



CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED

DECEMBER 31, 2021

MONARCH MINING CORPORATION

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CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

Consolidated Condensed Interim Statements of Financial Position	3
Consolidated Condensed Interim Statement of Net Earnings (loss) and Comprehensive Income...	4
Consolidated Condensed Interim Statement of Changes in Shareholders' Equity	5
Consolidated Condensed Interim Statement of Cash Flows	6
Notes to the Consolidated Condensed Interim Financial Statements	7

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

DECEMBER 31 AND JUNE 30, 2021

	NOTES	DECEMBER 31, 2021	JUNE 30, 2021
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		18,920,581	20,480,457
Restricted cash	9	2,000,000	–
Commodity taxes and other receivables		1,750,833	656,847
Balance of sale	6	3,750,000	–
Inventory	5	4,036,581	1,004,200
Prepaid expenses and deposits		670,670	609,469
		31,128,665	22,750,973
NON-CURRENT ASSETS			
Restricted cash	9	4,000,000	–
In trust deposits		1,458,099	1,458,099
Property, plant and equipment	6	33,767,458	13,954,321
Mining properties	7	8,820,580	8,923,179
Exploration and evaluation assets	8	19,159,248	17,337,901
		67,205,385	41,673,500
		98,334,050	64,424,473
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		13,704,923	3,699,522
Current portion of long-term debt	9	937,156	34,882
Current portion of other liabilities	10	407,060	1,527,964
		15,049,139	5,262,368
NON-CURRENT LIABILITIES			
Long-term debt	9	12,437,138	–
Other liabilities	10	5,927,016	1,667,518
Deferred income taxes and mining taxes		3,665,409	2,737,072
Asset retirement obligations	11	5,199,711	4,945,134
		27,229,274	9,349,724
		42,278,413	14,612,092
SHAREHOLDER'S EQUITY			
Share capital and warrants	12	57,831,287	52,733,523
Contributed surplus		1,089,626	404,572
Deficit		(2,865,276)	(3,325,714)
		56,055,637	49,812,381
		98,334,050	64,424,473

Reporting entity and nature of operations (Note 1); Commitments (Note 14); Subsequent events (Note 20).

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 (LOSS) AND COMPREHENSIVE INCOME

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

	NOTES	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
		\$	\$
Administration	15	(2,374,268)	(4,289,297)
Exploration		(714,471)	(2,444,166)
Operating loss		(3,088,739)	(6,733,463)
Finance income		12,666	32,876
Finance expense	15	(152,667)	(289,639)
Gain on foreign exchange		482	618
Gain on disposal of assets	6, 7	–	7,690,483
Other income		69,221	96,151
Other income related to flow-through shares		366,154	994,191
Earnings (loss) before taxes		(2,792,883)	1,791,217
Deferred income and mining taxes		732,437	(1,008,289)
Net earnings (loss) and comprehensive income		(2,060,446)	782,928
Basic and diluted net earnings (loss) per share	18	(0.03)	0.01

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 AND SIX MONTHS ENDED DECEMBER 31, 2021

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
BALANCE AS AT JUNE 30, 2021	52,733,523	404,572	(3,325,714)	49,812,381
EQUITY FINANCING				
Issuance of flow-through shares (Note 12)	5,992,941	—	—	5,992,941
Premium on flow-through shares (Note 12)	(998,823)	—	—	(998,823)
Share issuance costs	—	—	(301,705)	(301,705)
Exercise of replacement Monarch warrants (Note 12)	2,909	—	—	2,909
Grant of warrants to brokers (Note 12)	100,737	—	(100,737)	—
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives (Notes 12 and 13)	—	685,054	—	685,054
Deferred income taxes related to shares issuance expenses of current period	—	—	79,952	79,952
	57,831,287	1,089,626	(3,648,204)	55,272,709
NET EARNINGS FOR THE PERIOD	—	—	782,928	782,928
BALANCE AS AT DECEMBER 31, 2021	57,831,287	1,089,626	(2,865,276)	56,055,637

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

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

		THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	NOTES	\$	\$
Operating activities			
Net earnings (loss) for the period		(2,060,446)	782,928
Adjustments for:			
Amortization	6	18,196	36,870
Share-based payments		350,457	685,054
Amortization of financing costs on term loan	9	32,059	32,059
Accretion expense on asset retirement obligations	11	20,433	40,819
Accretion expense arising from the financial liability on tons milled at Beacon mill	10	8,328	13,880
Interest on lease liabilities	9	2,904	3,706
Interest on the royalties buy-back options	10	93,435	179,674
Other income related to flow-through shares		(366,154)	(994,191)
Gain on disposal of assets	6, 7	–	(7,690,483)
Deferred Income and mining taxes		(732,437)	1,008,289
Change in non-cash operating working capital	16	(222,480)	(1,590,944)
		(2,855,705)	(7,492,339)
Financing activities			
Proceeds from issuance of flow-through shares	12	5,992,941	5,992,941
Share issuance costs	12	(301,705)	(301,705)
Exercise of replacement Monarch warrants	12	2,909	2,909
Proceed from sale of royalties	6	–	7,500,000
Term loan	9	–	13,500,000
Restricted cash	9	–	(6,000,000)
Financing costs	9	(11,991)	(384,711)
Repayment of lease liabilities and credit facility	9	(34,817)	(44,017)
		5,647,337	20,265,417
Investing activities			
Acquisition of property, plant and equipment	6	(9,839,570)	(11,874,988)
Proceed from disposition of mining properties	7	–	310,000
Increase in exploration and evaluation assets	8	(1,491,071)	(2,767,966)
		(11,330,641)	(14,332,954)
Decrease in cash and cash equivalents		(8,539,009)	(1,559,876)
Cash and cash equivalents, beginning of period		27,459,590	20,480,457
Cash and cash equivalents, end of period		18,920,581	18,920,581

Other cash flow information (Note 16)

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

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 (Notes 6 and 20) and the issuance of debt (Note 9). 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 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 February 8, 2022.

The unaudited condensed interim consolidated financial statements for the three and six months ended December 31, 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 except for:

- equity classified share-based payment arrangements which are measured at fair value at grant date pursuant to IFRS 2, Share-based payment.
- Assets retirement obligations which are measured at the present value of the expenditures expected to be required to settle the obligation.

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 6) 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 AND SIX MONTHS ENDED DECEMBER 31, 2021

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 AND SIX MONTHS ENDED DECEMBER 31, 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

5. INVENTORY

	DECEMBER 31, 2021	JUNE 30, 2021
	\$	\$
Ore stockpiles	2,633,758	–
Supplies	1,402,823	1,004,200
	4,036,581	1,004,200

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

6. PROPERTY, PLANT AND EQUIPMENT

	EQUIPMENT AND LEASEHOLD IMPROVEMENTS	RIGHTS-OF-USE ASSETS	MINING ASSETS UNDER CONSTRUCTION ^(A)	BEAUFOR MINING PROPERTY ^(A)	BUILDINGS AND EQUIPMENT	TOTAL
	\$	\$	\$	\$	\$	\$
COST						
Balance as at June 30, 2021	636,278	95,040	11,000,093	913,413	3,637,998	16,282,822
Acquisitions	12,259	—	17,930,479	—	2,018,585	19,961,323
Reclassification	(226,323)	—	—	—	226,323	—
Disposal (see Note 7)	(111,316)	—	—	—	—	(111,316)
Balance as at December 31, 2021	310,898	95,040	28,930,572	913,413	5,882,906	36,132,829
ACCUMULATED AMORTIZATION						
Balance as at June 30, 2021	166,835	63,361	—	317,803	1,780,502	2,328,501
Reclassification	(78,674)	—	—	—	78,674	—
Amortization	21,030	15,840	—	—	—	36,870
Balance as at December 31, 2021	109,191	79,201	—	317,803	1,859,176	2,365,371
NET CARRYING AMOUNT						
Balance as at December 31, 2021	201,707	15,839	28,930,572	595,610	4,023,730	33,767,458
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, the mining assets under construction, the Beaufor Mining property, and buildings and equipment have not yet been amortized.

As at December 31, 2021, total interest of \$344,963 was capitalized to mining assets under construction.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

6. 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, \$7.5 million at closing and \$3.75 million after 6 months. The agreement includes the following royalties:

- 2.50% on net smelter returns ("NSR") from production at Croinor, McKenzie Break and Swanson (1.25% redeemable for \$2 million 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. also acquire the option to buy-back a 1% NSR royalty on the Beaufor mining property (Note 10) from the Caisse de Dépôt et Placement du Québec ("CDPQ") 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 (loss) and comprehensive income.

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

- 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.
- 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 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.
- Financial liability, in accordance with IFRS 9, for the contractual obligation to pay a royalty of \$2.50 on tonnes 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 \$3.75 million 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 carrying value that has been sold.

	DISPOSITION OF MINING PROPERTIES AND EXPLORATION AND EVALUATION ASSETS	ROYALTIES BUY-BACK OPTIONS	ROYALTY ON TONNES MILLED AT THE BEACON MILL	TOTAL
	\$	\$	\$	\$
Proceed of disposition	6,757,681	2,897,262	1,595,057	11,250,000
Carrying value sold (Notes 7 and 8)	(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)
Gain on disposal recognized in earnings	5,982,376	—	—	5,982,376

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

7. MINING PROPERTIES

PROPERTIES ^{(1) (2)}	JUNE 30, 2021	ADDITIONS	DISPOSAL ⁽³⁾	SALE OF ROYALTIES (NOTE 6) ⁽⁴⁾	DECEMBER 31, 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
	8,923,179	213,758	(42,488)	(273,869)	8,820,580

(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 6). A gain of \$156,196 was recorded in the interim condensed consolidated statement of net earnings (loss) 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.

8. EXPLORATION AND EVALUATION ASSETS

	JUNE 30, 2021	EXPLORATION AND EVALUATION EXPENSES	SALE OF ROYALTIES (NOTE 6)	DECEMBER 31, 2021
	\$	\$	\$	\$
Croinor Gold	11,417,218	–	(375,330)	11,041,888
McKenzie Break	5,645,096	2,156,803	(112,236)	7,689,663
Swanson and others	275,587	165,980	(13,870)	427,697
	17,337,901	2,322,783	(501,436)	19,159,248

Exploration and evaluation expenses by nature are as follows:

	DECEMBER 31, 2021
	\$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	156,030
Geology and geophysics	976,100
Test, sampling and prospecting	20,480
Drilling, equipment rental and other material	1,170,173
Increase in exploration and evaluation expenses	2,322,783
Disposal	(501,436)
Balance, beginning of period	17,337,901
Balance, end of period	19,159,248

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

9. LONG-TERM DEBT

	TERM LOAN	LEASE LIABILITIES	TOTAL
	\$	\$	\$
Balance, beginning of period	–	34,882	34,882
Additions	13,500,000	232,375	13,732,375
Financing costs	(384,711)	–	(384,711)
Amortization financing costs	32,059	–	32,059
Accrued interest for the period	–	3,706	3,706
Repayment	–	(44,017)	(44,017)
Balance as of December 31, 2021	13,147,348	226,946	13,374,294
Current portion	843,750	93,406	937,156
Non-current portion	12,303,598	133,540	12,437,138

Term loan

On August 14, 2021, the Company contracted a 3-year term loan with Investissement Québec ("IQ") in the amount of \$13.5 million. 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 \$3.375 million. The balance of the loan to be repaid on August 14, 2024 will be \$10.125 million.

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 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 sourced 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, paid quarterly.

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

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

9. LONG-TERM DEBT (CONTINUED)

Credit facility

The Company also has a credit facility with a Canadian chartered bank for \$2 million bearing interest at prime rate plus 2.5%. The facility is secured by \$1 million of guaranteed investment certificates. The facility is used for \$209,071 as of December 31, 2021 (undraw as at June 30, 2021).

10. OTHER LIABILITIES

	DECEMBER 31, 2021	JUNE 30, 2021
	\$	\$
Flow-through share liability (Note 14)	1,672,150	1,667,518
Option to buy-back a 1% NSR royalty on the Beaufor mining property (Note 6)	–	1,527,964
Royalties buy-back options (Note 6)	3,052,989	–
Financial liability on tonnes milled at the Beacon mill (Note 6)	1,608,937	–
Balance as of December 31, 2021	6,334,076	3,195,482
Current portion	407,060	1,527,964
Non-current portion	5,927,016	1,667,518

The royalties buy-back options and the financial liability on tonnes 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 (loss) earnings and comprehensive income. Financial expenses for the royalties buy-back options of \$93,435 and \$179,674 are recorded for the three-month period and six-month period ended December 31, 2021. Financial expenses for the financial liability on tonnes milled at the Beacon mill of \$8,328 and \$13,880 are recorded for the three-month period and six-month period ended December 31, 2021.

11. ASSET RETIREMENT OBLIGATIONS

	DECEMBER 31, 2021
	\$
Balance, beginning of period	4,945,134
Assumption changes	213,758
Accretion expense	40,819
Balance as at December 31, 2021	5,199,711

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

12. 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	15,822,270	78,033,009	52,733,523
Issuance of flow-through shares ⁽¹⁾	—	6,658,823	4,994,118
Exercise of Replacement Monarch warrants	(30,000)	6,000	2,909
Grant of warrants to brokers	307,783	—	100,737
Balance as at December 31, 2021	16,100,053	84,697,832	57,831,287

⁽¹⁾ The carrying value of flow-through shares is presented net of the liability for the flow-through share premium of \$998,823 that was recorded on the issuance of the flow-through shares for the November 22, 2021 financing.

⁽²⁾ Consists of Company Warrants (Note 12 A), Monarch Replacements Warrants (Note 12 B) and Warrants granted to brokers (Note 12 C). Excludes the Indenture warrants issued by Monarch Gold Corporation (Note 12 D).

On November 22, 2021, the Company completed a flow-through financing of 6,658,823 flow-through shares at a price of \$0.90 for gross proceeds of \$5,992,941. The Company incurred shares issuance costs of \$301,705 and granted 307,783 broker warrants at an exercise price of \$0.90 expiring on November 22, 2023.

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 DECEMBER 31, 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.

	SIX MONTHS ENDED DECEMBER 31, 2021
	Weighted average exercise price
	\$
Outstanding, beginning of period	0.05
Exercised	0.08
Outstanding, end of the period	0.05

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

12. SHARE CAPITAL AND WARRANTS (CONTINUED)

B) MONARCH REPLACEMENT WARRANTS (CONTINUED)

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

NUMBER OF WARRANTS OUTSTANDING AS AT DECEMBER 31, 2021	EXERCISE PRICE	EXPIRATION DATE
	\$	
1,375,040 (exercisable)	0.08	September 2022
9,551,251 (exercisable)	0.05	June 2023
10,926,291		

C) WARRANTS GRANTED TO BROKERS

Each warrant entitles the holder to acquire one common share of the Company.

Changes in the Company's warrants granted to brokers were as follows.:

	SIX MONTHS ENDED DECEMBER 31, 2021	
	Number of warrants	Weighted average exercise price
		\$
Outstanding, beginning of period	706,229	1.02
Granted	307,783	0.90
Outstanding, end of the period	1,014,012	0.98

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

NUMBER OF WARRANTS OUTSTANDING AS AT DECEMBER 31, 2021	EXERCISE PRICE	EXPIRATION DATE
	\$	
207,059 (exercisable)	1.38	March 2023
499,170 (exercisable)	0.87	June 2023
307,783 (exercisable)	0.90	November 2023
1,014,012		

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

	SIX MONTHS ENDED DECEMBER 31, 2021
Risk-free interest rate	1.04%
Expected dividend yield	– %
Expected volatility	80%
Expected life of the warrants	2 years
Weighted average price per share	\$0.81
Weighted average exercise price of warrants granted to brokers	\$0.90
Weighted average fair value of warrants granted to brokers	\$0.33

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

12. SHARE CAPITAL AND WARRANTS (CONTINUED)

D) INDENTURE WARRANTS

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

NUMBER OF OUTSTANDING INDENTURE WARRANTS AS AT DECEMBER 31, 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

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

	SIX MONTHS ENDED DECEMBER 31, 2021	
	Number of RSUs	Weighted average intrinsic value at grant date
Outstanding, beginning of period	1,405,500	\$ 0.85
Granted	70,000	0.81
Outstanding, end of the period	1,475,500	0.85
Acquired, end of the period	—	—

The fair value of the RSUs is recognized as share-based expense over the vesting period. For the three and six months ended December 31, 2021, total share-based compensation related to RSUs amounted to \$191,442 and \$374,221 respectively and is classified as share-based compensation in the consolidated condensed interim statement of net earnings (loss) and comprehensive income.

13. SHARE PURCHASE OPTIONS

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

	SIX MONTHS ENDED DECEMBER 31, 2021	
	Number of options	Weighted average exercise price
Outstanding, beginning of period	2,264,000	\$ 1.00
Granted	114,000	1.00
Outstanding, end of the period	2,378,000	1.00
Exercisable, end of the period	—	—

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

13. SHARE PURCHASE OPTIONS (CONTINUED)

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

NUMBER OF OPTIONS OUTSTANDING AS AT DECEMBER 31, 2021		EXERCISE PRICE	EXPIRATION DATE
OUTSTANDING	EXERCISABLE	\$	
2,074,000	—	1.00	March 2026
50,000	—	1.00	May 2026
140,000	—	1.00	June 2026
114,000	—	1.00	October 2026
2,378,000	—		

For the three and six months ended December 31, 2021, the application of the fair value model resulted in a charge of \$159,015 and \$310,833 respectively recorded in share-based compensation in the consolidated condensed interim statement of net earnings (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:

	SIX MONTHS ENDED DECEMBER 31, 2021
Risk-free interest rate	1.13%
Expected dividend yield	— %
Expected volatility	80%
Expected life of the options	5 years
Weighted average price per share	\$0.81
Weighted average exercise price of options granted	\$1.00
Weighted average fair value of options granted	\$0.48

14. 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 DECEMBER 31, 2021	FLOW-THROUGH SHARE LIABILITY AS AT DECEMBER 31, 2021
	\$		\$	\$
March 4, 2021	5,081,721	December 31, 2022	1,659,269	673,327
November 22, 2021	5,992,941	December 31, 2022	5,992,941	998,823

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

15. OTHER INFORMATION ON THE CONSOLIDATED CONDENSED INTERIM STATEMENT OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME

A) ADMINISTRATION

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Salaries, directors' fees and related benefits	987,671	1,548,829
Share-based compensation	350,457	685,054
Consultants and professional fees	488,284	1,103,512
Office expenses, rent, maintenance and other	202,037	328,573
Insurance, taxes and permits	230,755	386,074
Investor relations and representation expenses	96,868	200,385
Amortization	10,276	21,030
Amortization of right-of-use assets	7,920	15,840
	2,374,268	4,289,297

B) FINANCE EXPENSE

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Interest on lease liabilities	2,904	3,706
Accretion expense	122,196	234,373
Other	27,567	51,560
	152,667	289,639

16. OTHER CASH-FLOW INFORMATION

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Changes in non-cash working capital items:		
Commodity taxes and other receivables	(168,537)	(1,093,986)
Inventory	(2,900,661)	(3,032,381)
Prepaid expenses and deposits	(463)	(61,201)
Trade and other payables	2,847,181	2,596,624
	(222,480)	(1,590,944)

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

16. OTHER CASH-FLOW INFORMATION (CONTINUED)

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Items not affecting cash flow:		
Change in trade and other payables related to property, plant and equipment	3,682,924	7,853,960
Change in trade and other payables related to exploration and evaluation assets	(588,762)	(445,183)
Change in lease liabilities related to property, plant and equipment	232,375	232,375

17. COMPENSATION

A) TOTAL COMPENSATION

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Salaries, directors' fees and other benefits	2,247,811	3,601,796
Share-based compensation	350,457	685,054
Defined contribution plan	47,074	91,169
Government plans	450,655	618,353
	3,095,997	4,996,372

As at December 31, 2021, trade and other payables included an amount of \$1,154,828 payable for salaries, directors' fees and other benefits.

An amount of \$1,260,140 and \$2,052,967 of salaries for the three and six months ended December 31, 2021 is capitalized in mining assets under construction.

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 MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
	\$	\$
Salaries, directors' fees and other benefits	479,406	683,922
Share-based compensation	323,800	517,557
Defined contribution plan	5,469	16,777
Government plans	34,710	45,143
	843,385	1,263,399

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

18. EARNINGS (LOSS) PER SHARE

	THREE MONTHS ENDED DECEMBER 31, 2021	SIX MONTHS ENDED DECEMBER 31, 2021
Net earnings (loss)	\$(2,060,446)	\$782,928
Weighted average number of basic common shares	81,076,820	79,554,914
Dilutive effect of RSUs	–	1,475,500
Dilutive effect of warrants	–	1,440,440
Weighted average number of diluted common shares	81,076,820	82,470,854

RSUs, warrants and share purchase options were excluded from the calculation of the diluted weighted average number of common shares outstanding for the three-month ended December 31, 2021, as the Company is at loss. Consequently, their effect would have been anti-dilutive.

19. 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.

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 DECEMBER 31, 2021	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	\$	\$	\$	\$	\$
Financial liabilities measured at amortized cost					
Term loan (excluding financing costs)	13,500,000	13,500,000	–	13,500,000	–
Financial liability on tonnes milled at the Beacon mill	1,608,937	1,608,937	–	–	1,608,937
Royalties buy-back options	3,052,989	3,052,989	–	–	3,052,989

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 reporting date taking into account the Company's credit risk.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**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. In the case of the balance of sale, the Company performs a credit analysis or ensures that it has sufficient collateral in the event of non-payment by the third party to cover the net book value of the balance of sale.

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 December 31, 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.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk exposure and management (continued)

C) LIQUIDITY RISK (CONTINUED)

The following table presents the Company's financial liabilities by contractual maturity, including interest payable, as at December 31, 2021:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	\$	\$	\$	\$	\$
Trade and other payables	13,704,923	13,704,923	13,704,923	—	—
Term loan (excluding financing costs)	13,500,000	15,165,352	1,130,625	2,209,570	11,825,157
Financial liability on tonnes milled at the Beacon mill	1,608,937	1,700,550	226,750	615,625	858,175
Royalties buy-back options	3,052,989	6,000,000	—	—	6,000,000
	31,866,849	36,570,825	15,062,298	2,825,195	18,683,332

20. SUBSEQUENT EVENTS

Investment

On February 4, 2022, the Company agreed to invest \$1.5 million in shares on Harfang Exploration Inc. ("Harfang") following the merger of Harfang and Lasalle Exploration Inc. In connection with the Monarch Investment, and as a condition precedent thereto, Harfang has also agreed, subject to the receipt of the required regulatory approvals, to subscribe for common shares of Monarch for a total amount of \$750,000.

Sale of royalty

On February 7, 2022, the Company has entered into an agreement with Triple Flag Precious Metals Corp. ("Triple Flag") whereby Triple Flag will acquire an additional 0.75% net smelter return royalty on gold production at the Beaufor Mine for cash consideration of \$4.5 million.

This transaction follows the acquisition by Triple Flag of an existing 2% NSR and includes the cancellation of the 1% step-down under a prior royalty agreement. Upon completion of both transactions, Triple Flag will hold a 2.75% NSR on the Beaufor Mine.