MONARCA MINERALS

INC.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2017

This Management Discussion and Analysis ("MD&A") provides relevant information on the operations and financial condition of Monarca Minerals Inc. ("Monarca" or the "Company") for the nine months ended August 31, 2017. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto for the nine months ended August 31, 2017 and August 31, 2016 and the audited consolidated financial statements and related notes for the years ended November 30, 2016 and 2015.

This MD&A provides information that the management of Monarca believes is important to assess and understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of Monarca from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of Monarca. All monetary amounts unless otherwise specified are expressed in Canadian dollars. This discussion contains forward looking information that is qualified by reference to, and should be read in conjunction, with the "Caution Regarding Forward Looking Statements" below.

The Company was incorporated by articles of incorporation on March 22, 1995 under the Canada Business Corporations Act. The Company's shares are traded on the TSX Venture Exchange under the trading symbol MMN (formerly OAG). Additional information relating to Monarca is available at the Company's website at www.monarcaminerals.com and on SEDAR, at www.sedar.com.

General and Outlook

The Company is a Canadian-based mineral exploration company with a focus on the acquisition and development of silver properties in Mexico. The Company presently holds interests in three mineral projects, each with one to multiple mining concessions. The three main properties of interest are Tejamen, San Lucas and El Sol. Tejamen is the Company's flag ship silver property with a NI 43-101 inferred mineral resource.

Previously, the Company was focused on the development of silver and gold properties in Mexico. During 2011, the Company began to focus only on its silver properties and in 2012, spun out its gold properties into another public company called Oremex Gold Inc. ("Oremex -Gold"). Notwithstanding the spin-out, silver properties, including those retained by Monarca, generally come with varying amounts of other potentially economic metals, including gold and base metals.

In fiscal 2014 and 2015, the Company performed limited work on its silver properties as it efforts were focused on re-arranging its corporate affairs. In fiscal 2017, the Company continued to pursue a strategy to maximize the value of its properties with a particular focus on Tejamen. In addition, Monarca will continue to evaluate near-term production and joint venture opportunities.

Mineral Properties

Tejamen Property, State of Durango

Tejamen is the Company's most advanced project. The property, located 130 kilometres northwest of Durango, the capital of the State of Durango, consists of 23 mineral concessions covering approximately 1,685 hectares. Access is by paved highway from Durango to Nuevo Ideal, and by 10 kilometres of good gravel road from Nuevo Ideal to Tejamen.

Monarca owns 100% of the mineral rights at Tejamen. In 2007, the Company's surface access rights expired. Following a process that commenced in 2009, the Mexican government awarded the surface rights to the local Ejido (a type of community) of Tejamen in 2012.

No exploration or development work has occurred on Tejamen since 2008. From 2008 to 2012, the Company sought to reach agreement with the Ejido regarding access to the property and undertook various initiatives with the local community. Due to market conditions, those initiatives were suspended in 2012.

Mineral Properties – continued

Tejamen Property, State of Durango - continued

During 2008, the Company completed a new topographical survey in Los Mantos area, redesigned the proposed pit wall in Los Mantos to minimize impact on the local village and determined equipment requirements for mining. The Company assisted various levels of government, municipal, state and federal to ensure that all parties received complete and accurate information.

During 2015, Gustavson Associates LLC (Gustavson) was commissioned by Monarca to prepare an independent NI 43-101 compliant technical report on mineral resources for the Tejamen Project located near the town of Nuevo Ideal in the State of Durango, Mexico. This report was filed on Sedar on February 2, 2016. The resulting inferred resource is approximately 28.7 million troy ounces of silver, at a 15ppm cutoff (19.8 million tonnes at 45.0 g/t Ag).

The property has been pledged as a security for the long-term debt of the Company.

The Company is currently taking the initial steps to reinitiate engagement with the local community. During 2017, drill hole logging commenced. This year to date, ten core holes have been logged in San Agustin, where the samples are held in storage. Logging of the RC drill hole chips has started in Durango; there 202 RC drill holes to log. After 20-30 RC drill holes have been logged, their rate and forecasted completion will be evaluated. Some re-interpretation of the geology has been started, as the logging has progressed. Full geological interpretation is expected to start in November 2017.

San Lucas Property, State of Durango

The San Lucas Property ("San Lucas"), located 86 kilometres north of the city of Durango and accessed via paved highway, consists of 8 mineral concessions covering 596 hectares. San Lucas consists of a series of northeast trending mineralized shear zones in volcanic and sedimentary rocks.

In 2005, the Company drilled 19 shallow reverse circulation drill holes totaling 3,042 meters across one of the mineralized zones. Drill holes, spaced approximately 100 metres apart along the northeast striking structure, indicate a disseminated silver-lead-zinc system. The mineralization was traced by drilling for 1,700 metres. Surface mapping has traced the zone for over four kilometres and has identified a separate sub parallel structure. In 2007, the Company negotiated a long-term lease with the Community of San Lucas for the use of surface rights at San Lucas. The Company completed a 7,000 metres reverse circulation drill program to test extensions down dip and along trend of mineralization. That program intersected high grade silver mineralization at surface with a zone of lower grade lead-zinc mineralization at depth. A detailed assessment of results along with historic underground data has led to the conclusion that there is potential to define a large, low grade deposit of zinc-lead mineralization. Significant higher-grade silver plus base metal mineralization exists at depth.

During fiscal 2009, the Company re-evaluated this property and as part of that project collected and analyzed 39 chip samples. These samples returned gold values up to 0.77 g/t.

During 2010 and 2011, work was done to define gold mineralization present in a silicified dacite dike that had been identified.

During the third quarter of fiscal 2011, the Company spun-out its gold assets into Oremex Gold which included the San Lucas mineral concessions with the presence of gold mineralization, including the silicified dike.

During fiscal 2012, the Company focused on reviewing drill targets for a core drilling program and continued compiling surface sampling assay results and mapping. In June 2012, the Company received positive results from a surface outcrop sampling program in the El Doctor zone of the San Lucas silver project. The El Doctor zone had not

Mineral Properties – continued

San Lucas Property, State of Durango - continued

been previously sampled at the surface. The El Doctor zone is located in the middle portion of the precious metal-mineralized San Lucas trend. Approximately a dozen old surface and underground workings are located in the immediate area, including two shafts.

The mineralization occurs with elevated levels of lead and zinc mineralization. Two parallel gold-silver mineralized shear zones are evident over a strike length of over 270 metres. The mineralized shear zones are approximately 70 metres apart and strike north-easterly, as is typical of the San Lucas trend. The mineralized shear zones range from 5 meters to 10 meters in width where exposed on surface. Base metal sulphides and iron oxides associated with quartz-sericite alteration characterize the mineralized zones which are hosted by volcanic rocks. A total of 90 channel samples were collected and the gold grades range from 0.02 g/t to 110 g/t, averaging 4.4 g/t. The average gold grade of the 89 samples exclusive of the high grade 110 g/t sample is 3.2 g/t. 72 of 90 samples contained gold grades over 0.50 g/t. The silver grades range from trace to 168 g/t, averaging 53.2 g/t. The average silver grade of the 89 samples excluding the high grade 168 g/t sample is 51.9 g/t.

Since 2013, the Company's focus was on the Tejamen Project and in accordance with its accounting policies, it has written down the carrying value of the San Lucas Property to nil.

El Sol Property

On June 20, 2013, the Company entered into an option agreement whereby the optionee has the right to acquire a 100% interest in the Company's El Sol property located in Durango State, Mexico for cash payments of US$2,000,000 plus Value Added Tax ("VAT") over a three-year period as follows:

i. Payment of US$150,000 upon signing (received)
ii. Payment of US$400,000 on or before June 20, 2014 (received)
iii. Payment of US$600,000 on or before June 20, 2015 (not received)
iv. Payment of US$850,000 on or before June 20, 2016 (not received)

Pursuant to the terms of the option agreement, the optionee has the right to acquire the property at any time between the signing date and the third anniversary of the signing date. In addition, to maintain the option in good standing, the optionee must pay concession maintenance fees to the Secretaria de Economia in Mexico.

During 2014, the optionee assigned its interest in the El Sol option agreement to a third party. In 2015, the Company had discussions with the new optionee regarding the payments due pursuant to this agreement. During 2016, discussions with the third party did not result in the option payments being made and the property was returned to the Company.

The El Sol property has 63 hectares and is located 75 km northeast of Durango City. It is accessed by paved highway to within about 5 km of the project. It is located about 1 km northwest of Southern Silver's Las Minitas deposit.

Exploration work done in 2010 through 2012 indicates the possible extension of mineralization onto the El Sol concession. Ground geophysics shows strong chargeability anomalies on trend with mineralization drilled by Southern Silver up to the El Sol concession. A hole was drilled by Southern Silver on the south edge of the El Sol concession, but did not cut the chargeability anomaly. The hole returned 0.3m at 87 ppm Ag, 1.88% lead, 1.01% zinc and 0.11% copper. A single mine dump samples returned 358 ppm silver, 1.94ppm gold, 19.6% zinc and 22.6% lead.

In May 2016 Southern Silver filed a 43-101 Mineral Resource Estimate for Cerro Las Mintos on Sedar citing an estimated Inferred Resource of 77.3Mil Silver Equivalent ounces and an estimated Indicated Resource of 36.5Mil Silver Equivalent ounces.

Mineral Properties – continued

Navidad and Chalchihuites Group Concessions

On October 25, 2011, the Company signed an option agreement pursuant to which the Company was granted the option to acquire a 100% interest in certain claims located in Chalchihuites, Zacatecas, Mexico. The Company was granted the right to evaluate and explore the property for a period of four years upon signing the agreement and will acquire the 100% interest at the end of this period in exchange for aggregate payments of US$780,000 plus Value Added Tax ("VAT") within the four-year period as follows:

i. Payment of US$10,000 upon signing (paid)
ii. Payment of US$10,000 on or before April 25, 2012 (paid)
iii. Payment of US$10,000 on or before October 25, 2012 (paid)
iv. Payment of US$20,000 on or before April 25, 2013 (paid)
v. Payment of US$20,000 on or before October 25, 2013 (paid)
vi. Payment of US$30,000 on or before April 25, 2014 (paid by optionee – see below)
vii. Payment of US$30,000 on or before October 25, 2014 (paid by optionee – see below)
viii. Payment of US$50,000 on or before April 25, 2015
ix. Payment of US$600,000 on or before October 25, 2015

Pursuant to the terms of the agreement, if 100% of the option is exercised, the Company grants the Vendors at 1% Net Smelter Returns. Royalty ("NSR") from the aggregate commercial production of the project up to US$250,000 annually.

On October 23, 2013, the Company signed an agreement with First Majestic Silver Corp. ("First Majestic") pursuant to which the Company granted to First Majestic an option to acquire each of (i) an undivided 100% registered and beneficial title to the Company's Chalchihuites mineral exploration property and (ii) all of the right, title and interest of the Company in the Navidad mineral exploration property in exchange for the aggregate payment of $1,500,000 as follows:

i. Payment of $150,000 deposit upon signing (received)
ii. Payment of $832,000 within five days of signing (received by the escrow agent with $665,600 released to the Company)
iii. Payment of $518,000 within five days of signing (received)

As both the Navidad and Chalchihuites mineral exploration properties were established as security for the convertible debentures issued on October 9, 2012, the Company signed an Escrow Agreement dated October 23, 2013, whereby First Majestic deposited with an Escrow Agent the sum of $832,000 (the "Escrow Deposit"), which represents the sum of $250,000 and the maximum aggregate amount of interest payable in cash on the convertible debentures up to and including the maturity date at an interest rate of 16%.

On each of October 15, 2013, October 15, 2014, October 15, 2015, October 15, 2016 $166,400 was released from escrow with the final $166,400 to be released on October 15, 2017. With the money released from escrow, the escrow agent first pays the interest owing to the convertible debenture holders directly, and then pays the Company the remaining amount (if any).

First Majestic also agreed to pay the remaining option payments to the original optionors of the Navidad-Chalchihuites group concessions starting with the option payment due April 25, 2014.

Should the Company lose title to the Chalchihuites property, the Company will be required to repay all option payments received from First Majestic. The Navidad and Chalchihuites properties have been pledged as security for the long-term debt discussed in Note 8. The total amount received as at August 31, 2017 and November 30, 2016 pursuant to the Navidad and Chalchihuites option agreements is $1,333,600.

Mineral Properties – continued

Navidad and Chalchihuites Group Concessions - continued

The agreement with First Majestic has resulted in a gain of $166,400 during each of the years ended November 30, 2016 and 2015, being the amount of funds released from escrow and received by the Company in 2016 and 2015.

Effective June 27, 2016 the Company agreed with the concessionaires and First Majestic to terminate its option agreement on the Navidad properties and consented to the properties being transferred by the concessionaires directly to First Majestic on the basis that First Majestic had satisfied all of its obligations under its option agreement with the Company.

Qualified Person

Mr. Michael R. Smith, Registered Member - Geology (Society for Mining, Metallurgy & Exploration), Vice President of Exploration for the Company, has approved the scientific and technical information contained in this MD&A.

Summary of Quarterly Results (unaudited)

Operations	**Aug-17** $	**May-17** $	**Feb-17** $	**Nov-16** $	**Aug-16** $	**May-16** $	**Feb-16** $	**Nov-15** $
Total revenues	nil	nil	nil	nil	nil	nil	nil	nil
Net and comprehensive income (loss)	(850,885)	(150,020)	(59,154)	156,963	(92,532)	(56,778)	(56,303)	(101,147)
Net earnings (loss) per share (basic and diluted)	(0.0172)	(0.0045)	(0.0067)	0.0007	(0.0006)	(0.0004)	(0.0004)	(0.0007)

Financial Position	**Aug-17** $	**May-17** $	**Feb-17** $	**Nov-16** $	**Aug-16** $	**May-16** $	**Feb-16** $	**Nov-15** $
Total assets	15,049,183	15,007,797	13,561,051	13,466,928	13,394,274	13,358,419	13,221,813	13,224,532
Total long-term Liabilities	0	0	0	0	0	0	0	0
Shareholders' Equity	10,461,975	10,220,996	8,524,644	8,583,798	8,426,835	8,519,367	8,576,145	8,632,448

Results of Operations – Three Months Ended August 31, 2017

For the three-month period ended August 31, 2017, the Company reported a net loss of $850,885 compared to a net loss of $92,532 reported in the similar quarter of fiscal 2016. The increase in costs of $758,353 largely relates to an increase in accounting and legal of $265,687, business development costs of $30,233, consulting costs of $52,132, management fees and salaries of $57,651 and stock based compensation of $261,788. These cost increases reflect the increase operational activity as the Company raises equity funding and in order to position itself to resume exploration and evaluation activities. The resulting basic and diluted loss per share for the three-month period ended August 31, 2017 was $0.0172 (2016 -$0.0006).

Results of Operations – Nine Months Ended August 31, 2017

For the nine-month period ended August 31, 2017, the Company reported a net loss of $1,000,905 compared to a net loss of $205,613 reported in the similar period of fiscal 2016. The increase in costs of $795,292 largely relates to an increase in accounting and legal of $237,427, business development costs of $37,583, consulting costs of $68,748, management fees and salaries of $73,647, regulatory and filing fees of $4,564 and stock based compensation of $261,788. The resulting basic and diluted loss per share for the nine-month period ended August 31, 2017 was $0.0202 (2016 -$0.0014). The increase in operating costs, is reflective of the increase in operating activities as the Company raises equity funding and re-structures its governance and management as it resumes exploration and evaluation activities in fiscal 2017.

Capital Expenditures

Total exploration spending including capitalized borrowing costs for the nine-month period ended August 31, 2017, was $267,932 (2016 - $214,766).

Financing Activities

On May 5, 2017, the Company completed a consolidation of its common shares on a one-for-five basis effectively reducing the common shares issued from 146,475,695 to 29,295,139.

On May 9, 2017, the Company completed the first tranche of a non-brokered private placement of 13,232,182 units at $0.13 per unit to raise $1,720,184. Each unit was composed of one common share and one warrant. The warrants were valued at $1,432,152. Each warrant entitles the holder to acquire one common share at an exercise price of $0.18 for a thirty-six-month period commencing at the date of issuance. The units are subject to a four-month hold period expiring on September 9, 2017. The Company paid cash finder's fees of $89,904 and issued 691,563 finder warrants in connection with the financing. The finder warrants were valued at $77,066 and were reported as part of the cost of share issuance. Each finder warrant is exercisable for one common share at a price of $0.13 per share for a period of thirty-six months.

On June 7, 2017, the Company granted 2,075,000 stock options pursuant to its 2016 Stock Option Plan to certain directors, officers, and consultants of the Company. The options vest immediately, are exercisable at a price of $0.14 per share and have a term of five years from the grant date.

On June 16, 2017, the Company issued 3,561,985 common shares at a deemed price of $0.13 per common share to settle $463,058 of debt pursuant to debt settlement agreements plus an additional 180,000 common shares pursuant to a prior debt settlement agreement. The shares are subject to a four-month hold period expiring on October 14, 2017.

On June 30, 2017, the Company mutually agreed to terminate the silver purchase option consulting agreement in connection with a financing that closed during 2012. In consideration, the Company issued 1,400,000 common share purchase warrants with each warrant entitling the holder to acquire one common share at an exercise price of $0.15 for a forty-eight-month period commencing at the date of issuance. The warrants were valued at $155,168.

On July 19, 2017, the Company completed the second and final tranche of a non-brokered private placement of 3,340,000 units at $0.13 per unit to raise $434,200. Each unit was composed of one common share and one warrant. The warrants were valued at $354,614. Each warrant entitles the holder to acquire one common share at an exercise price of $0.18 for a thirty-six month period commencing at the date of issuance. The units are subject to a four-month hold period expiring on November 19, 2017. The Company paid cash finder's fees of $14,245 and issued 109,577 finder warrants in connection with the financing. The finder warrants were valued at $12,019 and were reported as part of the cost of share issuance. Each finder warrant is exercisable for one common share at a price of $0.13 per share for a period of thirty-six months.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the first three quarters of fiscal 2017 provided cash of $1,267,147 (2016 – utilized cash of $28,521). As at August 31, 2017 the Company had cash of $1,275,987 (November 30, 2016 - $8,840) and a working capital deficit of $568,305 (November 30, 2016 - $2,180,801).

The Company is in the business of exploring for and mining minerals which by its nature involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to obtain financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. All of the Company's mineral properties are located outside of Canada and are subject to the risks normally associated with foreign investment, including increases in taxes and royalties, recognition of contracts, currency exchange fluctuations and political uncertainty.

The Company is subject to various option agreements in connection with the acquisition of mineral interests. Where periodic payments were required under an option agreement to maintain its property interests, by secondary agreement the Company has granted an option to acquire the property interest and has assigned its requirement to pay periodic payments under the original agreement. In order to maintain the Company's mineral concessions and titles in good standing the Company will be required to pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum commitments of approximately $35,000 are due within fiscal 2017.

The Company is not in commercial production on any of its mineral properties and, accordingly, it does not generate cash from operations. The Company's planned exploration and development expenditures on existing properties require significant financial resources. The fiscal 2017 and 2018 plan is to advance the Tejamen Property and to pursue joint venture opportunities.

Transactions with Related Parties

During the periods ended August 31, 2017 and 2016 the Company entered into the following transactions with related parties that are not subsidiaries of the Company.

(a) Key management includes the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, the Vice President of Exploration, and the Directors. During the nine months ended August 31, 2017, the cash compensation paid or payable to key management for services was $131,897 (2016 – $54,000). Included in accounts payable and accrued liabilities at August 31, 2017 is $7,948 (November 30, 2016 - $157,913) due to Directors and Officers for management fees and expense reimbursements. This amount is unsecured, non-interest bearing and has no specific terms of repayment. Stock based compensation for the nine months ended August 31, 2017 was $246,018 (2016 - $nil).

(b) Companies controlled by a director of the Company hold $480,000 of the long-term debt as at August 31, 2017 and as at November 30, 2016. During the period ended August 31, 2017, interest of $75,600 (2016 - $75,600) was payable to these companies and as at August 31, 2017, $161,960 (November 30, 2016 - $86,360) is included in interest payable on the consolidated statement of financial position. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

(c) During the period ended August 31, 2017, interest accrued on the promissory notes totaled approximately $15,014 (2016 - $15,068). Included in interest payable on the consolidated statement of financial position as at August 31, 2017 is $67,718 (November 30, 2016 - $52,704) related to this interest. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

Transactions with Related Parties - continued

(d) During the period ended August 31, 2017, legal fees incurred of $57,075 (2016 - $36,744) with a law firm of which a partner is a director of the Company. This amount is included in cost of share issue on the balance sheet and accounting and legal fees on the consolidated statement of operations. Included in accounts payable and accrued liabilities at August 31, 2017 is $19,069 (November 30, 2016 - $31,706) relating to these fees. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

Subsequent Events

No reportable subsequent events.

Future Accounting Changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after December 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 12 – Income Taxes ("IAS 12") was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

Future Accounting Changes - continued

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities or derivative financial obligations.

Proposed Transactions

No proposed transactions.

Financial Risk Management

(a) Currency Risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Mexico and a portion of its expenses are incurred in Mexican Pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the Mexican Peso could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations

At August 31, 2017 and at November 30, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		August 31 2017		November 30 2016
Cash	MP$	82,926	MP$	22,134
Amounts receivable and prepaid expenses		62,833		54,362
Accounts payable and accrued liabilities		(2,278,603)		(626,018)
Total	MP$	(2,215,770)	MP$	(549,522)
Canadian dollar equivalent	CAD$	(156,613)	CAD$	(35,810)

(b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held through large Canadian financial institutions and the Company's note receivable is held with a company that has common officers and directors. The Company is also exposed to credit risk on its amounts receivable, which are unsecured. The Company considers the risk of loss to be low. There have been no significant changes to how management manages credit risk during 2016 and 2015.

Financial Risk Management - continued

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable, accrued liabilities and interest payable are due within the current operating period. The Company's investment in an associated company may not be easily liquidated as it is an investment in a public company which is currently cease traded.

The Company's expected sources of cash flow in the upcoming year are equity financings. The Company will require additional cash to finance operations. There have been no changes to how management manages liquidity risk from the prior year.

(d) Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company has cash and cash equivalent balances maintained in Canada. The Company's current policy is to invest excess cash in GIC's issued by Canadian banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank. The Company's long-term debt is at a fixed interest rate and is therefore not impacted by changes in interest rates.

(e) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company does not actively manage this risk as it is considered a low risk area as the Company is not a producing entity.

(f) Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period.

- Based on the net exposures as at August 31, 2017, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Mexican Peso would not result in a material change to the Company's loss. Price risk is remote since the Company is not a producing entity.
- A change in interest rates of 1% would result in a corresponding change in net loss for the year of approximately $345 based on the cash balance at August 31, 2017.

Outstanding Share Data

Authorized Capital:

An unlimited number of common shares and an unlimited number of preferred shares issuable in series. Issued and outstanding as at August 31, 2017 are 49,429,306 common shares and October 27, 2017 are 49,429,306 common shares.

Outstanding Share Data cont'd

Outstanding options and warrants as at August 31, 2017:

Type of Security	Number	Exercise Price	Expiry Date
Share purchase warrants	2,727,273	Cdn. $0.50	October 1, 2017
Share purchase warrants	1,455,000	Cdn. $0.50	October 9, 2017
Share purchase warrants	1,111,833	Cdn. $0.50	October 19, 2017
Share purchase warrants	55,090	Cdn. $0.50	October 19, 2017
Share purchase warrants	80,052	Cdn. $0.50	October 25, 2017
Share purchase warrants	13,232,182	Cdn. $0.18	May 9, 2020
Share purchase warrants	691,563	Cdn. $0.13	May 9, 2020
Share purchase warrants	3,340,000	Cdn. $0.18	July 19, 2020
Share purchase warrants	109,577	Cdn. $0.13	July 19, 2020
Share purchase warrants	1,400,000	Cdn. $0.15	June 30, 2021
	24,202,570		

Outstanding options and warrants as at October 27, 2017:

Type of Security	Number	Exercise Price	Expiry Date
Share purchase warrants	13,232,182	Cdn. $0.18	May 9, 2020
Share purchase warrants	691,563	Cdn. $0.13	May 9, 2020
Share purchase warrants	3,340,000	Cdn. $0.18	July 19, 2020
Share purchase warrants	109,577	Cdn. $0.13	July 19, 2020
Share purchase warrants	1,400,000	Cdn. $0.15	June 30, 2021
	18,773,322		

Type of Security	Number	Exercise Price	Expiry Date
Share purchase options	2,075,000	Cdn. $0.14	June 7, 2022
	2,075,000		

Risks and Uncertainties

Exploration for mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

The Company currently has no revenues from operations and no mineral reserves. The Company also has a low cash balance. If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. The only sources of future funds presently available to the Company are the sale of additional equity capital, issuance of debt, selling or leasing the Company's interest in a property or the entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource market and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There is no assurance that the Company will be successful in raising additional funds in the future. If the Company does not have the necessary capital to meet its obligations under its contractual obligations, the Company may have to forfeit its interest in properties or prospects earned or assumed

Risks and Uncertainties - continued

under such contracts. In addition, if the Company does not have sufficient funds to pursue its exploration programs, the viability of the Company could be jeopardized.

Beyond exploration and funding risk, the Company is faced with a number of other risk factors as detailed in this interim MD&A.

October 27, 2017