

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS



SIX-MONTH PERIOD ENDED
DECEMBER 31, 2016

MONARQUES GOLD CORPORATION

1 PLACE VILLE MARIE
SUITE 2901
MONTRÉAL (QUÉBEC) H3B OE9
TÉL.: 1-888-994-4465
FAX.: 514-866-2115

TSX-V: MQR
WWW.MONARQUESGOLD.COM



Six-month period ended December 31, 2016 and 2015

Consolidated Condensed Interim Financial Statements

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MONARQUES GOLD CORPORATION

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited consolidated condensed interim financial statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The management is responsible for the preparation, integrity and objectivity of the unaudited consolidated condensed interim financial statements and other financial information presented in this Report. Other information included in these unaudited consolidated condensed interim financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the unaudited consolidated condensed interim financial statements are presented fairly in all material respects.

A system of administrative, internal accounting and disclosure controls have been developed and are maintained by management to provide reasonable assurance that assets are safeguarded and that financial information is accurate and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and is mainly composed of independent directors. The Audit Committee meets periodically with management and the independent auditors to review accounting, auditing and internal control matters. These unaudited consolidated condensed interim financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The unaudited consolidated condensed interim financial statements for the three-month and six-month periods ended December 31, 2016 and 2015 have not been reviewed by KPMG LLP, the independent auditors.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that all transactions are being made only in accordance with the authorizations of management and/or directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

/s/ Jean-Marc Lacoste
Jean-Marc Lacoste, President and CEO

/s/ Alain Lévesque
Alain Lévesque, Chief Financial Officer

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

DECEMBER 31, 2016 AND JUNE 30, 2016

	NOTE	DECEMBER 31 2016	JUNE 30, 2016
		\$	\$
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	13	5,406,826	4,706,477
Sales tax receivable		149,611	43,826
Tax credits and mining rights receivable		7,500	7,500
Prepaid expenses and deposits		192,376	20,750
		5,756,313	4,778,553
NON-CURRENT ASSETS:			
In trust deposit	5	1,768,845	312,117
Property, plant and equipment	6	7,057,231	13,545
Mining properties	7	3,039,175	3,021,429
Exploration and evaluation assets	8	4,511,024	3,115,463
		16,376,275	6,462,554
TOTAL ASSETS		22,132,588	11,241,107
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities		387,593	213,532
Liability related to flow-through shares	11 ⁽ⁱ⁾	425,716	15,285
		813,309	228,817
NON-CURRENT LIABILITIES:			
Deferred grant	9	601,386	643,740
Balance of purchase price payable	6	3,297,483	-
Deferred income taxes and mining taxes		723,631	500,341
Asset retirement obligations	10	2,715,454	416,155
		7,337,954	1,560,236
TOTAL LIABILITIES		8,151,263	1,789,053
EQUITY:			
Share capital and warrants	11	30,109,090	24,825,829
Contributed surplus		1,170,784	738,379
Deficit		(17,298,549)	(16,112,154)
		13,981,325	9,452,054
TOTAL LIABILITIES AND EQUITY		22,132,588	11,241,107

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

The notes on pages 7 to 22 are an integral part of these consolidated condensed interim financial statements.

On behalf of the Board:

'Jean-Marc Lacoste', Director

'Michel Baril', Director

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

	NOTE	THREE-MONTH ENDED		SIX-MONTH ENDED	
		December 31,		December 31,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Expenses:					
Compensation	15	100,649	77,255	258,465	157,477
Share-based payments	12	235,351	6,205	415,351	7,337
Rent, office expense and other expenses		54,549	6,437	69,811	15,847
Registration, listing fees and shareholders' information		30,735	17,384	36,703	18,621
Promotion and advertising		22,452	15,539	60,268	30,778
Representation, missions and trade shows		26,444	9,036	54,216	15,030
Consultant fees		79,483	30,886	177,985	34,412
Professional fees		80,552	32,919	88,990	49,979
Total expenses		630,215	195,661	1,161,789	329,481
Net finance expense (income):					
Finance income		(9,067)	(16)	(16,683)	(3,676)
Finance expense		1,356	965	2,318	1,844
		(7,711)	949	(14,365)	(1,832)
Operating loss		622,504	196,610	1,147,424	327,649
Other items:					
Other income related to flow-through shares	11 ⁽ⁱ⁾	(231,050)	(57,880)	(356,730)	(126,969)
Loss on foreign exchange		3,931	-	3,931	-
Other revenue		-	(8,813)	-	(8,813)
Change in fair value of marketable securities		-	-	-	(8,515)
		(227,119)	(66,693)	(352,799)	(144,297)
Loss before income taxes		395,385	129,917	794,625	183,352
Current income tax recovery		-	-	(4,093)	-
Deferred income and mining taxes		145,028	45,365	223,290	104,321
Net loss for the period		540,413	175,282	1,013,822	287,673
Other comprehensive income:					
Items that are or may be reclassified subsequently to net income or loss:					
Available-for-sale marketable securities - Reclassified to statement of loss and comprehensive loss					
		-	-	-	11,500
Net loss Comprehensive loss for the period		540,413	175,282	1,013,822	299,173
Basic and diluted loss per share		0.004	0.002	0.008	0.004
Weighted average number of shares outstanding		123,333,992	86,568,067	123,810,304	85,219,931

The notes on pages 7 to 22 are an integral part of these consolidated condensed interim financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	\$	\$	\$	\$
BALANCE AS AT JUNE 30, 2016	24,825,829	738,379	(16,112,154)	9,452,054
Equity financing:				
Issuance of shares relating to acquisition of property, plant and equipment	1,670,100	-	-	1,670,100
Flow-through shares	3,616,245	-	-	3,616,245
Flow-through shares premium	(767,161)	-	-	(767,161)
Exercise of warrants	706,577	-	-	706,577
Share issuance costs	-	-	(139,519)	(139,519)
<u>OPTIONS:</u>				
Granted to employees, officers, directors, consultants or I.R. representatives (note 12)	-	415,351	-	415,351
Granted to brokers (note 11)	-	33,054	(33,054)	-
Exercise of options	57,500	(16,000)	-	41,500
	30,109,090	1,170,784	(16,284,727)	14,995,147
<u>NET LOSS FOR THE PERIOD</u>	-	-	(1,013,822)	(1,013,822)
BALANCE AS AT DECEMBER 31, 2016	30,109,090	1,170,784	(17,298,549)	13,981,325

The notes on pages 7 to 22 are an integral part of these consolidated condensed interim financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(CONTINUED)
(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

	SHARE CAPITAL AND WARRANTS	CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME	DEFICIT	TOTAL
	\$	\$	\$	\$	\$
BALANCE AS AT JUNE 30, 2015	20,274,089	698,643	11,500	(14,924,013)	6,060,219
Equity financing:					
Issuance of shares	365,000	-	-	-	365,000
Flow-through shares	160,000	-	-	-	160,000
Share issuance costs	-	-	-	(53,194)	(53,194)
<u>OPTIONS:</u>					
Granted to employees, officers, directors, consultants or I.R. representatives (note 12)	-	7,337	-	-	7,337
Granted to brokers (note 11)	2,010	-	-	(2,010)	-
	20,801,099	705,980	11,500	(14,979,217)	6,539,362
<u>NET LOSS FOR THE PERIOD</u>	-	-	-	(287,673)	(287,673)
<u>OTHER COMPREHENSIVE LOSS:</u>					
Change in fair value of available-for-sale marketable securities	-	-	(11,500)	-	(11,500)
BALANCE AS AT DECEMBER 31, 2015	20,801,099	705,980	-	(15,266,890)	6,240,189

The notes on pages 7 to 22 are an integral part of these consolidated condensed interim financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

	THREE-MONTH ENDED		SIX-MONTH ENDED	
	December 31,		December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash flows used in operating activities:				
Net loss for the period	(540,413)	(175,282)	(1,013,822)	(287,673)
Adjustments for:				
Share-based payments	235,351	6,205	415,351	7,337
Other income related to flow-through shares	(231,050)	(57,880)	(356,730)	(126,969)
Loss on foreign exchange	3,931	-	3,931	-
Change in fair value of marketable securities	-	-	-	(8,515)
Deferred income and mining taxes	145,028	45,365	223,290	104,321
Net change in non-cash operating working capital	(262,731)	8,782	(252,183)	54,842
	(649,884)	(172,810)	(980,163)	(256,657)
Cash flows from financing activities:				
Proceeds from issuance of shares	-	365,000	-	365,000
Flow-through shares	1,533,745	220,000	3,616,245	220,000
Share issuance costs	(116,471)	(53,194)	(139,519)	(58,140)
Exercise of warrants	187,639	-	706,577	-
Exercise of options	29,000	-	41,500	-
	1,633,913	531,806	4,224,803	526,860
Cash flows used in investing activities:				
Addition to mining properties	(2,699)	(2,627)	(17,746)	(2,627)
In trust deposit	(104,038)	-	(104,038)	-
Refund of deposits to suppliers for exploration and evaluation expense	-	20,000	-	20,000
Disposal of marketable securities	-	-	-	11,515
Cashed tax credits	-	-	-	15,200
Increase in exploration and evaluation assets	(1,062,932)	(367,359)	(1,246,728)	(799,544)
Addition in property, plant and equipment	(1,168,496)	-	(1,175,779)	-
	(2,338,165)	(349,986)	(2,544,291)	(755,456)
Net increase (decrease) in cash and cash equivalents	(1,354,136)	9,010	700,349	(485,253)
Cash and cash equivalents, beginning of the period	6,760,962	884,385	4,706,477	1,378,648
Cash and cash equivalents, end of the period	5,406,826	893,395	5,406,826	893,395

Additional information relating to consolidated condensed interim statements of cash flows (Note 14)

The notes on pages 7 to 22 are an integral part of these consolidated condensed interim financial statements.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

1. REPORTING ENTITY AND NATURE OF OPERATIONS:

Monarques Gold Corporation (the "Company"), incorporated on February 16, 2011, under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mining properties. Its shares trade on the TSX Venture Stock Exchange under the symbol MQR. Its activities are in Canada.

The address of the head office of the Company is 1, Place Ville Marie, Suite 2901, Montréal (Québec), Canada H3B 0E9 and the web site is www.monarquesgold.com.

The Company has incorporated under the *Canada Corporation Act* a wholly-owned subsidiary, on August 2016, which is Beacon Gold Mill Inc.

The Company has not yet determined if the properties contain ore reserves that are economically recoverable. Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The recoverability of amounts shown for mining properties and related exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. As at the date of the consolidated condensed interim financial statements, management determined that the carrying amount of mining properties represents the best estimate of their net recoverable value. This value may nonetheless be reduced in the future.

2. GOING CONCERN:

Management estimates that the working capital available to the Company at the end of the period will provide the Company with adequate funding in order to cover its 2017 calendar year budget for general administrative expenses, to meet its short-term obligations, and to complete its planned 2017 calendar year exploration budget. However, since the Company does not generate revenues, the Company will need to periodically obtain new funds to pursue its operations and meet its obligation related to the acquisition of the Beacon property and the design and building of a power line for the Croinor property (refer to Note 6). Despite its ability to obtain funds in the past, there is no guarantee that the Company will be able to raise financing in the future.

As at December 31, 2016, all of the Company's financial liabilities (except the balance of purchase price payable) had contractual maturities of less than one year and the Company had enough funds available to meet its current financial liabilities. At the same date, the Company had \$2,528,701 in cash and cash equivalents not reserved for exploration or for the design and build of the power line on Croinor property (\$4,006,691 as at June 30, 2016). The total working capital (excluding funds reserved for exploration, design and build of the power line on Croinor property and liability related to flow-through shares) of \$2,037,905 will be used to meet its financial liabilities and future financial liabilities from its commitments mainly related to the acquisition of the Beacon property and the development of the Croinor property. The Company had \$2,276,739 (\$56,046 as at June 30, 2016) of funds reserved for exploration and \$601,386 (\$643,740 as at June 30, 2016) for design and build the power line at Croinor property as at December 31, 2016.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

2. GOING CONCERN (CONTINUED):

These unaudited consolidated condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and on the assumption of going concern. The application of IFRS under the assumption of going concern may be inappropriate because the above condition indicates the existence of a material uncertainty which may cast significant doubt on the ability of the Company to continue as a going concern. These unaudited consolidated condensed interim financial statements do not include adjustments that should be made to the carrying amount of assets and liabilities if the assumption of going concern proves to be unfounded.

3. BASIS OF PREPARATION:

(A) STATEMENT OF COMPLIANCE:

These unaudited consolidated condensed interim financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual financial statements, except where noted below. These unaudited consolidated condensed interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited consolidated condensed interim financial statements do not include all the information required for full annual financial statements and, therefore, should be read in conjunction with the audited annual financial statements and the notes thereto for the year ended June 30, 2016. On February 22, 2017, the Board of Directors approved, for issuance, these unaudited consolidated condensed interim financial statements.

(B) BASIS OF MEASUREMENT:

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

The unaudited consolidated condensed interim financial statements have been prepared on a going concern basis, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

(C) FUNCTIONAL AND PRESENTATION CURRENCY:

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

3. BASIS OF PREPARATION (CONTINUED):

(D) 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

In preparing these unaudited consolidated condensed interim financial statements, the significant judgments made by management applying the Company accounting policies and the key sources of estimation uncertainty were the same as those described in the Company's audited annual financial statements for the year ended June 30, 2016.

4. SIGNIFICANT ACCOUNTING POLICIES:

These unaudited consolidated condensed interim financial statements have been prepared following the same accounting policies used in the audited financial statements for the year ended June 30, 2016.

5. IN TRUST DEPOSIT:

The Company's provision consists primarily of assets retirement obligations for costs associated with mine reclamation and closure activities at the Croinor and Beacon properties.

(A) Croinor Gold property:

Following the restoration plan submitted in 2014 by the Company to the Ministère des Ressources Naturelles et de la Faune of the province of Québec ("MRNF") for the Croinor Gold property ("Croinor"), the MRNF advised the Company on January 23, 2015 that the total amount of the financial guarantee for the restoration of the mining site would be \$416,155. As at December 31, 2016, the Company has investments totaling \$416,155 (\$312,117 as at June 30, 2016) in term deposits and cash in accordance with the current financial guarantee requirements set forth by the MRNF for future site restoration costs at the Croinor mining site. These term deposits bear interest ranging from 1.20% to 1.55%, maturing between February 20, 2017 and September 7, 2018.

(B) Beacon property ("Beacon"):

The vendor of Beacon submitted a restoration plan in 2014 to the MRNF. The MRNF then advised the vendor of Beacon on May 27, 2015 that the total amount of the financial guarantee for the restoration of the mining site would be \$1,810,760. As at December 31, 2016, the Company has investments totaling \$1,352,690 (nil as at June 30, 2016) in cash in accordance with the current financial guarantee requirements set forth by the MRNF for future site restoration costs at the Beacon mining site. The remaining amount of \$452,690 will need to be deposited in a trust account on May 27, 2017.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

6. PROPERTY, PLANT AND EQUIPMENT:

	POWER LINE UNDER CONSTRUCTION	MINING ASSETS UNDER CONSTRUCTION	TOTAL
	\$	\$	\$
Balance as at June 30, 2015	-	-	-
Acquisition	54,180	-	54,180
Grant	(40,635)	-	(40,635)
Balance as at June 30, 2016	13,545	-	13,545
Acquisition	56,472	61,392	117,864
Acquisition of Beacon	-	6,914,185	6,914,185
Capitalized interest	-	53,991	53,991
Grant	(42,354)	-	(42,354)
Balance as at December 31, 2016	27,663	7,029,568	7,057,231

Since the items in property, plant and equipment are not ready to use, the mining assets under construction was not yet amortized.

(A) BEACON PROPERTY ACQUISITION:

On July 5, 2016, the Company signed a letter of intent to acquire the Beacon property from 9265-9911 Québec inc. which were amended on September 28, 2016. The property consists of a metallurgical processing plant, tailings management ponds, underground installations, a 500-metre deep shaft, a mechanical shop, and all mineral rights attached to the transaction, namely one mining concession, one mining lease and 11 mineral claims totalling 180 hectares. The Company also assumed all reclamation liabilities associated with the restoration plan and a deposit held by the Ministère des Finances du Québec of which \$1,352,690 is already paid.

The Company closed the acquisition of the Beacon property on October 31, 2016 in consideration of the payment of \$1,000,000, a balance payable in cash of US\$2,415,600 and the issuance of 3,740,550 common shares, as follows: (i) \$1,000,000 cash and 2,431,650 common shares on closing of the transaction; and (ii) US\$402,600 payable in cash at the 30th, 36th, 42th, 48th, 54th and 60th month following closing of the transaction. The Company issued 1,308,900 common shares in July 2016 having a fair value of \$746,073 and issued 2,431,650 common shares in October 2016 having a fair value of \$924,027.

The balance of purchase price will bear interest at a rate of 10% per annum and will be calculated semi-annually. The interest on each of the deferred payments will be capitalized and added to the outstanding principal amount of such deferred payments for the first 24 months. The Company accounted for the fair value of the balance of purchase price using a discount rate of 10%, which is the rate negotiated between the two parties acting independently.

At any time after October 1, 2018 and prior to March 1, 2019, the Company may delay payment of one or more of the first three deferred payments by paying a premium of 20% of the deferred payment delay. The premium will be added to such delayed deferred payment. Such delayed deferred payment will then be payable in three equal amounts on the 48th, 54th and 60th month following the closing in addition to the originally deferred payments due at this time. This option is valued at nil as at December 31, 2016.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED):

(A) BEACON PROPERTY ACQUISITION (CONTINUED):

The acquisition of Beacon property does not meet the definition of a business as the property does not have ore reserves nor does it have a processing infrastructure. Consequently, the transaction has been recorded as an acquisition of asset.

The following table sets out the allocation of the purchased price to assets acquired and liabilities assumed, based on the fair value of the total consideration at the closing date of the transaction. The fair value was estimated based on market participant information that management considered reasonable for assessment purposes and on other factors such as the current conditions of the assets:

	\$
Fair value of consideration paid:	
Cash	1,000,000
Common shares issued	1,670,100
Balance of purchase price	3,239,561
Transaction costs	57,915
	5,967,576
Fair value of assets acquired:	
In trust deposit	1,352,690
Milling equipment (1)	6,361,385
Building and land (1)	500,000
Vehicle (1)	52,800
Asset retirement obligations	(2,299,299)
	5,967,576

(1) Presented as mining assets under construction

As at December 31, 2016, the balance of purchase price payable includes the following:

	\$
Balance, acquisition date	3,239,561
Accrued interest for the period	53,991
Effect of foreign exchange	3,931
	3,297,483

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED):

(B) POWER LINE:

As at December 31, 2016, the Company incurred \$110,652 of capital expenditure. Consequently, the Company reduced the deferred revenues by \$82,989, an amount representing 75% of the cost incurred to date (refer to Note 9). The net balance of \$27,663 (\$13,545 as at June 30, 2016) is recorded as power line under construction.

If the total cost of the project is lower than the budget, the grant will be adjusted.

7. MINING PROPERTIES:

PROPERTIES ⁽¹⁾	LOCALIZATION	ROYALTIES ⁽²⁾	JUNE 30,	ACQUISITION	ASSET	DECEMBER 31,
			2016		RETIREMENT	2016
			\$		\$	\$
Croinor Gold	SNRC 32C02, 32C03	1.5%	2,822,488	17,143	-	2,839,631
Regcourt Gold	SNRC 32C03	2.5%	108,538	-	-	108,538
Simkar Gold	SNRC 32C04	1.5%	90,403	603	-	91,006
			3,021,429	17,746	-	3,039,175

PROPERTIES ⁽¹⁾	LOCALIZATION	ROYALTIES ⁽²⁾	JUNE 30,	ACQUISITION	ASSET	JUNE 30,
			2015		RETIREMENT	2016
			\$		\$	\$
Belcourt Gold	SNRC 32C06	1.5%	3,453	-	(3,453)	-
Croinor Gold	SNRC 32C02, 32C03	1.5%	2,822,488	-	-	2,822,488
Regcourt Gold	SNRC 32C03	2.5%	105,911	2,627	-	108,538
Simkar Gold	SNRC 32C04	1.5%	90,403	-	-	90,403
			3,022,255	2,627	(3,453)	3,021,429

⁽¹⁾ Properties are all located in the province of Québec, Canada.

⁽²⁾ The claims comprising the properties have either been acquired with different agreements or by map designation and therefore royalties applicable, if any, are covered under specific agreements as the case may be.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

8. EXPLORATION AND EVALUATION ASSETS:

Exploration and evaluation assets by properties can be detailed as follows:

	JUNE 30, 2016	EXPLORATION EXPENSES	TAX CREDITS FOR RESOURCES	DECEMBER 31, 2016
	\$	\$	\$	\$
Croinor Gold	1,990,241	1,336,744	-	3,326,985
Regcourt Gold	41,512	-	-	41,512
Simkar Gold	1,083,710	58,817	-	1,142,527
	3,115,463	1,395,561	-	4,511,024

	JUNE 30, 2015	EXPLORATION EXPENSES	TAX CREDITS FOR RESOURCES	IMPAIRMENT	JUNE 30, 2016
	\$	\$	\$	\$	\$
Belcourt Gold	2,449	-	-	(2,449)	-
Croinor Gold	1,222,262	763,359	4,620	-	1,990,241
Regcourt Gold	41,512	-	-	-	41,512
Simkar Gold	1,038,333	49,576	(4,199)	-	1,083,710
	2,304,556	812,935	421	(2,449)	3,115,463

Exploration and evaluation assets by nature can be detailed as follows:

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016	YEAR ENDED JUNE 30, 2016
	\$	\$
Exploration expenses:		
Salaries, supervision and consultants	229,655	149,303
Geology and geophysics	606,131	306,619
Test, sampling and prospecting	86,225	45,744
Drilling, equipment rental and other material	461,048	295,012
Lodging, meals and travel expenses	12,502	16,257
Increase of exploration expenses	1,395,561	812,935
Tax credits for resources	-	421
Impairment	-	(2,449)
Balance, beginning of period	3,115,463	2,304,556
Balance, end of period	4,511,024	3,115,463

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. DEFERRED GRANT:

For the six-month period ended December 31, 2016, the Company incurred \$56,472 (\$54,180 for the year ended June 30, 2016) of capital expenditure. Consequently, the Company reduced the deferred grant and property, plant and equipment by \$42,354 (\$40,635 for the year ended June 30, 2016), an amount representing 75% of the cost incurred during the period. The deferred grant as at December 31, 2016 is \$601,386 (\$643,740 as at June 30, 2016).

10. ASSET RETIREMENT OBLIGATIONS:

The asset retirement obligations represent the legal and contractual obligations associated with the eventual dismantling of the Company's assets. The laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment.

The Company has recorded an asset retirement obligations for costs associated with mine reclamation and closure activities at the Croinor and Beacon properties, which reflect the present value of the estimated amount of cash flows required to satisfy the asset retirement obligations. The primary component of these obligations is for the dismantling of facilities, revegetation of the site including waste piles and overburden, infilled area, and polishing pond. Following the restoration plans submitted in 2014 to the MRNF, the MRNF advised the Company that, to cover the asset retirement obligation of \$416,155 for Croinor and \$1,810,760 for Beacon, a financial guarantee for the full amount would be required. The Company accounted for an additional provision for restoration work at Beacon amounting to \$488,539, for a total provision of \$2,299,299 related to the Beacon property.

As at December 31, 2016, the Company invested \$1,768,845 (\$312,117 as at June 30, 2016) in term deposits and cash in accordance with the current financial guarantee requirements set forth by the MRNF for future site restoration costs at the Croinor and Beacon mining sites.

In the event the Company has no intention of operating the mine, it will be required to restore the mining site. However, in the case that the Company goes into production on the Croinor and Beacon properties, it will be required to provide an updated closure plan to the MRNF in order to re-assess the asset retirement obligation related to the operation on the site.

As at December 31, 2016, the estimated inflation-adjusted discounted cash flows required to settle the asset retirement obligations amount to \$2,715,454 (\$416,155 as at June 30, 2016). The discount rate used is 1.71% and the disbursements are expected to be made in 2027. The estimated undiscounted value of this liability was estimated using an expected value approach which combines probability weighted outcomes for a variety of possible scenarios from an amount of \$2,509,140 to \$2,927,737 (2016 - \$416,155) and taking into consideration a normal inflation rate over time until 2027, for inflated costs from \$2,981,407 to \$3,494,457.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

11. SHARE CAPITAL AND WARRANTS:

Authorized:

Unlimited number of common shares without par value

Changes in the Company share capital and warrants were as follows:

	NUMBER OF WARRANTS	NUMBER OF SHARES	AMOUNT \$
Balance as at June 30, 2016	25,440,015	114,280,174	24,825,829
Flow-through shares ⁽ⁱ⁾	4,083,333	8,465,463	2,849,084
Warrants exercised	(3,433,274)	3,433,274	581,577
Shares to be issued following the exercised of warrants	(1,250,000)	1,250,000	125,000
Options exercised	-	300,000	57,500
Shares issued for acquisition of property, plant and equipment	-	3,740,550	1,670,100
Granted	302,170	-	-
Balance as at December 31, 2016	25,142,244	131,469,461	30,109,090

(i) The carrying amount of these flow-through shares is presented net of the liability related to flow-through shares of \$767,161 that was recorded when the flow-through shares were issued during the financing that occurred on July 7, 2016, December 16, 2016 and December 23, 2016. As at December 31, 2016, the balance of the liability related to these flow-through shares is \$425,716. During the three-month and six-month periods ended December 31, 2016, an amount of nil and \$341,445 have been recognized as other income related to flow-through shares in the consolidated condensed interim statements of loss and comprehensive loss, representing the portion of the liability related to the increase in the exploration and evaluation assets during the period in relation with the total flow-through shares financing.

As at June 30, 2016, the balance of the liability related to flow-through shares financing closed in December 2015 was \$15,285. During the three-month and six-month periods ended December 31, 2016, an amount of \$15,285 and nil, respectively, have been recognized as other income related to flow-through shares in the consolidated statements of loss and comprehensive loss, representing the portion of the liability related to the increase in the exploration and evaluation assets during the quarter in relation with the total flow-through shares financing.

(A) PERIOD ENDED DECEMBER 31, 2016:

In December 2016, the Company closed a brokered private placement of an aggregate of 4,382,130 flow-through shares at a price of \$0.35 per share for a gross proceeds of \$1,533,745.

In July 2016, the Company closed a brokered private placement of an aggregate of 4,083,333 flow-through units (the "FT Units") at a price of \$0.51 per FT Unit for a gross proceeds of \$2,082,500. Each FT Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share in the capital of the Company at a price of \$0.51 for a period of 36 months following the closing of the private placement.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

11. SHARE CAPITAL AND WARRANTS (CONTINUED):

(A) PERIOD ENDED DECEMBER 31, 2016 (CONTINUED):

The Company issued 1,308,900 common shares in July 2016 and 2,431,650 in October 2016 as payment for the Beacon property acquisition (refer to Note 6). The market price of the common shares on July 21, 2016 was \$0.57 and on October 31, 2016 was \$0.38. The Company was not able to reliably determine the fair value of services received and, therefore, the fair value of the shares was evaluated based on the market price at the date of issuance.

Between July 1, 2016 and up to December 31, 2016, 300,000 options were exercised at an exercise price of \$0.14 and 4,683,274 warrants were exercised at an exercise price between \$0.10 and \$0.18. Following these exercises, the Company received an aggregate amount of \$748,077 and issued a total of 3,733,274 common shares (1,250,000 shares are still to be issued as at December 31, 2016).

(B) WARRANTS GRANTED TO OTHERS THAN THE BROKERS:

Changes in the Company's warrants granted to others than the brokers were as follows. Each warrant can be converted into one common share of the Company:

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016		YEAR ENDED JUNE 30, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Outstanding, beginning of the period	24,562,565	0.18	28,959,139	0.21
Granted	4,083,333	0.51	13,790,430	0.19
Exercised	(4,552,393)	0.14	(6,357,423)	0.15
Expired	-	-	(11,829,581)	0.27
Outstanding, end of period	24,093,505	0.24	24,562,565	0.18

During the six-month period ended December 31, 2016, 4,552,393 warrants granted to others than the brokers were exercised at a price between \$0.10 and \$0.18 per common share, while the closing market price of the shares was between \$0.26 and \$0.62.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

11. SHARE CAPITAL AND WARRANTS (CONTINUED):

(B) WARRANTS GRANTED TO OTHERS THAN THE BROKERS (CONTINUED):

The following table summarizes the information relating to the warrants:

NUMBER OF WARRANTS OUTSTANDING AS AT DECEMBER 31, 2016	EXERCISE PRICE	EXPIRY DATE
	\$	
3,550,000 (exercisable)	0.14	May 2017
2,500,000 (exercisable)	0.10	November 2017
4,372,678 (exercisable)	0.18	December 2017
1,016,064 (exercisable)	0.10	December 2017
8,571,430 (exercisable)	0.25	May 2019
4,083,333 (exercisable)	0.51	July 2019
24,093,505		

(C) WARRANTS GRANTED TO THE BROKERS:

Changes in the Company's warrants granted to the brokers were as follows. Each warrant can be converted into one common share of the Company:

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016		YEAR ENDED JUNE 30, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Outstanding, beginning of the period	877,450	0.13	1,696,585	0.17
Granted	302,170	0.35	130,881	0.10
Expired	-	-	(779,390)	0.21
Exercised	(130,881)	0.10	(170,626)	0.13
Outstanding, end of period	1,048,739	0.20	877,450	0.13

During the six-month period ended December 31, 2016, 130,881 warrants granted to the brokers were exercised at a price of \$0.10 per common share, while the closing market price of the shares was between \$0.26 and \$0.62.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

11. SHARE CAPITAL AND WARRANTS (CONTINUED):

(C) WARRANTS GRANTED TO THE BROKERS (CONTINUED):

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

NUMBER OF WARRANTS OUTSTANDING AS AT DECEMBER 31, 2016	EXERCISE PRICE	EXPIRY DATE
746,569 (exercisable)	\$ 0.13	December 2017
302,170 (exercisable)	0.35	June 2018
1,048,739		

12. SHARE PURCHASE OPTIONS:

The shareholders of the Company approved a share purchase option plan (the "Plan") whereby the Board of Directors may grant to employees, officers, directors and consultants of the Company share purchase options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board of Directors. The exercise price may not be lower than the market price of the common shares at the time of grant.

The Plan provides for the maximum number of common shares of the Company that may be reserved for issuance under the Plan shall not be greater than 10% of the issued shares of the Company being outstanding from time to time.

The maximum number of common shares which may be reserved for issuance to any optionee may not exceed 5% of the outstanding common shares at the time of vesting and may not exceed 2% of the outstanding common shares for consultants and investors relation representative. These options are non-assignable and non-transferable unless by legacy or inheritance and will expire no later than five years after being granted. In the case an optionee leaves the Company, his options normally expires no later than one year following his departure, subject to the conditions established under the common share purchase option plan. The vesting period for the share purchase options and warrants to brokers varies from immediate vesting up to 36 months vesting periods and the life of the options varies from two to five years.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

12. SHARE PURCHASE OPTIONS (CONTINUED):

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

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016		YEAR ENDED JUNE 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of period	5,750,000	0.19	5,095,000	0.22
Granted	1,905,000	0.37	1,175,000	0.08
Expired	(1,225,000)	0.40	(345,000)	0.21
Exercised	(300,000)	0.14	(175,000)	0.13
Outstanding, end of period	6,130,000	0.21	5,750,000	0.19
Exercisable, end of period	5,875,833	0.21	5,750,000	0.19

During the six-month period ended December 31, 2016, 300,000 share purchase options were exercised at a price of \$0.14 per common share, while the closing market price of the shares was between \$0.26 and \$0.62.

For the six-month period ended December 31, 2016, the application of the fair value model resulted in share-based payments expenses of \$415,351 (\$7,337 for the six-month period ended December 31, 2015).

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016
	\$
Weighted average fair value of share purchase options granted during the period	0.24

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

	SIX-MONTH PERIOD ENDED DECEMBER 31, 2016
Risk-free interest rate	0.87%
Expected annual dividend rate	-%
Expected annualized volatility	101%
Expected life of options	5 years

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

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, 2016		EXERCISE PRICE	EXPIRY DATE
Outstanding	Exercisable	\$	
250,000	250,000	0.125	July 2017
400,000	400,000	0.250	October 2017
50,000	50,000	0.250	December 2017
650,000	650,000	0.150	September 2018
550,000	550,000	0.140	June 2019
275,000	275,000	0.130	January 2020
875,000	875,000	0.120	May 2020
150,000	150,000	0.100	November 2020
1,025,000	1,025,000	0.080	January 2021
500,000	500,000	0.500	August 2021
1,405,000	1,150,833	0.330	November 2021
6,130,000	5,875,833		

13. COMMITMENTS:

FLOW-THROUGH SHARES:

The Company is committed to incur eligible exploration and evaluation expenses, pursuant to the Canada Income Tax Act and Québec Taxation Act, of \$220,000 by December 31, 2016, and to transfer the tax deductions related to these expenditures to the subscribers of its flow-through shares completed on December 18, 2015. In relation to this commitment, the Company has incurred a cumulative amount of \$220,000 of eligible expenses as at December 31, 2016 and has no funds reserved for exploration related to this commitment.

The Company is committed to incur eligible exploration and evaluation expenses, pursuant to the Canada Income Tax Act and Québec Taxation Act, of \$2,082,500 by December 31, 2017, and to transfer the tax deductions related to these expenditures to the subscribers of its flow-through shares completed on July 7, 2016. In relation to this commitment, the Company has incurred a cumulative amount of \$1,339,516 of eligible expenses as at December 31, 2016 and has \$742,984 of funds reserved for exploration.

The Company is committed to incur eligible exploration and evaluation expenses, pursuant to the Canada Income Tax Act and Québec Taxation Act, of \$1,533,745 by December 31, 2017, and to transfer the tax deductions related to these expenditures to the subscribers of its flow-through shares completed on December 16 and 23, 2016. In relation to this commitment, the Company has not yet incurred any amount of eligible expenses as at December 31, 2016 and has \$1,533,745 of funds reserved for exploration.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

14. ITEMS NOT AFFECTING CASH AND CASH EQUIVALENTS:

	THREE-MONTH PERIODS ENDED		SIX-MONTH PERIODS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Shares issuance related for acquisition of property, plant and equipment	924,027	-	1,670,100	4,946
Changes in accounts payable and accrued liabilities related to exploration and evaluation assets	(156,504)	(52,247)	148,833	(115,960)
Interest capitalized in property, plant and equipment	53,991	-	53,991	-

15. COMPENSATION:

	THREE-MONTH PERIODS ENDED		SIX-MONTH PERIODS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages and fringe benefits paid to key management personnel	49,045	60,162	167,247	124,560
Wages and fringe benefits paid to other staff employees	38,168	4,107	62,532	11,322
Fees paid to the members of the Board of Directors	13,436	12,986	28,686	21,595
	100,649	77,255	258,465	157,477

During the three-month and six-month periods ended December 31, 2016, the Company incurred expenses of \$235,351 (2015 - \$6,205) and \$415,351 (2015 - \$7,337), respectively, of share-based payments, of which \$6,404 (2015 - \$1,308) and \$6,404 (2015 - \$1,308), respectively, were attributed to key management personnel and \$215,820 (2015 - \$3,766) and \$215,820 (2015 - \$3,766), respectively, were attributed to the members of the Board of Directors in relation with the share purchase options granted.

16. EARNINGS PER SHARE:

The warrants and share purchase options were excluded from the diluted weighted average number of common shares calculation since the Company is at loss and, therefore, their effect would have been antidilutive.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

(UNAUDITED)

PERIODS ENDED DECEMBER 31, 2016 AND 2015

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of current financial assets and liabilities, which include cash and cash equivalents and accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments.

The carrying amount of non-current liability, which includes the balance of purchase price payable approximate its fair value due to the fact that market conditions did not significantly change between the date of the transaction and December 31, 2016.

RISK EXPOSURE AND MANAGEMENT

The Company is exposed to a certain number of risks at different levels. The type of risk and the way the exposure is managed have not change since June 30, 2016, except for the one describes thereafter:

Currency risk:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of this rate. The balance of purchase price payable which is denominated in US currency amounted to CA\$3,297,483 (US\$2,415,600) as at December 31, 2016 and nil as at June 30, 2016. The Company does not currently enter into forward contracts to mitigate this risk.