



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED

DECEMBER 31, 2022

(UNAUDITED)

MONARCH MINING CORPORATION

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Three and six months ended December 31, 2022

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

DECEMBER 31 AND JUNE 30, 2022

	NOTES	DECEMBER 31, 2022	JUNE 30, 2022
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,649,855	10,339,558
Investments	5	46,075	852,319
Commodity taxes and other receivables		270,038	2,272,971
Inventories		1,501,898	2,239,423
Prepaid expenses and deposits		324,141	687,792
		3,792,007	16,392,063
NON-CURRENT ASSETS			
Restricted cash	9	–	6,000,000
In trust deposits		1,581,416	1,551,594
Property, plant and equipment	6	31,416,255	39,590,572
Mining properties	7	8,641,808	8,641,808
Exploration and evaluation assets	8	24,686,452	21,719,182
		66,325,931	77,503,156
		70,117,938	93,895,219
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		18,142,926	12,972,813
Current portion of long-term debt	9	12,690,389	6,965,064
Current portion of other liabilities	10	–	1,075,055
		30,833,315	21,012,932
NON-CURRENT LIABILITIES			
Long-term debt	9	572,362	12,435,785
Other liabilities	10	4,961,892	5,117,048
Deferred income taxes and mining taxes		1,776,839	1,776,839
Asset retirement obligations		4,756,153	4,680,206
		12,067,246	24,009,878
		42,900,561	45,022,810
SHAREHOLDER'S EQUITY			
Share capital and warrants	11	77,063,563	73,588,906
Contributed surplus		2,167,173	1,472,521
Deficit		(52,013,359)	(26,189,018)
		27,217,377	48,872,409
		70,117,938	93,895,219

Reporting entity and nature of operations (Note 1); Going concern (Note 2); Commitments and contingencies (Note 13); Subsequent events (Note 21).

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 AND SIX MONTHS ENDED DECEMBER 31, 2022

	NOTES	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenues		544,390	–	2,549,995	–
Cost of sales	14	(874,258)	–	(17,546,397)	–
Loss from mine operations		(329,868)	–	(14,996,402)	–
Administration expenses	14	(1,299,168)	(2,374,268)	(2,227,953)	(4,289,297)
Care and maintenance expenses		(873,851)	–	(873,851)	–
Exploration expenses		(66,555)	(714,471)	(207,868)	(2,444,166)
Operating loss		(2,569,442)	(3,088,739)	(18,306,074)	(6,733,463)
Finance income		38,595	12,666	66,976	32,876
Finance expense	14	(407,319)	(152,185)	(796,790)	(289,021)
Change in fair value of investments	5	(27,812)	–	(207,030)	–
Gain on disposal of assets		6,959	–	6,959	7,690,483
Impairment of property, plant and equipment	6, 18	–	–	(7,000,000)	–
Gain on debt settlement		87,600	–	87,600	–
Revaluation of financial liabilities related to tonnes milled at Beacon Mill	10	–	–	480,084	–
Other income		226,626	69,221	234,907	96,151
Provision for contractual obligations	13	(1,200,000)	–	(1,200,000)	–
Other income related to flow-through shares		336,045	366,154	829,349	994,191
Earnings (loss) before taxes		(3,508,748)	(2,792,883)	(25,804,019)	1,791,217
Deferred income taxes and mining taxes		–	732,437	(20,322)	(1,008,289)
Net earnings (loss) and comprehensive income (loss)		(3,508,748)	(2,060,446)	(25,824,341)	782,928
Basic and diluted net earnings (loss) per share	17	(0.03)	(0.03)	(0.21)	0.01

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 AND SIX MONTHS ENDED DECEMBER 31, 2022

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
BALANCE AS AT JUNE 30, 2022	73,588,906	1,472,521	(26,189,018)	48,872,409
EQUITY FINANCING				
Issuance of shares (Note 11)	3,474,657	—	—	3,474,657
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives (Notes 11 and 12)	—	694,652	—	694,652
	77,063,563	2,167,173	(26,189,018)	53,041,718
NET LOSS FOR THE PERIOD	—	—	(25,824,341)	(25,824,341)
BALANCE AS AT DECEMBER 31, 2022	77,063,563	2,167,173	(52,013,359)	27,217,377

	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	5,992,941	—	—	5,992,941
Premium on flow-through shares	(998,823)	—	—	(998,823)
Share issuance costs	—	—	(301,705)	(301,705)
Exercise of replacement Monarch warrants	2,909	—	—	2,909
Grant of warrants to brokers	100,737	—	(100,737)	—
OPTIONS AND RESTRICTED SHARE UNITS				
Granted to employees, officers, directors, consultants or I.R. representatives	—	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 condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

	NOTES	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
		2022	2021	2022	2021
		\$	\$	\$	\$
Operating activities					
Net earnings (loss) for the period		(3,508,748)	(2,060,446)	(25,824,341)	782,928
Adjustments for:					
Amortization	6	165,065	18,196	675,383	36,870
Stock-based compensation		329,908	350,457	694,652	685,054
Amortization of financing costs	9	32,059	32,059	64,119	32,059
Interest on lease liabilities	9	13,136	2,904	27,419	3,706
Accretion expense on asset retirement obligations		36,859	20,433	75,947	40,819
Interest on the royalties buy-back options		–	93,435	–	179,674
Accretion expense of financial liabilities on tonnes milled at the Beacon Mill		79,222	8,328	79,222	13,880
Revaluation of financial liabilities on tonnes milled at the Beacon Mill		–	–	(480,084)	–
Change in fair value of investments	5	27,812	–	207,030	–
Loss (gain) on disposal of assets		(6,959)	–	(6,959)	(7,690,483)
Impairment of property, plant and equipment	6, 18	–	–	7,000,000	–
Gain on debt settlement		(87,600)	–	(87,600)	–
Other income related to flow-through shares		(336,045)	(366,154)	(829,349)	(994,191)
Income taxes and deferred mining taxes		–	(732,437)	–	1,008,289
Change in non-cash operating working capital	15	2,917,601	(222,480)	10,354,503	(1,590,944)
		(337,690)	(2,855,705)	(8,050,058)	(7,492,339)
Financing activities					
Restricted cash		6,000,000	–	6,000,000	(6,000,000)
Term loan		(6,000,000)	–	(6,000,000)	13,500,000
Financing fees		–	(11,991)	–	(384,711)
Repayment of lease liabilities	9	(114,818)	(34,817)	(229,636)	(44,017)
Proceed from sale of royalties		–	–	–	7,500,000
Proceeds from issuance of shares		–	5,992,941	–	5,992,941
Share issuance costs		–	(301,705)	–	(301,705)
Exercise of replacement Monarch warrants		–	2,909	–	2,909
		(114,818)	5,647,337	(229,636)	20,265,417
Investing activities					
Proceeds of disposition of investments	5	377,283	–	599,214	–
In trust deposits		(29,822)	–	(29,822)	–
Disposition (acquisition) of property, plant and equipment		248,825	(9,839,570)	248,825	(11,874,988)
Proceed from disposition of mineral properties		–	–	–	310,000
Increase in exploration and evaluation assets	7	(960,909)	(1,491,071)	(1,228,226)	(2,767,966)
		(364,623)	(11,330,641)	(410,009)	(14,332,954)
Change in cash and cash equivalents		(817,131)	(8,539,009)	(8,689,703)	(1,559,876)
Cash and cash equivalents, beginning of period		2,466,986	27,459,590	10,339,558	20,480,457
Cash and cash equivalents, end of period		1,649,855	18,920,581	1,649,855	18,920,581

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 AND SIX MONTHS ENDED DECEMBER 31, 2022

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 Stein Monast building, 70 Dalhousie Street, Suite 300, Québec (Québec) G1K 4B2 Canada and its website is 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 December 31, 2022, the Company has a deficit of \$52,013,359 and cash and cash equivalents of \$1,649,855. As at December 31, 2022, the Company has negative working capital of \$27,041,308.

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 raising additional funds to meet its current obligations, restarting its mining operations, achieving its production targets, generating positive cash flow and 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 February 9, 2023.

The unaudited condensed consolidated interim financial statements for the three and six months ended December 31, 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 AND SIX MONTHS ENDED DECEMBER 31, 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

	DECEMBER 31, 2022	JUNE 30, 2022
	\$	\$
Balance, beginning of period	852,319	–
Acquisitions	–	1,728,000
Disposals	(599,214)	(123,490)
Change in fair value	(207,030)	(752,191)
Balance, end of period	46,075	852,319

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 AND SIX MONTHS ENDED DECEMBER 31, 2022

6. PROPERTY, PLANT AND EQUIPMENT

	EQUIPMENT AND LEASEHOLD IMPROVEMENTS ^(A)	MINING ASSETS UNDER CONSTRUCTION	BEAUFOR MINING PROPERTY	BUILDINGS AND EQUIPMENT ^(A)	TOTAL
	\$	\$	\$	\$	\$
COST					
Balance as at June 30, 2021	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)
Balance as at June 30, 2022	535,806	45,546,217	763,260	8,134,400	54,979,683
Dispositions	–	–	–	(275,196)	(275,196)
Costs adjustments	–	(257,068)	–	–	(257,068)
Balance as at December 31, 2022	535,806	45,289,149	763,260	7,859,204	54,447,419
ACCUMULATED AMORTIZATION					
Balance as at June 30, 2021	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
Balance as at June 30, 2022	212,132	13,000,000	317,803	1,859,176	15,389,111
Impairment (Note 18)	–	7,000,000	–	–	7,000,000
Dispositions	–	–	–	(33,330)	(33,330)
Amortization	91,810	106,614	3,365	473,594	675,383
Balance as at December 31, 2022	303,942	20,106,614	321,168	2,299,440	23,031,164
NET CARRYING AMOUNT					
Balance as at June 30, 2022	323,674	32,546,217	445,457	6,275,224	39,590,572
Balance as at December 31, 2022	231,864	25,182,535	442,092	5,559,764	31,416,255

^(A) Included in buildings and equipment at December 31, 2022 is \$856,977 (\$1,188,326 as at June 30, 2022) of right-of-use assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

7. MINING PROPERTIES

PROPERTIES ⁽¹⁾⁽²⁾	JUNE 30, 2022	ADDITIONS	DISPOSAL	DECEMBER 31, 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	DECEMBER 31, 2022
	\$	\$	\$
Croinor Gold	11,086,024	12,626	11,098,650
McKenzie Break	8,641,319	2,288,333	10,929,652
Swanson and others	1,991,839	666,311	2,658,150
	21,719,182	2,967,270	24,686,452

Exploration and evaluation expenses by nature are as follows:

	DECEMBER 31, 2022
	\$
Exploration and evaluation expenses:	
Salaries, supervision and consultants	57,012
Geology and geophysics	1,307,318
Test, sampling and prospecting	3,787
Drilling, equipment rental and other material	1,599,153
Increase in exploration and evaluation expenses	2,967,270
Balance, as at June 30, 2022	21,719,182
Balance, as at December 31, 2022	24,686,452

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 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	64,119	—	64,119
Accrued interest for the period	—	27,419	27,419
Repayment	(6,000,000)	(229,636)	(6,229,636)
Balance as of December 31, 2022	12,275,585	987,166	13,262,751
Current portion	12,275,585	414,804	12,690,389
Non-current portion	—	572,362	572,362

Under the term loan with Investissement Québec, the Company was required to make principal and interest payments in October 2022. The Company did not make these payments due to cash restrictions. As a result, the Company is in default of its conditions under the agreement and therefor the term loan is entirely presented in the current portion.

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

	DECEMBER 31, 2022	JUNE 30, 2022
	\$	\$
Flow-through share liabilities	—	829,349
Financial liability on tonnes milled at the Beacon mill	4,961,892	5,362,754
Balance, end of period	4,961,892	6,192,103
Current portion	—	1,075,055
Non-current portion	4,961,892	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 ⁽¹⁾	NUMBER OF SHARES ISSUED	AMOUNT \$
Balance as at June 30, 2022	41,337,533	110,185,084	73,588,906
Shares issuance as debt repayment (Note 19)	—	46,328,780	3,474,657
Warrants expired	(1,330,040)	—	—
Balance as at December 31, 2022	40,007,493	156,513,864	77,063,563

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 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 DECEMBER 31, 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.

	SIX MONTHS ENDED DECEMBER 31, 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
Balance as at December 31, 2022	9,581,251	0.05

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

NUMBER OF WARRANTS OUTSTANDING AS AT DECEMBER 31, 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 DECEMBER 31, 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 AND SIX MONTHS ENDED DECEMBER 31, 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.

	SIX MONTHS ENDED DECEMBER 31, 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
Outstanding as at December 31, 2022	—	

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, 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	(392,998)	0.96
Outstanding as at December 31, 2022	1,556,998	0.71

For the three and six months ended December 31, 2022, share-based compensation related to RSUs amounted to \$154,077 and \$323,605 respectively (\$191,442 and \$374,221 respectively 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:

	SIX MONTHS ENDED DECEMBER 31, 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	(1,122,250)	0.81
Outstanding as at December 31, 2022	3,879,000	0.82
Exercisable as at December 31, 2022	491,375	1.00



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

12. SHARE PURCHASE OPTIONS (CONTINUED)

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

NUMBER OF OPTIONS OUTSTANDING AS AT DECEMBER 31, 2022		EXERCISE PRICE	EXPIRATION DATE
OUTSTANDING	EXERCISABLE	\$	
1,636,500	409,125	1.00	March 2026
50,000	12,500	1.00	May 2026
165,000	41,250	1.00	June 2026
28,500	28,500	1.00	October 2026
1,709,000	—	0.67	February 2027
290,000	—	0.40	July 2027
3,879,000	491,375		

For the three and six months ended December 31, 2022, the application of the fair value model resulted in a charge of \$175,831 and \$371,047 (\$159,015 and \$310,833 respectively in 2021) recorded in stock-based compensation in the condensed consolidated interim statements of net earnings (loss) and comprehensive income (loss).

13. COMMITMENTS AND CONTINGENCIES

The Company had the following commitments as at December 31, 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. The Company completed a flow-through investments on November 22, 2021 amounting to \$5,992,941 of which the deadline to committed the expenses is December 31, 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Flow through shares (continued)

However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has committed to taking all the necessary measures for this purpose. Refusals of certain expenses by tax authorities or default by the Company to incurred required exploration expenses could have negative tax consequences for investors or the Company. In such an event, the Company would indemnify each flow-through share subscriber for the additional taxes payable by such subscriber as a result of the Company's failure to renounce the qualifying expenditures as agreed.

Other

A provision for contractual obligations of \$1.2 million was recorded as at December 31, 2022 to offset potential claims from investors and creditors.

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

A) COST OF SALES

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Mining, milling and development	716,693	—	16,701,496	—
Royalties	38,404	—	261,327	—
Amortization	119,161	—	583,574	—
	874,258	—	17,546,397	—

B) ADMINISTRATION EXPENSES

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries, directors' fees and related benefits	480,898	987,671	499,292	1,548,829
Share-based compensation	329,908	350,457	694,652	685,054
Consultants and professional fees	124,533	488,284	233,106	1,103,512
Office expenses, rent, maintenance and other	55,638	202,037	203,639	328,573
Insurance, taxes and permits	283,646	230,755	496,960	386,074
Investor relations and representation expenses	(21,359)	96,868	8,495	200,385
Amortization	10,274	10,276	20,550	21,030
Amortization of rights of use	35,630	7,920	71,259	15,840
	1,299,168	2,374,268	2,227,953	4,289,297



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

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

C) FINANCE EXPENSE

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest on term loan	328,781	—	639,224	—
Interest on lease liabilities	13,136	2,904	27,419	3,706
Accretion expense	36,859	122,196	75,947	234,373
Other	28,543	27,085	54,200	50,942
	407,319	152,185	796,790	289,021

15. OTHER CASH-FLOW INFORMATION

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Changes in non-cash working capital items:				
Commodity taxes and other receivables	1,571,800	(168,537)	2,002,933	(1,093,986)
Inventories	611,145	(2,900,661)	737,525	(3,032,381)
Prepaid expenses and deposits	108,446	(463)	363,651	(61,201)
Trade and other payables	626,210	2,847,181	7,250,394	2,596,624
	2,917,601	(222,480)	10,354,503	(1,590,944)

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Items not affecting cash flow:				
Change in trade and other payables related to property, plant and equipment	362,026	3,682,924	257,068	7,853,960
Change in trade and other payables related to exploration and evaluation assets	(955,569)	(588,762)	1,739,044	(445,183)
Issuance of shares as debt repayment	3,474,657	—	3,474,657	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

16. COMPENSATION

A) TOTAL COMPENSATION

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries, directors' fees and other benefits	1,806,184	2,247,811	4,538,488	3,601,796
Share-based compensation	329,908	350,457	694,652	685,054
Defined contribution plan	67,376	47,074	153,292	91,169
Government plans	126,565	450,655	610,708	618,353
	2,330,033	3,095,997	5,997,140	4,996,372

As at December 31, 2022, trade and other payables included an amount of \$537,614 payable for salaries, directors' fees and other benefits.

B) KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key management personnel compensation includes the following expenses:

	THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries, directors' fees and other benefits	314,497	479,406	621,106	683,922
Share-based compensation	125,550	323,800	396,785	517,557
Defined contribution plan	12,328	5,469	23,991	16,777
Government plans	13,251	34,710	23,885	45,143
	465,626	843,385	1,065,767	1,263,399

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**(UNAUDITED)****THREE AND SIX MONTHS ENDED DECEMBER 31, 2022****17. EARNINGS (LOSS) PER SHARE**

	SIX MONTHS ENDED DECEMBER 31, 2021
Net earnings	\$782,928
Weighted average number of basic common shares	79,554,914
Dilutive effect of RSUs	1,475,500
Dilutive effect of warrants	1,440,440
Weighted average number of diluted common shares	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 and six months ended December 31, 2022 and the three months ended December 31, 2021, 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 months 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.

The Company concluded that an impairment test need be performed as at September 30, 2022. The assumptions used in the impairment test as at June 30, 2022 remained 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 could be reviewed, and an impairment test could be required.

18. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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. DEBT SETTLEMENT WITH SUPPLIERS

During the quarter ended December 31, 2022, Monarch reach agreements with suppliers representing \$14,456,338. According to these agreements, the settlement will be:

- 46,328,780 shares issued on November 21, 2022 for debt repayment of \$3,474,657
- \$87,600 payments made in 2022 with equivalent gain on debt settlement
- \$6,385,815 payments to be done in 2023 (of which \$2 million was paid in January 2023)
- \$1,055,046 payment to be done in 2024
- \$854,836 payment to be done in 2025
- \$2,510,784 debt reduction

The payments to be done in 2024 and 2025 are presented in the current liabilities as at December 31, 2022 since some conditions need to be reached to adopt the presentation in the non-current liabilities. Also, the debt reduction is not yet recognized as at December 31, 2022 (will be recognized upon compliance with all conditions under these agreements).

Subsequent to December 31, 2022, Monarch reached additional agreements with suppliers (see Note 21 for more detail).

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

Current financial assets and liabilities, which include cash and cash equivalents, 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 AND SIX MONTHS ENDED DECEMBER 31, 2022

20. 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 DECEMBER 31, 2022	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
	\$	\$	\$	\$	\$
Financial liabilities measured at amortized cost					
Term loan (excluding financing costs)	12,500,000	12,500,000	–	12,500,000	–
Financial liabilities on tonnes milled at the Beacon Mill	4,961,892	4,961,892	–	–	4,961,892

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 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 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 AND SIX MONTHS ENDED DECEMBER 31, 2022

20. 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 December 31, 2022:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0 TO 12 MONTHS	12 TO 24 MONTHS	OVER 24 MONTHS
	\$	\$	\$	\$	\$
Trade and other payables	18,142,926	18,142,926	18,142,926	—	—
Term loan (excluding financing costs) ⁽¹⁾	12,500,000	15,080,200	3,689,325	11,390,875	—
Financial liabilities on tonnes milled at the Beacon Mill	4,961,892	8,052,726	—	1,578,774	6,473,952
	35,604,818	41,275,852	21,832,251	12,969,649	6,473,952

⁽¹⁾ As at December 31, 2022, the term loan is entirely presented in the current portion in the condensed consolidated interim of financial position (see Note 9 for more details). In this table, the cash flow reflects the contractual conditions.

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 December 31, 2022, a 5% increase (decrease) in the share price of these investments would have increased (decreased) the net loss by \$2,304 for the six months ended December 31, 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND SIX MONTHS ENDED DECEMBER 31, 2022

21. SUBSEQUENT EVENTS

Financing

On January 18, 2023, the Company closed a non-brokered private placement of 62,683,576 common shares at a price of \$0.065 for total gross proceeds of \$4,074,432.

As part of the placement, Monarch reached agreements with creditors representing \$1.4 million. According to these agreements, the settlement will be:

- 9,001,630 shares issued on January 18, 2023 for debt repayment of \$675,122
- \$459,139 payments to be done in 2023
- \$96,891 payment to be done in 2024
- \$96,891 payment to be done in 2025
- \$108,294 debt reduction

On February 10, 2023, the Company closed a non-brokered private placement of 700,000 common shares at a price of \$0.065 for total gross proceeds of \$45,500. As part of the placement, Monarch paid \$67,657 to suppliers in consideration of the issuance of 902,091 shares.