



## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

THREE-MONTH PERIOD ENDED

SEPTEMBER 30, 2022

(UNAUDITED)

### **MONARCH MINING CORPORATION**

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Three-month period ended September 30, 2022

#### **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

SEPTEMBER 30 AND JUNE 30, 2022

	NOTES	SEPTEMBER 30, 2022	JUNE 30, 2022
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,466,986	10,339,558
Investments	5	451,170	852,319
Commodity taxes and other receivables		1,841,838	2,272,971
Inventories		2,113,043	2,239,423
Prepaid expenses and deposits		432,587	687,792
		7,305,624	16,392,063
<b>NON-CURRENT ASSETS</b>			
Restricted cash	9	6,000,000	6,000,000
In trust deposits		1,551,594	1,551,594
Property, plant and equipment	6	31,975,296	39,590,572
Mining properties	7	8,641,808	8,641,808
Exploration and evaluation assets	8	24,681,112	21,719,182
		72,849,810	77,503,156
		80,155,434	93,895,219
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		22,186,652	12,972,813
Current portion of long-term debt	9	7,097,896	6,965,064
Current portion of other liabilities	10	336,045	1,075,055
		29,620,593	21,012,932
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	9	12,234,478	12,435,785
Other liabilities	10	4,882,670	5,117,048
Deferred income taxes and mining taxes		1,776,839	1,776,839
Asset retirement obligations		4,719,294	4,680,206
		23,613,281	24,009,878
		53,233,874	45,022,810
<b>SHAREHOLDER'S EQUITY</b>			
Share capital and warrants	11	73,588,906	73,588,906
Contributed surplus		1,837,265	1,472,521
Deficit		(48,504,611)	(26,189,018)
		26,921,560	48,872,409
		80,155,434	93,895,219

Reporting entity and nature of operations (Note 1); Going concern (Note 2); Commitments (Note 13).

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

On behalf of the Board:

'Jean-Marc Lacoste', Director

'Michel Bouchard', Director



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET EARNINGS (LOSS) AND  
COMPREHENSIVE INCOME (LOSS)**  
(UNAUDITED)  
THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

	NOTES	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
		\$	\$
<b>Revenues</b>		<b>2,005,605</b>	—
Cost of sales	14	<b>(16,672,139)</b>	—
<b>Loss from mine operations</b>		<b>(14,666,534)</b>	—
Administration expenses	14	<b>(928,785)</b>	(1,915,029)
Exploration expenses		<b>(141,313)</b>	(1,729,695)
<b>Operating loss</b>		<b>(15,736,632)</b>	(3,644,724)
Finance income		<b>28,381</b>	20,210
Finance expense	14	<b>(389,471)</b>	(136,972)
Revaluation of financial liabilities related to tonnes milled at Beacon Mill	10	<b>480,084</b>	—
Change in fair value of investments	5	<b>(179,218)</b>	—
Gain on disposal of assets		—	7,690,483
Impairment of property, plant and equipment	6, 18	<b>(7,000,000)</b>	—
Other income		<b>8,281</b>	27,066
Other income related to flow-through shares		<b>493,304</b>	628,037
<b>Earnings (loss) before taxes</b>		<b>(22,295,271)</b>	4,584,100
Deferred income taxes and mining taxes		<b>(20,322)</b>	(1,740,726)
<b>Net earnings (loss) and comprehensive income (loss)</b>		<b>(22,315,593)</b>	2,843,374
Basic and diluted net earnings (loss) per share	17	<b>(0.20)</b>	0.04

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**  
**THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022**

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
<b>BALANCE AS AT JUNE 30, 2022</b>	<b>73,588,906</b>	<b>1,472,521</b>	<b>(26,189,018)</b>	<b>48,872,409</b>
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives (Notes 11 and 12)	–	364,744	–	364,744
	73,588,906	1,837,265	(26,189,018)	49,237,153
NET LOSS FOR THE PERIOD	–	–	(22,315,593)	(22,315,593)
<b>BALANCE AS AT SEPTEMBER 30, 2022</b>	<b>73,588,906</b>	<b>1,837,265</b>	<b>(48,504,611)</b>	<b>26,921,560</b>

	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	–	334,597	–	334,597
	52,733,523	739,169	(3,325,714)	50,146,978
NET EARNINGS FOR THE PERIOD	–	–	2,843,374	2,843,374
<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 condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

	NOTES	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
		\$	\$
<b>Operating activities</b>			
Net earnings (loss) for the period		(22,315,593)	2,843,374
Adjustments for:			
Amortization	6	510,318	18,674
Stock-based compensation		364,744	334,597
Amortization of financing costs	9	32,060	–
Interest on lease liabilities	9	14,283	802
Accretion expense on asset retirement obligations		39,088	20,386
Interest on the royalties buy-back options		–	86,239
Accretion expense of financial liabilities on tonnes milled at the Beacon Mill		–	5,552
Revaluation of financial liabilities on tonnes milled at the Beacon Mill		(480,084)	–
Change in fair value of investments	5	179,218	–
Loss (gain) on disposal of assets		–	(7,690,483)
Impairment of property, plant and equipment	6, 18	7,000,000	–
Other income related to flow-through shares		(493,304)	(628,037)
Income taxes and deferred mining taxes		–	1,740,726
Change in non-cash operating working capital	15	7,436,902	(1,368,464)
		(7,712,368)	(4,636,634)
<b>Financing activities</b>			
Proceed from sale of royalties		–	7,500,000
Term loan		–	13,500,000
Restricted cash		–	(6,000,000)
Financing fees		–	(372,720)
Repayment of lease liabilities	9	(114,818)	(9,200)
		(114,818)	14,618,080
<b>Investing activities</b>			
Proceeds of disposition of investments	5	221,931	–
Acquisition of property, plant and equipment		–	(2,035,418)
Proceed from disposition of mineral properties		–	310,000
Increase in exploration and evaluation assets	7	(267,317)	(1,276,895)
		(45,386)	(3,002,313)
<b>Change in cash and cash equivalents</b>		(7,872,572)	6,979,133
Cash and cash equivalents, beginning of period		10,339,558	20,480,457
<b>Cash and cash equivalents, end of period</b>		2,466,986	27,459,590

Other cash flow information (Note 15)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

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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.

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. GOING CONCERN

Since its incorporation, the Company has incurred operating losses and negative cash flows related to the operation, exploration and development of its mining properties. As at September 30, 2022, the Company has a deficit of \$48,504,611 and cash and cash equivalents of \$2,466,986, of which \$2,016,271 remains to be committed to be disbursed related to flow-through share arrangements (Note 13). As at September 30, 2022, the Company has negative working capital of \$22,314,969.

As the Company was progressing with the ramp-up of its operations at the Beacon Mill and Beaufor Mine, still considered in the development stage, and its other projects in exploration stage, it has not yet generated positive cash flow from its operations. On September 27, 2022, the Company had suspended its operations at the Beaufor Mine and on October 13, 2022 at the Beacon Mill.

Management periodically seeks financing through the issuance of shares, the exercise of warrants and share options in order to continue its operations and meet its commitments and obligations in the normal course of business. To date, the Company has financed its operations through cash received from the transaction with Yamana Gold on January 21, 2021, the issuance of shares, the sale of royalties and proceeds from the issuance of debt.

The Company's ability to continue as a going concern is dependent upon restarting its mining operations, achieving its production targets, generating positive cash flow and raising additional funds to meet its current obligations, financing its remaining capital expenditures and finalizing the commissioning period at the Beacon Mill and/or a positive outcome from its strategic review.

Notwithstanding the Company's ability to obtain financing in the past, there can be no assurance that the Company will be able to obtain financing in the future, and there can be no assurance that such financing sources or initiatives will be available to the Company or that they will be available on terms acceptable to the Company.

These conditions indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on the going concern basis, where assets are realized and liabilities are settled in the normal course of business, and do not reflect the adjustments that would be necessary to the carrying amounts of assets and liabilities, the amounts reported for revenues and expenses, and the classification of items in the statement of financial position if the going concern assumption were not appropriate. These adjustments could be material.

**3. BASIS OF PREPARATION****A) STATEMENT OF COMPLIANCE**

These unaudited condensed consolidated 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 year ended June 30, 2022. The Board of Directors approved the unaudited condensed consolidated interim financial statements on November 11, 2022.

The unaudited condensed consolidated interim financial statements for the three-month period ended September 30, 2022 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 condensed consolidated interim financial statements have been prepared on the historical cost basis except for:

- equity investments in publicly traded companies that are measured at fair value
- share-based payment arrangements classified as equity are measured at fair value at the grant date in accordance with IFRS 2, Share-based Payment
- asset retirement obligations that are measured at the present value of the expected expenditures to settle the obligation

**C) FUNCTIONAL AND PRESENTATION CURRENCY**

The unaudited condensed consolidated 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 condensed consolidated 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.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 3. BASIS OF PREPARATION (CONTINUED)

### E) USE OF ESTIMATES AND JUDGMENTS (continued)

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 consolidated interim 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 year ended June 30, 2022.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies as the audited consolidated financial statements for the year ended June 30, 2022, except for the new accounting policies adopted as of July 1, 2022:

### Revenue recognition

Revenue includes precious metals revenue (gold and silver).

Precious metals revenue, based on spot metal prices, is recorded when the goods are physically delivered. The performance obligations are satisfied when the metals are transferred to customer accounts. At this point in time, the Company physically transfers the product and the significant risks and rewards related to ownership of the metals to clients. Revenue from gold sales is recorded based on the contract price.

### 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.

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 earnings (loss), together with the related production costs.

The Company recognized the sales of precious metals and the related costs of production in the condensed consolidated interim statements of net earnings (loss) and comprehensive income (loss).

## 5. INVESTMENTS

	SEPTEMBER 30, 2022	JUNE 30, 2022
	\$	\$
Balance, beginning of period	852,319	–
Acquisitions	–	1,728,000
Disposals	(221,931)	(123,490)
Change in fair value	(179,218)	(752,191)
<b>Balance, end of period</b>	<b>451,170</b>	<b>852,319</b>

The Company holds equity investments in other companies listed on the Canadian Venture Exchange ("CDNX").



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 6. PROPERTY, PLANT AND EQUIPMENT

	EQUIPMENT AND LEASEHOLD IMPROVEMENTS <sup>(A)</sup>	MINING ASSETS UNDER CONSTRUCTION	BEAUFOR MINING PROPERTY	BUILDINGS AND EQUIPMENT <sup>(A)</sup>	TOTAL
	\$	\$	\$	\$	\$
<b>COST</b>					
<b>Balance as at June 30, 2021</b>	731,318	11,000,093	913,413	3,637,998	16,282,822
Acquisitions	154,777	35,928,422	–	4,270,079	40,353,278
Adjustments related to asset retirement obligations	–	(383,728)	(42,211)	–	(425,939)
Capitalized interest	–	810,753	–	–	810,753
Reclassification	(226,323)	–	–	226,323	–
Dispositions	(123,966)	(1,809,323)	(107,942)	–	(2,041,231)
<b>Balance as at June 30, 2022</b>	535,806	45,546,217	763,260	8,134,400	54,979,683
Costs adjustments	–	(55,684)	–	(49,274)	(104,958)
<b>Balance as at September 30, 2022</b>	<b>535,806</b>	<b>45,490,533</b>	<b>763,260</b>	<b>8,085,126</b>	<b>54,874,725</b>
<b>ACCUMULATED AMORTIZATION</b>					
<b>Balance as at June 30, 2021</b>	230,196	–	317,803	1,780,502	2,328,501
Reclassification	(78,674)	–	–	78,674	–
Dispositions	(12,650)	–	–	–	(12,650)
Impairment	–	13,000,000	–	–	13,000,000
Amortization	73,260	–	–	–	73,260
<b>Balance as at June 30, 2022</b>	212,132	13,000,000	317,803	1,859,176	15,389,111
Impairment (Note 18)	–	7,000,000	–	–	7,000,000
Amortization	45,905	113,620	2,953	347,840	510,318
<b>Balance as at September 30, 2022</b>	<b>258,037</b>	<b>20,113,620</b>	<b>320,756</b>	<b>2,207,016</b>	<b>22,899,429</b>
<b>NET CARRYING AMOUNT</b>					
<b>Balance as at June 30, 2022</b>	<b>323,674</b>	<b>32,546,217</b>	<b>445,457</b>	<b>6,275,224</b>	<b>39,590,572</b>
<b>Balance as at September 30, 2022</b>	<b>277,769</b>	<b>25,376,913</b>	<b>442,504</b>	<b>5,878,110</b>	<b>31,975,296</b>

<sup>(A)</sup> Included in buildings and equipment at September 30, 2022 is \$982,321 (\$1,188,326 as at June 30, 2022) of right-of-use assets.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 7. MINING PROPERTIES

PROPERTIES <sup>(1) (2)</sup>	JUNE 30, 2022	ADDITIONS	DISPOSAL	SEPTEMBER 30, 2022
	\$	\$	\$	\$
McKenzie Break	3,877,972	—	—	3,877,972
Croinor Gold	2,959,435	—	—	2,959,435
Swanson and others	1,804,401	—	—	1,804,401
	8,641,808	—	—	8,641,808

(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.

## 8. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are as follows:

	JUNE 30, 2022	EXPLORATION AND EVALUATION EXPENSES	SEPTEMBER 30, 2022
	\$	\$	\$
Croinor Gold	11,086,024	6,832	11,092,856
McKenzie Break	8,641,319	2,288,787	10,729,505
Swanson and others	1,991,839	666,311	2,394,276
	21,719,182	2,961,930	24,681,112

Exploration and evaluation expenses by nature are as follows:

	SEPTEMBER 30, 2022
	\$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	53,542
Geology and geophysics	1,300,627
Test, sampling and prospecting	6,192
Drilling, equipment rental and other material	1,601,569
<b>Increase in exploration and evaluation expenses</b>	<b>2,961,930</b>
Balance, as at June 30, 2022	21,719,182
<b>Balance, as at September 30, 2022</b>	<b>24,681,112</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 9. LONG-TERM DEBT

	TERM LOANS	LEASE LIABILITIES	TOTAL
	\$	\$	\$
Balance as at June 30, 2022	18,211,466	1,189,383	19,400,849
Amortization financing costs	32,060	—	32,060
Accrued interest for the period	—	14,283	14,283
Repayment	—	(114,818)	(114,818)
<b>Balance as of September 30, 2022</b>	<b>18,243,526</b>	<b>1,088,848</b>	<b>19,332,374</b>
Current portion	6,687,500	410,396	7,097,896
Non-current portion	11,556,026	678,452	12,234,478

Under the term loan, the Company was required to make capital and interest payments in October 2022. The Company did not make these payments. Following that, the Company did not receive a default notice. In the event of receiving a default notice, the entire term loans would become due at the date thereof.

On October 17, 2022, Investissement Québec and the Company agreed to release the \$6 million restricted cash to repay a portion of the term loans.

## 10. OTHER LIABILITIES

	SEPTEMBER 30, 2022	JUNE 30, 2022
	\$	\$
Flow-through share liabilities	336,045	829,349
Financial liability on tons milled at the Beacon mill	4,882,670	5,362,754
<b>Balance, end of period</b>	<b>5,218,715</b>	<b>6,192,103</b>
Current portion	336,045	1,075,055
Non-current portion	4,882,670	5,117,048

## 11. SHARE CAPITAL AND WARRANTS

Authorized:

Unlimited number of common shares without par value.

The changes in the Company's share capital and warrants are as follows:

	NUMBER OF WARRANTS <sup>(1)</sup>	NUMBER OF SHARES ISSUED	AMOUNT
			\$
<b>Balance as at June 30, 2022</b>	<b>41,337,533</b>	<b>110,185,084</b>	<b>73,588,906</b>
Warrants expired	(1,330,040)	—	—
<b>Balance as at September 30, 2022</b>	<b>40,007,493</b>	<b>110,185,084</b>	<b>73,588,906</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 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, 2022	EXERCISE PRICE	EXPIRATION DATE
4,159,750 (exercisable)	\$1.05	June 2023
24,000,000 (exercisable)	\$0.95	April 2027
28,159,750		

### B) MONARCH REPLACEMENT WARRANTS

Each Monarch Replacement Warrant entitles the holder to acquire 0.2 common shares of the Company.

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	
	Number of warrants	Weighted average exercise price
Outstanding as at June 30, 2022	10,911,291	\$ 0.05
Expired	(1,330,040)	0.08
<b>Balance as at September 30, 2022</b>	<b>9,581,251</b>	<b>0.05</b>

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

NUMBER OF WARRANTS OUTSTANDING AS AT SEPTEMBER 30, 2022	EXERCISE PRICE	EXPIRATION DATE
9,581,251 (exercisable)	\$0.05	June 2023

### 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, 2022	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
1,252,480 (exercisable)	\$0.60	April 2024
2,266,492		



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 11. SHARE CAPITAL AND WARRANTS (CONTINUED)

### D) INDENTURE WARRANTS

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.

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	
	Number of warrants	Weighted average net exercise price
		\$
Outstanding as at June 30, 2022	10,042,000	0.097
Expired	(10,042,000)	0.097
<b>Outstanding as at September 30, 2022</b>	—	

### 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, 2022	
	Number of RSUs	Weighted average Intrinsic value at grant date
		\$
Outstanding as at June 30, 2022	1,874,996	0.77
Granted	75,000	0.40
Cancelled	(89,666)	0.86
<b>Outstanding as at September 30, 2022</b>	<b>1,860,330</b>	<b>0.76</b>

For the three-month ended September 30, 2022, share-based compensation related to RSUs amounted to \$169,528 (\$182,779 in 2021) and is classified as share-based compensation in the condensed consolidated interim statements of net earnings (loss) and comprehensive income (loss).

## 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, 2022	
	Number of options	Weighted average exercise price
		\$
Outstanding as at June 30, 2022	4,711,250	0.84
Granted	290,000	0.40
Cancelled	(703,500)	0.82
<b>Outstanding as at September 30, 2022</b>	<b>4,297,750</b>	<b>0.81</b>
<b>Exercisable as at September 30, 2022</b>	<b>480,688</b>	<b>1.00</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 12. SHARE PURCHASE OPTIONS (CONTINUED)

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

NUMBER OF OPTIONS OUTSTANDING AS AT SEPTEMBER 30, 2022		EXERCISE PRICE	EXPIRATION DATE
OUTSTANDING	EXERCISABLE	\$	
1,707,750	426,938	1.00	March 2026
50,000	12,500	1.00	May 2026
165,000	41,250	1.00	June 2026
114,000	—	1.00	October 2026
1,971,000	—	0.67	February 2027
290,000	—	0.40	July 2027
4,297,750	480,688		

For the three-month period ended September 30, 2022, the application of the fair value model resulted in a charge of \$195,216 (\$151,818 in 2021) recorded in stock-based compensation in the condensed consolidated interim statements of net earnings (loss) and comprehensive income (loss).

## 13. COMMITMENTS

The Company had the following commitments as at September 30, 2022:

### Royalties

Properties	NSR Royalties
Beaufor.....	➤ 4.0%
	➤ Other
Croinor Gold .....	➤ 1.5%
	➤ 2.75%
McKenzie Break.....	➤ 1.5% (0.5% redeemable for \$750,000)
	➤ 2.75%
Swanson .....	➤ 1.5% (0.5% redeemable for \$750,000)
	➤ 2.0% (1% redeemable for \$1 million USD)
	➤ 2.75%
Beacon.....	➤ \$2.50 per tonne milled from the Beaufor property
	➤ \$1.25 per tonne milled

### 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	EXPENSES TO BE COMMITTED AS AT SEPTEMBER 30, 2022	FLOW-THROUGH SHARE LIABILITY AS AT SEPTEMBER 30, 2022
	\$		\$	\$
November 22, 2021	5,992,941	December 31, 2022	2,016,271	336,045



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 14. OTHER INFORMATION ON THE CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

### A) COST OF SALES

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Mining, milling and development	15,984,803	—
Royalties	222,923	—
Amortization	464,413	—
	16,672,139	—

### B) ADMINISTRATION EXPENSES

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Salaries, directors' fees and related benefits	18,394	561,158
Share-based compensation	364,744	334,597
Consultants and professional fees	108,573	615,228
Office expenses, rent, maintenance and other	148,001	126,536
Insurance, taxes and permits	213,314	155,319
Investor relations and representation expenses	29,854	103,517
Amortization	10,275	10,754
Amortization of rights of use	35,630	7,920
	928,785	1,915,029

### C) FINANCE EXPENSE

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Interest on term loans	310,443	—
Interest on lease liabilities	14,283	802
Accretion expense	39,088	112,177
Other	25,657	23,993
	389,471	136,972



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 15. OTHER CASH-FLOW INFORMATION

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Changes in non-cash working capital items:		
Commodity taxes and other receivables	431,133	(925,449)
Inventories	126,380	(131,720)
Prepaid expenses and deposits	255,205	(60,738)
Trade and other payables	6,624,184	(250,557)
	7,436,902	(1,368,464)
	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Items not affecting cash flow:		
Change in trade and other payables related to property, plant and equipment	(104,958)	4,171,036
Change in trade and other payables related to exploration and evaluation assets	2,694,613	143,579

## 16. COMPENSATION

### A) TOTAL COMPENSATION

	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Salaries, directors' fees and other benefits	2,128,931	1,353,985
Share-based compensation	364,744	334,597
Defined contribution plan	232,881	44,095
Government plans	1,480,563	167,698
	4,207,119	1,900,375

As at September 30, 2022, trade and other payables included an amount of \$2,045,063 payable for salaries, directors' fees and other benefits.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

## 16. COMPENSATION (CONTINUED)

### 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, 2022	THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
	\$	\$
Salaries, directors' fees and other benefits	306,609	204,516
Share-based compensation	271,235	89,573
Defined contribution plan	11,663	11,308
Government plans	10,634	10,433
	600,141	315,830

## 17. EARNINGS (LOSS) 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 share purchase options	—
Weighted average number of diluted common shares	80,920,187

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 period ended September 30, 2022, as the Company is at loss, their effect would have been anti-dilutive.

## 18. IMPAIRMENT OF NON-FINANCIAL ASSETS

As at June 30, 2022, due to the delays in starting the operations, the higher-than-expected restart costs and the higher mining dilution on tonnes already extracted, the Company concluded that an impairment test had to be performed on the Beaufor mining property and its related buildings and equipment and the Beacon processing plant and its related equipment ("Beaufor / Beacon cash-generating unit (CGU) CGU").

In the three-month period ended September 30, 2022, the Company restarted the operations at Beaufor Mine and Beacon Mill. As a result of a slower ramp-up of the Beacon Mill in summer 2022 following a number of mechanical and procurement issues and problems with the grade reconciliation of the stockpiled material, causing cash restrictions, the Company decided on August 31, 2022 to slow down mining activities at the Beaufor Mine and subsequently on September 27, 2022 placed the mine on care and maintenance. The Beacon processing plant was placed on care and maintenance after processing a portion of the already available tonnes of stockpiled material.



**18. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)**

The assumptions used in the impairment test as at June 30, 2022 still mainly appropriate with the information available as at September 30, 2022. The major variation in the assumptions used is related to the delay of restart and increase of interest rate in the market since June 30, 2022 and the risk factors related to the CGU also increased. The Company increased its discount rate from 20% to 25% resulting to an additional impairment charge of \$7 million.

The recoverable amount of the Beaufor / Beacon CGU as of June 30, 2022 and September 30, 2022 was determined based on its value in use. The value in use was calculated based on expected future cash flows using the most recent information available and estimates, including estimates of gold production, operating and capital costs required for gold production, forecasted gold prices and foreign exchange rates, and a discount rate.

The Company has cash restrictions. Solutions are explored and may have some impact on the future of the Beaufor Mine and Beacon Mill. Therefore, following the upcoming developments on the future of the Company, some assumptions should be reviewed, and an impairment test should be required.

**Sensitivity**

The value in use may be affected by one or more variations in the assumptions used. Changes in estimates of gold production, operating and capital costs required for gold production, forecasted gold prices and foreign exchange rates, and the discount rate have the greatest impact on the valuation of the Beaufor / Beacon CGU. Thus, individually a +/- 2% change in gold production would result in a change of approximately +/- \$5.1 million in the recoverable amount, a 5% change operating and capital costs would result in a change of approximately +/- \$9.4 million in the recoverable amount, a +/- \$50 change in forecasted gold prices per ounce would result in a change of approximately +/- \$6.3 million in the recoverable amount, a +/- 2.5% change in the forecasted foreign exchange rate would result in a change of approximately +/- \$4.8 million in the recoverable amount, and a +/- 50 basis point change in the discount rate would result in a change of approximately +/- \$0.7 million in the recoverable amount.

**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, investments, other receivables and trade and other payables, approximate their fair value due to its nature or short-term maturity. Accordingly, no details regarding their fair value are presented below.

The carrying amount of long-term debt approximates fair value because the credit spread is similar to the credit spread that the Company would obtain under similar conditions at the reporting date.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

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

### Fair value of financial instruments (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, 2022	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	\$	\$	\$	\$	\$
<b>Financial liabilities measured at amortized cost</b>					
Term loans (excluding financing costs)	18,500,000	18,500,000	–	18,500,000	–
Financial liabilities on tonnes milled at the Beacon Mill	4,882,670	4,882,670	–	–	4,882,670

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.

### 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 changes in prices, such as interest rates, foreign exchange rates, gold price and equity prices on shares owned 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 returns.

##### *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, deposits in trust and long-term debt bear interest at a fixed rate. With respect to trust deposits, the Company is exposed to a limited change in fair value due to the nature of the asset.

The Company's exposure to cash flow interest rate risk on its long-term financial liabilities is limited because they bear interest at fixed rates.

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022

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

### Risk exposure and management (continued)

#### C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they 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 monitors actual and projected cash flows.

The following table presents the Company's financial liabilities by contractual maturity, including interest payable, as at September 30, 2022:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	\$	\$	\$	\$	\$
Trade and other payables	22,186,652	22,186,652	22,186,652	—	—
Term loans (excluding financing costs)	18,500,000	20,718,599	7,707,245	2,271,690	10,739,664
Financial liabilities on tonnes milled at the Beacon Mill	4,882,670	8,052,726	261,649	1,046,594	6,744,483
	<b>45,569,322</b>	<b>50,957,977</b>	<b>30,155,546</b>	<b>3,318,284</b>	<b>17,484,147</b>

#### D) PRICE RISK

The Company is exposed to the risk of share price fluctuations due to its investments in other companies listed on the CDNX. Investments are affected by various underlying factors, including commodity prices. Based on the investments held by the Company as at September 30, 2022, a 5% increase (decrease) in the share price of these investments would have increased (decreased) the net loss by \$22,559 for the three-month period ended September 30, 2022.