



**CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**  
THREE-MONTH PERIOD ENDED  
SEPTEMBER 30, 2021

**MONARCH MINING CORPORATION**

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## **CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

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**CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

(UNAUDITED)

SEPTEMBER 30 AND JUNE 30, 2021

	NOTES	SEPTEMBER 30, 2021	JUNE 30, 2021
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		27,459,590	20,480,457
Restricted cash	8	2,000,000	–
Commodity taxes and other receivables		1,582,296	656,847
Balance of sale	5	3,750,000	–
Inventory		1,135,920	1,004,200
Prepaid expenses and deposits		670,207	609,469
		<b>36,598,013</b>	<b>22,750,973</b>
<b>NON-CURRENT ASSETS</b>			
Restricted cash	8	4,000,000	–
In trust deposits		1,458,099	1,458,099
Property, plant and equipment	5	20,030,785	13,954,321
Mining properties	6	8,820,580	8,923,179
Exploration and evaluation assets	7	18,256,939	17,337,901
		<b>52,566,403</b>	<b>41,673,500</b>
		<b>89,164,416</b>	<b>64,424,473</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,763,580	3,699,522
Current portion of long-term debt	8	448,359	34,882
Current portion of other liabilities	9	374,041	1,527,964
		<b>8,585,980</b>	<b>5,262,368</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	8	12,705,405	–
Other liabilities	9	5,225,603	1,667,518
Deferred income taxes and mining taxes		4,477,798	2,737,072
Asset retirement obligations	10	5,179,278	4,945,134
		<b>27,588,084</b>	<b>9,349,724</b>
		<b>36,174,064</b>	<b>14,612,092</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital and warrants	11	52,733,523	52,733,523
Contributed surplus		739,169	404,572
Deficit		(482,340)	(3,325,714)
		<b>52,990,352</b>	<b>49,812,381</b>
		<b>89,164,416</b>	<b>64,424,473</b>

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

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

On behalf of the Board:

'Jean-Marc Lacoste', Director

'Michel Bouchard', Director



**CONSOLIDATED CONDENSED INTERIM STATEMENT OF NET EARNINGS AND  
COMPREHENSIVE INCOME**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

	NOTES	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
		\$
Administration	14	(1,915,029)
Exploration		(1,729,695)
<b>Operating loss</b>		<b>(3,644,724)</b>
Finance income		20,210
Finance expense	14	(136,972)
Gain on foreign exchange		136
Gain on disposal of assets	5, 6	7,690,483
Other income		26,930
Other income related to flow-through shares		628,037
<b>Earnings before taxes</b>		<b>4,584,100</b>
Deferred income and mining taxes		(1,740,726)
<b>Net earnings and comprehensive income</b>		<b>2,843,374</b>
Basic and diluted net earnings per share	17	0.04

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

**CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
<b>BALANCE AS AT JUNE 30, 2021</b>	<b>52,733,523</b>	<b>404,572</b>	<b>(3,325,714)</b>	<b>49,812,381</b>
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives (Notes 11 and 12)	–	334,597	–	<b>334,597</b>
NET EARNINGS FOR THE PERIOD	52,733,523	739,169	(3,325,714)	<b>50,146,978</b>
	–	–	2,843,374	<b>2,843,374</b>
<b>BALANCE AS AT SEPTEMBER 30, 2021</b>	<b>52,733,523</b>	<b>739,169</b>	<b>(482,340)</b>	<b>52,990,352</b>

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

## CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

	NOTES	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
		\$
<b>Operating activities</b>		
Net earnings for the period		2,843,374
Adjustments for:		
Amortization	5	18,674
Share-based payments		334,597
Accretion expense on asset retirement obligations	10	20,386
Accretion expense arising from the financial liability on tons milled at Beacon mill	9	5,552
Interest on lease liabilities	8	802
Interest on the royalties buy-back options	9	86,239
Other income related to flow-through shares		(628,037)
Gain on disposal of assets	5, 6	(7,690,483)
Income taxes and deferred mining taxes		1,740,726
Change in non-cash operating working capital	15	(1,368,464)
		<b>(4,636,634)</b>
<b>Financing activities</b>		
Proceed from sale of royalties	5	7,500,000
Term loan	8	13,500,000
Restricted cash	8	(6,000,000)
Financing fees	8	(372,720)
Repayment of lease liabilities	8	(9,200)
		<b>14,618,080</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	5	(2,035,418)
Proceed from disposition of mineral properties	6	310,000
Increase in exploration and evaluation assets	7	(1,276,895)
		<b>(3,002,313)</b>
<b>Increase in cash and cash equivalents</b>		<b>6,979,133</b>
Cash and cash equivalents, beginning of period		20,480,457
<b>Cash and cash equivalents, end of period</b>		<b>27,459,590</b>

Other cash flow information (Note 15)

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

# NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

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## 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.

Since its incorporation, 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, the sale of royalties (Note 5) and the obtaining of debt (Note 8). 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](http://www.monarchmining.com).

## 2. BASIS OF PREPARATION

### A) STATEMENT OF COMPLIANCE

These unaudited consolidated condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and consistent with the accounting policies used by the Company in its most recent audited annual financial statements. These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Certain information normally included in audited annual consolidated financial statements prepared in accordance with IFRS, in particular the notes thereto, has been omitted or condensed. Accordingly, these unaudited condensed interim consolidated financial statements do not include all disclosures required for complete consolidated financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements, including notes, for the 232-day period ended June 30, 2021. The Board of Directors approved the unaudited interim condensed consolidated financial statements on November 9, 2021.

The unaudited condensed interim consolidated financial statements for the period ended September 30, 2021 have not been subject to a review engagement by the Company's independent auditor in accordance with the standards established by the Chartered Professional Accountants of Canada for a review engagement of interim financial statements by the Company's auditor.

### B) BASIS OF MEASUREMENT

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

## NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

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### 2. BASIS OF PREPARATION (CONTINUED)

#### C) FUNCTIONAL AND PRESENTATION CURRENCY

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

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

The estimates and underlying assumptions are reviewed regularly. Any revisions to accounting estimates are recognized in the year in which the estimates are revised as well as in future years affected by such revisions.

In preparing these unaudited condensed interim consolidated financial statements, the significant judgments that management has made in the process of applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those reported in the audited consolidated financial statements for the 232-day period ended June 30, 2021, except as noted below:

#### **Royalties buy-back options**

##### *Judgments made in relation to accounting policies*

Management must use its judgment to assess the appropriate accounting treatment for the sale of royalties (Note 5) and the allocation of the proceeds between the mineral properties disposed, the exploration and evaluation assets, the financial liability on the tons milled at the Beacon mill and the royalties buy-back options. The Company reviewed the specific terms of the agreements to determine whether it had disposed of an interest in the reserves and resources of the properties. The assessment considered the rights attributed to the consideration and the risks and rewards associated with it over the life of the transaction.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated condensed interim financial statements have been prepared using the same accounting policies as the audited consolidated financial statements for the 232-day period ended June 30, 2021.



## NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

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### 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 Monarch 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 CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 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	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



**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**5. PROPERTY, PLANT AND EQUIPMENT**

	EQUIPMENT AND LEASEHOLD IMPROVEMENTS	RIGHTS-OF-USE	MINING ASSETS UNDER CONSTRUCTION <sup>(A)</sup>	BEAUFOR MINING PROPERTY	BUILDINGS AND EQUIPMENT <sup>(A)</sup>	TOTAL
	\$	\$	\$	\$	\$	\$
<b>COST</b>						
<b>Balance as at June 30, 2021</b>	<b>636,278</b>	<b>95,040</b>	<b>11,000,093</b>	<b>913,413</b>	<b>3,637,998</b>	<b>16,282,822</b>
Acquisitions	5,165	–	5,246,877	–	954,412	6,206,454
Disposal (see Note 6)	(111,316)	–	–	–	–	(111,316)
<b>Balance as at September 30, 2021</b>	<b>530,127</b>	<b>95,040</b>	<b>16,246,970</b>	<b>913,413</b>	<b>4,592,410</b>	<b>22,377,960</b>
<b>ACCUMULATED AMORTIZATION</b>						
<b>Balance as at June 30, 2021</b>	<b>166,835</b>	<b>63,361</b>	<b>–</b>	<b>317,803</b>	<b>1,780,502</b>	<b>2,328,501</b>
Amortization	10,754	7,920	–	–	–	18,674
<b>Balance as at September 30, 2021</b>	<b>177,589</b>	<b>71,281</b>	<b>–</b>	<b>317,803</b>	<b>1,780,502</b>	<b>2,347,175</b>
<b>NET CARRYING AMOUNT</b>						
<b>Balance as at September 30, 2021</b>	<b>352,538</b>	<b>23,759</b>	<b>16,246,970</b>	<b>595,610</b>	<b>2,811,908</b>	<b>20,030,785</b>
<b>Balance as at June 30, 2021</b>	<b>469,443</b>	<b>31,679</b>	<b>11,000,093</b>	<b>595,610</b>	<b>1,857,496</b>	<b>13,954,321</b>

<sup>(A)</sup> As these items are not ready for use, the mining assets under construction, property, buildings and equipment have not yet been amortized.

## NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

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### 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Sale of royalties

On August 5, 2021, the Company sold royalties to Gold Royalty Corp. for \$11.25 million 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 ton 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. The carrying value of this repurchase option was \$1,551,911 and has been recorded as a gain on disposal of an asset in the interim condensed consolidated statement of net earnings and comprehensive income.

The sale of the royalty has been divided into three parts for accounting purposes:

- i) Sale of a portion of the Croinor, McKenzie Break and Swanson mining properties as control over a portion of future gold production is transferred to the purchaser for the 1.25% NSR royalty.
- ii) Financial liability, in accordance with IFRS 15, for the buy-back options of a 1.25% NSR royalty on the Croinor, McKenzie Break and Swanson mining properties because the control of this portion of future gold production is not deemed to be transferred to the purchaser due to the Company's right to exercise the buy-back options after December 31, 2027, under certain conditions.
- iii) Financial liability, in accordance with IFRS 9, for the contractual obligation to pay a royalty of \$2.50 on tons milled at the Beacon mill from the Beaufor mine.

The proceeds of disposition have been allocated to the various components based on the estimated present value of the cash flows expected from each component. The \$3.75M receivable was included in the proceeds of disposition and recorded in current assets at the time of the transaction as no additional transfer of assets or services is related to it, compliance with the conditions to be fulfilled is under the control of the Company and compliance with these conditions in the near future was considered highly probable. The carrying value of the mining properties disposed of has been determined in proportion to the percentage of the estimated net book value that has been sold.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Sale of royalties (continued)

	DISPOSITION OF MINING PROPERTIES	ROYALTIES BUY-BACK OPTIONS	ROYALTY ON TONS MILLED AT THE BEACON MILL	TOTAL
	\$	\$	\$	\$
Proceed of disposition	6,757,681	2,897,262	1,595,057	11,250,000
Book value sold	(775,305)	-	-	(775,305)
Liability under IFRS 9	-	-	(1,595,057)	(1,595,057)
Royalties buy-back options under IFRS 15	-	(2,897,262)	-	(2,897,262)
<b>Gain on disposal recognized in earnings</b>	<b>5,982,376</b>	<b>-</b>	<b>-</b>	<b>5,982,376</b>

**6. MINING PROPERTIES**

PROPERTIES <sup>(1) (2)</sup>	JUNE 30, 2021	ADDITIONS	DISPOSAL <sup>(3)</sup>	SALE OF ROYALTIES (NOTE 5) <sup>(4)</sup>	SEPTEMBER 30, 2021
				\$	
McKenzie Break	3,957,574	-	-	(78,685)	3,878,889
Croinor Gold	3,013,049	213,758	-	(99,051)	3,127,756
Swanson and others	1,952,556	-	(42,488)	(96,133)	1,813,935
	<b>8,923,179</b>	<b>213,758</b>	<b>(42,488)</b>	<b>(273,869)</b>	<b>8,820,580</b>

(1) The mining properties are all located in the Province of Québec, Canada.

(2) The mining claims included in the properties were acquired under various agreements or by map designation and, accordingly, the applicable royalties, if any, are covered by specific agreements.

(3) The Company disposed of mining properties and equipment in consideration of \$310,000 in cash. The carrying value of these mining properties was \$42,488 and \$111,316 of equipment (see note 5). A gain of \$156,196 was recorded in the interim condensed consolidated statement of net earnings and comprehensive income.

(4) The Company has allocated the sale of royalties between the mining properties and the exploration assets in proportion to their carrying value.

**7. EXPLORATION AND EVALUATION ASSETS**

Exploration and evaluation assets are as follows:

	JUNE 30, 2021	EXPLORATION AND EVALUATION EXPENSES	SALE OF ROYALTIES (NOTE 5)	SEPTEMBER 30, 2021
	\$	\$	\$	\$
Croinor Gold	11,417,218	-	(375,330)	11,041,888
McKenzie Break	5,645,096	1,420,474	(112,236)	6,953,334
Swanson and others	275,587	-	(13,870)	261,713
	<b>17,337,901</b>	<b>1,420,474</b>	<b>(501,436)</b>	<b>18,256,939</b>

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

Exploration and evaluation expenses by nature are as follows:

	SEPTEMBER 30, 2021
	\$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	98,547
Geology and geophysics	576,209
Drilling, equipment rental and other material	745,718
<b>Increase in exploration and evaluation expenses</b>	<b>1,420,474</b>
Balance, beginning of period	17,337,901
<b>Balance, end of period</b>	<b>18,758,375</b>

**8. LONG-TERM DEBT**

	TERM LOAN	LEASE LIABILITIES	TOTAL
	\$	\$	\$
Balance, beginning of period	-	34,882	34,882
Additions	13,500,000	-	13,500,000
Financing costs	(372,720)	-	(372,720)
Accrued interest for the period	-	802	802
Repayment	-	(9,200)	(9,200)
<b>Balance as of September 30, 2021</b>	<b>13,127,280</b>	<b>26,484</b>	<b>13,153,764</b>
Current portion	421,875	26,484	448,359
Non-current portion	12,705,405	-	12,705,405

**8. LONG-TERM DEBT (CONTINUED)****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 a period of 8 quarters beginning on the first anniversary of the loan, representing a principal repayment of \$3.375M. The balance of the loan to be repaid on August 14, 2024 will be \$10.125M.

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 annum 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 day 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
  - earnings before interest, taxes, depreciation and amortization ("EBITDA") over 12 months of \$8 million
- 4% annual after the 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 on restart of Beaufor and Beacon facilities (same condition as for 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

**Credit facility**

The Company also has a credit facility with a Canadian chartered bank for \$2,000,000 bearing interest at prime rate plus 2.5%. The facility is secured by \$1,000,000 of guaranteed investment certificate. The facility is undrawn as of September 30, 2021 and June 30, 2021.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**9. OTHER LIABILITIES**

	SEPTEMBER 30, 2021	JUNE 30, 2021
	\$	\$
Flow-through share liabilities	1,039,481	1,667,518
Option to buy-back a 1% NSR royalty on the Beaufor mining property (Note 5)	–	1,527,964
Royalties buy-back options (Note 5)	2,959,554	–
Financial liability on tons milled at the Beacon mill (Note 5)	1,600,609	–
<b>Balance as of September 30, 2021</b>	<b>5,599,644</b>	<b>3,195,482</b>
Current portion	374,041	1,527,964
<b>Non-current portion</b>	<b>5,225,603</b>	<b>1,667,518</b>

The royalties buy-back options and the related financial liability on tons milled at the Beacon mill are accounted for as financial instruments and the accretion is recognized as financial expense in the consolidated condensed interim statement of net earnings and comprehensive income. Financial expenses of \$91,791 are recorded for the three-month period ended September 30, 2021.

**10. ASSET RETIREMENT OBLIGATIONS**

Asset retirement obligations varied during the period as follows:

	SEPTEMBER 30, 2021
	\$
Balance, beginning of period	4,945,134
Assumption changes	213,758
Accretion expense	20,386
<b>Balance as at September 30, 2021</b>	<b>5,179,278</b>

**11. SHARE CAPITAL AND WARRANTS**

Authorized:

Unlimited number of common shares without par value.

There were no changes in the Company's capital stock and warrants during the three months ended September 30, 2021. The composition is detailed as follows:

	NUMBER OF WARRANTS <sup>(1)</sup>	NUMBER OF SHARES ISSUED	AMOUNT
			\$
<b>Balance as at September 30, 2021</b>	<b>15,822,270</b>	<b>78,033,009</b>	<b>52,733,523</b>

<sup>(1)</sup> Excluding the Indenture warrants issued by Monarch Gold Corporation (Note 11 D).





**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**11. SHARE CAPITAL AND WARRANTS (CONTINUED)**

**A) COMPANY WARRANTS**

Each warrant entitles the holder to acquire one common share of the Company. The following table summarizes the information relating to the warrants:

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

**B) MONARCH REPLACEMENT WARRANTS**

Each Monarch Replacement Warrant entitles the holder to acquire 0.2 common shares of the Company. The following table summarizes the information relating to the Monarch Replacement Warrants:

NUMBER OF WARRANTS OUTSTANDING AS AT SEPTEMBER 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**

Each warrant entitles the holder to acquire one common share of the Company. The following table summarizes the information relating to the warrants granted to brokers:

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

**D) INDENTURE WARRANTS**

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

NUMBER OF OUTSTANDING INDENTURE WARRANTS AS AT SEPTEMBER 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.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**11. SHARE CAPITAL AND WARRANTS (CONTINUED)**

**E) RESTRICTED SHARE UNITS**

Changes in RSUs granted under the Monarch Mining Corporation Restricted Share Unit Plan were as follows:

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021	
	Number of RSUs	Weighted average intrinsic value at grant date
Outstanding, beginning of period	1,405,500	\$ 0.85
<b>Outstanding, end of the period</b>	<b>1,405,500</b>	<b>0.85</b>
<b>Acquired, end of the period</b>	<b>—</b>	<b>—</b>

The fair value of the RSUs is recognized as share-based expense over the vesting period. For the three-month ended September 30, 2021, total share-based compensation related to RSUs amounted to \$182,779 and is classified as share-based compensation in the consolidated condensed interim statement of net earnings and comprehensive income.

**12. SHARE PURCHASE OPTIONS**

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

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021	
	Number of options	Weighted average exercise price
Outstanding, beginning of period	2,264,000	\$ 1.00
<b>Outstanding, end of the period</b>	<b>2,264,000</b>	<b>1.00</b>
<b>Exercisable, end of the period</b>	<b>—</b>	<b>—</b>

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

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

For the three-month period ended September 30, 2021, the application of the fair value model resulted in a charge of \$151,818 recorded in stock-based compensation in the consolidated condensed interim statement of net earnings and comprehensive income

# NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

## 13. COMMITMENTS

### 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	FUNDS RESERVED AS AT SEPTEMBER 30, 2021	FLOW-THROUGH SHARE LIABILITY AS AT SEPTEMBER 30, 2021
	\$		\$	\$
March 4, 2021	5,081,721	December 31, 2022	2,561,578	1,039,481

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

### A) ADMINISTRATION

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$
Salaries, directors' fees and related benefits	561,158
Share-based compensation	334,597
Consultants and professional fees	615,228
Office expenses, rent, maintenance and other	126,536
Insurance, taxes and permits	155,319
Investor relations and representation expenses	103,517
Amortization	10,754
Amortization of rights of use	7,920
	<b>1,915,029</b>

### B) FINANCE EXPENSE

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$
Interest on lease liabilities	802
Accretion expense	112,177
Other	23,993
	<b>136,972</b>

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

**15. OTHER CASH-FLOW INFORMATION**

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$
Changes in non-cash working capital items:	
Commodity taxes and other receivables	(925,449)
Inventory	(131,720)
Prepaid expenses and deposits	(60,738)
Trade and other payables	(250,557)
	<b>(1,368,464)</b>

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$
Items not affecting cash flow:	
Change in trade and other payables related to property, plant and equipment	4,171,036
Change in trade and other payables related to exploration and evaluation assets	143,579

**16. COMPENSATION**

**A) TOTAL COMPENSATION**

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$
Salaries, directors' fees and other benefits	1,353,985
Share-based compensation	334,597
Defined contribution plan	44,095
Government plans	167,698
	<b>1,900,375</b>

As at September 30, 2021, trade and other payables included an amount of \$529,756 payable for salaries and other benefits.

# NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

## 16. COMPENSATION (COMPENSATION)

### 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, VP Corporate Development and VP Evaluation and Planning.

Key management personnel compensation includes the following expenses:

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
Salaries, directors' fees and other benefits	\$ 204,516
Share-based compensation	89,573
Defined contribution plan	11,308
Government plans	10,433
	<b>315,830</b>

## 17. EARNINGS PER SHARE

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
Net earnings	\$2,843,374
Weighted average number of basic common shares	78,033,009
Dilutive effect of RSUs	1,405,500
Dilutive effect of warrants	1,481,678
Dilutive effect of stock options	—
Weighted average number of diluted common shares	<b>80,920,187</b>

## 18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Fair value of financial instruments

Current financial assets and liabilities, which include cash and cash equivalents, restricted cash, other receivables, balance of sale 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.

# NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

## 18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 SEPTEMBER 30, 2021	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	\$	\$	\$	\$	\$
<b>Financial liabilities measured at amortized cost</b>					
Term loan	13,500,000	13,500,000	–	13,500,000	–
Financial liability on tons milled at the Beacon mill	1,600,609	1,600,609	–	–	1,600,609
Royalties buy-back options	2,959,554	2,959,554	–	–	2,959,554

The fair value of these financial liabilities is calculated on the basis of the present value of cash outflows in principal and interest which are discounted at market rates at the balance sheet date taking into account the Company's credit risk.

### 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, foreign exchange rates and stock prices that affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

##### *Interest rate risk*

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

## NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021

### 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 through a rigorous annual budgeting process that is supplemented by cash flow forecasts on an ongoing basis throughout the year. The Company continuously monitoring actual and projected cash flows.

As at September 30, 2021, all of the Company's financial liabilities and other obligations were due within the next 12 months (except for the royalties buy-back options, the financial liability related to tons milled at the Beacon mill and the term loan) 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 September 30, 2021:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	\$	\$	\$	\$	\$
Trade and other payables	7,233,824	7,233,824	7,233,824	–	–
Term loan	13,500,000	15,177,061	1,070,615	2,268,633	11,837,813
Financial liability on tons milled at the Beacon mill	1,600,609	1,700,550	431,958	638,542	630,050
Royalties buy-back options	2,959,554	6,000,000	–	–	6,000,000
	<b>25,293,987</b>	<b>30,111,435</b>	<b>8,736,397</b>	<b>2,907,175</b>	<b>18,467,863</b>