RSUs entitle the holder to receive a specified number of common shares on the specified vesting date. Compensation expense for RSUs is recognized over the vesting period based on the fair value of the Company's common shares at the date of grant and the awards that are expected to vest. The fair value is calculated by reference to the closing price of the Company's common shares on the TSX on the business day prior to the grant date. On the settlement date, one common share is issued for each RSU, net of any income tax payable on the income earned by the RSU holder that must be remitted by the Company to the tax authorities.

The changes in the Company's RSUs granted to officers and employees were as follows:

	232-DAY PERIOD ENDED JUNE 30, 2021	
	Number of RSUs	Weighted average intrinsic value at grant date
Outstanding, as at November 11, 2020	–	\$ –
Granted	1,405,500	0.85
Outstanding, end of the period	1,405,500	0.85

The Company issued 1,235,500 RSUs in March 2021, 70,000 RSUs in May 2021 and 100,000 RSUs in June 2021. These RSUs will vest over the next three years on each anniversary date.

The fair value of the RSUs is recognized as compensation expense over the vesting period. For the 232-day period ended June 30, 2021, total share-based compensation related to RSUs was \$216,565 and is classified as share-based compensation in the consolidated statement of net loss and comprehensive income.

12. SHARE PURCHASE OPTIONS

The shareholders of the Company have approved a stock option plan (the "Plan") pursuant to which the Board of Directors may grant to employees, officers, directors, and consultants of the Company stock options to acquire common shares in such number, on such terms and at such exercise prices as the Board of Directors may determine. The exercise price may not be less 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 exceed 10% of the issued and outstanding shares of the Company.

The maximum number of common shares that may be reserved for issuance under the plan to any one 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 and expire no later than five years after their grant. If an optionee leaves the Company, his or her options normally expire, at the latest, one year after his or her departure, subject to the conditions established by the plan. The vesting period of the share purchase options ranges from immediate vesting to 36 months after the vesting date and the life of the options ranges from two to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

12. SHARE PURCHASE OPTIONS (CONTINUED)

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

	232-DAY PERIOD ENDED JUNE 30, 2021	
	Number of options	Weighted average exercise price
		\$
Outstanding, as at November 11, 2020	–	–
Granted	2,264,000	1.00
Outstanding, end of the period	2,264,000	1.00
Exercisable, end of the period	–	–

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

NUMBER OF OPTIONS OUTSTANDING AS AT JUNE 30, 2021		EXERCISE PRICE	EXPIRATION DATE
OUTSTANDING	EXERCISABLE	\$	
2,264,000	–	1.00	MARCH 2026

For the 232-day period ended June 30, 2021, the application of the fair value model resulted in a charge of \$188,006 recorded in share-based compensation in the consolidated statement of net loss and comprehensive income.

The fair value of shares purchase options granted is established according to the Black-Scholes option pricing model using the following weighted average assumptions:

	232-DAY PERIOD ENDED JUNE 30, 2021
Risk-free interest rate	0.87%
Expected dividend yield	– %
Expected volatility	80%
Expected life of the options	5 years
Weighted average price per share	\$0.85
Weighted average exercise price of options granted	\$1.00
Weighted average fair value of options granted during the period	\$0.52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

13. COMMITMENTS

A) ROYALTIES

Properties	Royalties on net smelter return (NSR)
Beaufor	<ul style="list-style-type: none"> ➤ 1.0% payable after the Company has produced 100,000 ounces of gold ➤ 3.0% (1% reduction when royalties paid are greater than \$5M and 1% redeemable for \$2.5M until May 2025) ➤ Others
Croinor Gold.....	➤ 1.5%
McKenzie Break.....	➤ 1.5% (0.5% redeemable for \$750,000)
Swanson	<ul style="list-style-type: none"> ➤ 1.5% (0.5% redeemable for \$750,000) ➤ 2.0% (1% redeemable for \$1M US)

Modifications were made to the royalties after June 30, 2021. Refer to note 20 for more information.

B) FLOW THROUGH SHARES

The Company has committed to disburse, prior to certain dates, amounts of qualified exploration and evaluation expenses in accordance with the *Income Tax Act* (Canada) and the Quebec *Taxation Act*, and to transfer such tax deductions to the subscribers of the completed flow-through share investments of each of the financings. With respect to these commitments, the following table provides important details:

DATE OF FINANCING	AMOUNT OF FINANCING	DISBURSEMENT DEADLINE	FLOW-THROUGH SHARE	
			FUNDS RESERVED AS AT JUNE 30, 2021	LIABILITY AS AT JUNE 30, 2021
	\$		\$	\$
March 4, 2021	5,081,721	December 31, 2022	3,982,052	1,667,518

14. OTHER INFORMATION ON THE CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE INCOME

A) ADMINISTRATION

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Salaries, directors' fees and related benefits	820,101
Share-based compensation	404,571
Consultants and professional fees	360,952
Office expenses, insurance, taxes and permits	84,190
Investor relations and representation expenses	53,360
Amortization of equipment and leasehold improvements	24,155
Amortization of rights of use	14,137
	1,761,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

**14. OTHER INFORMATION ON THE CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE INCOME
(CONTINUED)**

B) CARE AND MAINTENANCE

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Beaufor	2,428,162
Beacon	329,596
	2,757,758

C) FINANCE EXPENSE

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Interest on royalty buy-back option	85,094
Interest on lease liabilities	1,944
Accretion expense	28,096
Other	49,460
	164,594

15. OTHER CASH-FLOW INFORMATION

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Changes in non-cash working capital items:	
Commodity taxes and other receivables	(548,116)
Inventories	(35,161)
Prepaid expenses and deposits	115,230
Trade and other payables	2,393,716
	1,925,669

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Item not affecting cash flow:	
Change in trade and other payables related to exploration and evaluation assets	718,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

16. COMPENSATION

A) TOTAL COMPENSATION

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Salaries, directors' fees and other benefits	1,741,722
Share-based compensation	404,571
Defined contribution plan	64,315
Government plans	251,020
	2,461,628

As at June 30, 2021, trade and other payables included an amount of \$317,328 payable for 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:

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Salaries, directors' fees and other benefits	393,879
Share-based compensation	234,269
Defined contribution plan	15,100
Government plans	45,005
	688,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

232-DAY PERIOD ENDED JUNE 30, 2021

17. DEFERRED INCOME AND MINING TAXES

The income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 26.55% to the profit (loss) before income taxes due to the following:

	232-DAY PERIOD ENDED JUNE 30, 2021
	\$
Loss before income taxes	(7,365,309)
Expected tax recovery	(1,951,807)
Increase in income taxes resulting from:	
Non-deductible share-based payments	107,211
Deferred tax arising from exploration and evaluation assets financed through flow-through shares	291,413
Non-deductible expenses and other	(65,232)
Deduction of mining tax recovery	8,670
Permanent difference arising from other income related to flow-through shares	(154,865)
Deferred mining tax expense	(2,297)
Income tax recovery	(1,766,907)

Movements in temporary differences during the 232-day period ended June 30, 2021 are detailed as follows:

	BALANCE AT BEGINNING	RECOGNIZED IN THE BUSINESS COMBINATION (NOTE 4)	RECOGNIZED IN PROFIT OR LOSS	RECOGNIZED IN SHAREHOLDERS' EQUITY	BALANCE AS AT JUNE 30, 2021
	\$		\$		\$
Deferred income tax assets					
Property, plant and equipment	–	170,693	14,907	–	185,600
Mining properties	–	184,306	–	–	184,306
Operating losses	–	2,460,172	1,534,018	–	3,994,190
Asset retirement obligations	–	1,142,176	58,003	–	1,200,179
Deferred mining taxes	–	482,607	2,297	–	484,904
Share issuance expenses	–	30,000	(69,562)	297,811	258,249
	–	4,469,954	1,539,663	297,811	6,307,428
Deferred income tax liabilities					
Deferred mining taxes	–	(1,821,160)	(8,670)	–	(1,829,830)
Mining properties	–	(2,492,885)	565,699	–	(1,927,186)
Property, plant and equipment	–	(1,284,069)	(24,299)	–	(1,308,368)
Exploration and evaluation assets	–	(3,666,630)	(305,486)	–	(3,972,116)
Debt and others	–	(7,000)	–	–	(7,000)
	–	(9,271,744)	227,244	–	(9,044,500)
	–	(4,801,790)	1,766,907	297,811	(2,737,072)

The Company has unrecognized deferred mining tax assets of \$861,331 in respect of these items as it is not probable that taxable income will be available from which the Company can utilize the benefits thereof.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

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. Accordingly, no details regarding their fair value are presented below.

The carrying amount of trust deposits approximates their fair value due to their nature

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

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

AS AT JUNE 30, 2021	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	\$	\$	\$	\$	\$
Financial liabilities measured at amortized cost					
Royalty buy-back option	1,527,964	1,527,964	-	-	1,527,964

Risk exposure and management

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

A) MARKET RISK

Market risk is the risk of price changes, such as interest rates and foreign exchange rates. 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 is 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 in trust deposits bear interest at a fixed rate. With respect to the latter, the Company is exposed to limited change in fair value as they are repayable at any time or the Company intends to use them in the short term for its operations. The Company's exposure to interest rate cash flow risk on its long-term financial liabilities is limited because they bear interest at a fixed rate.

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 in trust deposits and the carrying amount of these financial assets represents the Company's maximum exposure to credit risk at the date of the consolidated financial statements. The credit risk on cash and cash equivalents and in trust deposits is limited because the counterparties are banks and insurance companies with high credit ratings assigned by international credit rating agencies and by the Government of Canada.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK 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 come 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 of June 30, 2021, all of the Company's financial liabilities and other obligations were due within the next 12 months (with the exception of the royalty buy-back option) and the Company had sufficient funds to meet its current financial liabilities.

The following table presents the Company's financial liabilities by contractual maturity, including interest payable, as at June 30, 2021:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	\$	\$	\$	\$	\$
Trade and other payables	3,002,749	3,002,749	3,002,749	–	–
Royalty buy-back option	1,527,964	2,500,000	–	–	2,500,000
	4,530,713	5,502,749	3,002,749	–	2,500,000

19. CAPITAL MANAGEMENT

As at June 30, 2021, the Company's capital consists of shareholders' equity totalling \$49,812,381.

The Company's capital management objective is to have sufficient capital to be able to pursue its exploration activities plan in order to ensure the growth of its assets. It also aims to have sufficient liquidity to finance its exploration expenses, investing activities and working capital requirements.

In order to maintain or adjust the capital structure, the Company may issue new capital instruments, obtain debt financing and acquire or sell mining properties to improve its financial performance and flexibility.

Access to financing depends on the economic situation and equity and credit market conditions.

The Company is subject to regulatory requirements related to the use of funds obtained by flow-through share financing. These funds must be used for eligible exploration expenses in accordance with the *Income Tax Act of Canada* and *Taxation Act of Québec* (see Note 13 B)). During the year, the Company complied with all its regulatory requirements. The Company has no dividend policy.

20. SUBSEQUENT EVENTS

Sale of royalties

On August 5, 2021, the Company sold royalties to Gold Royalty Corp. for \$11.25M in cash. This amount is receivable in two tranches, \$7.5M at closing and \$3.75M after 6 months. The agreement includes the following royalties:

- 2.50% on net smelter returns from production at Croinor, McKenzie Break and Swanson (1.25% redeemable for \$2M per royalty after December 31, 2027 for a period of 30 days if the London Bullion Market Association gold price exceeds US\$2,000 for 30 consecutive days).
- \$2.50 per tonne milled at the Beacon Mill from the Beaufor Mine.

Gold Royalty Corp. will also acquire the option to buy back a 1% NSR royalty on the Beaufor mining property (note 9) from the Caisse de dépôt et placement du Québec and the Company's existing 1% NSR buy back rights will be cancelled and removed.

Term loan

On August 14, 2021, the Company contracted a 3-year term loan with Investissement Québec ("IQ") in the amount of \$13.5M. This loan will be repayable in equal quarterly principal payments over an 8-year term starting on the first anniversary of the loan. The balance of the loan to be repaid at maturity will be \$10.125M (75% of the loan amount).

The loan is secured by a first ranking hypothec on the universality of the Company's movable and immovable assets.

This term loan will bear interest at a rate of:

- 6% per year until the restart of the Beaufor and Beacon facilities. The restart will be considered as proven with a proof of production of 1,150 ounces of gold over 30 rolling days at the Beacon mill, with ore coming exclusively from the Beaufor mine.
- 5% per year for the first year of production, paid quarterly.

The first year of production will be considered proven when the following conditions are met:

- Proof of production of 22,500 ounces of gold over 365 rolling days at the Beacon mill, using ore sourced exclusively from the Beaufor mine
- a 90-day rolling production record of 8,000 ounces of gold at the Beacon mill, using ore exclusively from the Beaufor mine
- 12-month EBITDA of \$8M
- 4% per year after first year of production with audited EBITDA, paid quarterly.

Minimum cash balance over the life of the loan set at \$6M and placed in a restricted bank account, the release of which will be subject to IQ's approval or the following steps:

- \$2M released at the restart of the 2 facilities (same condition as for the interest rate change)
- \$2M released at the end of the first year of production (same condition as for the interest rate change)
- \$2M released upon repayment of the loan