MONARCA MINERALS INC.

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Condensed Consolidated Interim Financial Statements
For the Nine Months Ended August 31, 2018 and 2017
(Unaudited)
Expressed in Canadian Dollars

MONARCA MINERALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED AUGUST 31, 2018 and 2017

Contents

MONARCA MINERALS INC.

Notice of Disclosure of Non Auditor Review of the Condensed Consolidated Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Monarca Minerals Inc. (the "Company") have been prepared by, and are the responsibility of, the Company's management and approved by the Board of Directors.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by The Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

November 5, 2018

Expressed in Canadian Dollars

	Note		August 31 2018		November 30 2017
Assets					
Current assets					
Cash		$	243,558	$	1,030,896
Amounts receivable			69,671		33,786
Prepaid expenses			16,672		70,036
Total current assets			329,901		1,134,718
Non-current assets					
Equipment	3		14,114		16,722
Exploration and evaluation properties	4		14,432,508		13,829,418
Total assets		$	14,776,523	$	14,980,858
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	535,924	$	590,375
Interest payable	8,9(b)		398,246		283,665
Promissory notes	7		400,000		400,000
Current portion of long-term debt	8		727,500		727,500
Total current liabilities			2,061,670		2,001,540
Non-current liabilities					
Deferred tax liability			2,766,000		2,766,000
Total liabilities			4,827,670		4,747,540
Shareholders' equity					
Share capital	5(a)		25,775,730		25,768,357
Share purchase warrants reserve	5(a)(ii)(iii),5(c)		857,647		852,021
Share-based payment reserve	6		261,788		261,788
Equity conversion option	8		39,370		39,370
Accumulated deficit			(16,985,682)		(16,708,218)
Total shareholders' equity			9,948,853		10,213,318
Total liabilities and shareholders' equity		$	14,776,523	$	14,980,858

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 4, 5 and 14)

Approved on behalf of the Board:

"Frank Högel"	*"Carlos Espinosa"*
Director	Director

See accompanying notes to the consolidated financial statements.

Expressed in Canadian Dollars

	Note		Three Months Ended August 31 2018	Three Months Ended August 31 2017		Nine Months Ended August 31 2018	Nine Months Ended August 31 2017
Administrative expenses							
Accounting and legal		$	21,543	310,089	$	62,962	331,606
Amortization	3		-	2,251		2,251	2,251
Business development			-	37,583		4,209	44,933
Consulting			-	68,748		-	85,364
Insurance			2,295	-		6,885	9,180
Investor relations			9,211	2,851		29,097	7,005
Management fees and salaries			42,003	57,651		124,624	73,647
Office expenses			(7,882)	235		(1,055)	3,677
Regulatory and filing fees			2,664	5,440		9,087	22,433
Stock based compensation			-	261,788		-	261,788
Loss before undernoted items			(69,834)	(743,821)		(238,060)	(841,884)
Other income (expenses)							
Other income			-	1,189		-	1,434
Interest and bank charges			(5,847)	(13,390)		(29,954)	(21,886)
Gain (loss) on foreign exchange			1,632	(94,863)		(9,450)	(138,569)
			(4,215)	(107,064)		(39,404)	(159,021)
Net loss and comprehensive loss for the period		$	(74,049)	(850,885)	**$**	(277,464)	(1,000,905)
Basic and diluted loss per share		$	(0.0015)	(0.0172)	$	(0.0056)	(0.0202)
Weighted average number of shares outstanding - basic and diluted (note 5 (a)(i))			49,609,306	49,609,306		49,609,306	49,609,306

See accompanying notes to the consolidated financial statements.

MONARCA MINERALS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended August 31, 2018 and 2017
Expressed in Canadian Dollars

	Share Capital			Share Purchase	Share-Based			
	Number	Amount $	Shares to be issued $	Warrants Reserve $	Payments Reserve $	Equity Conversion Option $	Accumulated Deficit $	Total $
Balance, November 30, 2016	**146,475,695**	**24,113,252**	**22,500**	**476,250**	**-**	**39,370**	**(16,067,574)**	**8,583,798**
Share consolidation (note 5(a)(i))	(117,180,556)	-	-	-	-	-	-	-
Share issue (note 5(a)(ii)(iii)(iv))	20,314,167	608,775	-	-	-	-	-	608,775
Shares to be issued	-	-	(22,500)	-	-	-	-	(22,500)
Warrants granted (notes 5(a)(ii)(iii), 5(c))	-	-	-	1,731,019	-	-	-	2,031,019
Stock based compensation (note 5(b))	-	-	-	-	261,788	-	-	261,788
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(1,000,905)	(1,000,905)
Balance, August 31, 2017	**49,609,306**	**24,722,027**	**-**	**2,507,269**	**261,788**	**39,370**	**(17,068,479)**	**10,461,975**
Balance, November 30, 2017	**49,609,306**	**25,768,357**	**-**	**852,021**	**261,788**	**39,370**	**(16,708,218)**	**10,213,318**
Share issue (note 5(a))	100,000	7,373	-	-	-	-	-	7,373
Warrants granted (notes 5(a)(ii)(iv), 5(c))	-	-	-	5,626	-	-	-	5,626
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(277,464)	(277,464)
Balance, August 31, 2018	**49,709,306**	**25,775,730**	**-**	**857,647**	**261,788**	**39,370**	**(16,985,682)**	9,948,853

See accompanying notes to the consolidated financial statements.

Expressed in Canadian Dollars

For the Nine Months Ended	Note		August 31 2018		August 31 2017
Cash provided by (used in):					
Operating					
Loss for the period		$	(277,464)	$	(1,000,905)
Items not affecting cash:					
Amortization	3		2,251		2,251
Stock based compensation	5b		-		261,788
			(275,213)		(736,866)
Changes in non-cash operating accounts:					
Amounts receivable			(35,885)		2,641
Prepaid expenses			53,364		(52,068)
Accounts payable and accrued liabilities			(54,451)		(195,503)
Interest payable			114,581		114,581
Net cash provided by (used in) operating activities			(197,604)		(867,215)
Investing					
Exploration and evaluation properties	4		(488,152)		(153,351)
Net cash used in investing activities			(488,152)		(153,351)
Financing					
Interest paid on convertible debenture	4,7		(114,581)		(114,581)
Promissory notes	7		-		(215,000)
Shares to be issued			-		(22,500)
Share capital	5a		7,373		608,775
Share purchase warrants	5c		5,626		2,031,019
Net cash provided by financing activities			(101,582)		2,287,713
Increase (decrease) in cash			(787,338)		1,267,147
Cash, beginning of period			1,030,896		8,840
Cash, end of period		$	243,558	$	1,275,987

1. Nature of Operations and Going Concern

Monarca Minerals Inc. (the "Company" or "Monarca"), was incorporated on March 22, 1995 under the Canada Business Corporations Act. On July 7, 2016, the shareholders approved the change in name of the Company from "Oremex Silver Inc." to "Monarca Minerals Inc." The Company's shares are traded on the TSX Venture Exchange under the trading symbol MMN. The Company is in the process of exploring and evaluating its exploration and evaluation property interests in Mexico. The address of the Company's corporate office and principal place of business is 18 King St. E., Suite 902, Toronto, Ontario, Canada, M5C 1C4.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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 government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The Company presently has no proven reserves, and on the basis of information to date, has not yet determined whether any of its exploration and evaluation property interests contain economically recoverable ore resources. The amounts recorded as exploration and evaluation properties represent deferred exploration costs incurred to date and do not necessarily represent present or future values. The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake expanded exploration and development of its exploration and evaluation properties and to ultimately realize profits through future production or sale of the exploration and evaluation properties.

At August 31, 2018, the Company had a working capital deficit of $1,731,769 (November 30, 2017 - $866,822) and had incurred losses since inception, and at August 31, 2018, had an accumulated deficit of $16,985,682 (November 30, 2017 - $16,708,218) which has been funded primarily by the issuance of equity. In addition, the Company's long-term debt, secured by certain exploration property interests, was in default as at August 31, 2018 and as at November 30, 2017 (see Note 8). The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

These unaudited condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. They do not reflect adjustments to the carrying values of assets and liabilities which may be necessary should the Company be unable to do so and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements. Such adjustments could be material. Material uncertainties as mentioned above cast significant doubt upon the Company's ability to continue as a going concern.

2. Basis of Presentation

Basis of Presentation and Measurement

The Company prepares its unaudited condensed consolidated interim financial statements in accordance with International Accounting Standards 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and under the historical cost method, except for certain financial instruments measured at fair value.

Expressed in Canadian Dollars

2. Basis of presentation – continued

Basis of Presentation and Measurement – continued

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the years ended November 30, 2017 and 2016 which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods adopted are consistent with those disclosed in Note 3 to the Company's consolidated financial statements for the years ended November 30, 2017 and 2016. These unaudited condensed consolidated interim financial statements were approved by the board of directors for issue on November 5, 2018.

Critical Judgments and Estimation Uncertainties

Areas of critical accounting judgments and estimation uncertainties that have the most significant effect on the amounts recognized in the unaudited condensed consolidated interim financial statements are disclosed in Note 3 of the Company's consolidated financial statements for the years ended November 30, 2017 and 2016.

3. Equipment

	Computer Equipment	Office Furniture and Equipment	Software	Leasehold Improvements	Site Vehicles	Total
Cost, November 30, 2016	$ 10,477	$ 21,542	$ 17,855	$ 13,858	$ 27,856	$ 91,588
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cost, November 30, 2017	$ 10,477	$ 21,542	$ 17,855	$ 13,858	$ 27,856	$ 91,588
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cost, August 31, 2018	$ 10,477	$ 21,542	$ 17,855	$ 13,858	$ 27,856	$ 91,588
Accumulated Amortization, November 30, 2016	$ (10,477)	$ (21,542)	$ (11,504)	$ (5,306)	$ (23,786)	$ (72,615)
Charge for the period	-	-	(209)	(359)	(1,683)	(2,251)
Accumulated Amortization, November 30, 2017	$ (10,477)	$ (21,542)	$ (11,713)	$ (5,665)	$ (25,469)	$ (74,866)
Charge for the period	-	-	(209)	(359)	(1,683)	(2,251)
Accumulated Amortization, August 31, 2018	$ (10,477)	$ (21,542)	$ (11,922)	$ (6,024)	$ (27,152)	$ (77,117)
Net book value, November 30, 2017	$ -	$ -	$ 6,142	$ 8,193	$ 2,387	$ 16,722
Net book value, August 31, 2018	$ -	$ -	$ 5,933	$ 7,834	$ 704	$ 14,471

Expressed in Canadian Dollars

4. Exploration and Evaluation Properties

(a) Background

					August 31, 2018
	Tejamen	**San Lucas**	**Navidad and Chalchihuites**	**Other**	**Total**
Acquisition costs					
Balance, beginning and end of period	$ 2,976,736	$ -	$ -	$ -	$ 2,976,736
Exploration expenditures					
Balance, beginning of period	$ 10,852,682	$ -	$ -	$ -	$ 10,852,682
Incurred during the period:					
Administration	355,770	-	-	-	355,770
Camp costs and field supplies	-	-	-	-	-
Geological consulting	67,200	-	-	-	67,200
Permitting and land holding costs	65,539	-	-	-	65,539
Borrowing costs (note 8)	114,581	-	-	-	114,581
Balance, end of period	$ 11,455,772	$ -	$ -	$ -	$ 11,455,772
Total exploration and evaluation properties	$ 14,432,508	$ -	$ -	$ -	$ 14,432,508

					November 30, 2017
	Tejamen	**San Lucas**	**Navidad - Chalchihuites**	**Other**	**Total**
Acquisition costs					
Balance, beginning and end of year	$ 2,976,736	$ -	$ -	$ -	$ 2,976,736
Exploration expenditures					
Balance, beginning of year	$ 10,451,890	$ -	$ -	$ -	$ 10,451,890
Incurred during the year:					
Administration	229,285	-	-	-	229,285
Permitting and land holding costs	18,732	-	-	-	18,732
Borrowing costs (note 8)	152,775				152,775
Balance, end of year	$ 10,852,682	$ -	$ -	$ -	$ 10,852,682
Total exploration and evaluation properties	$ 13,829,418	$ -	$ -	$ -	$ 13,829,418

(b) Tejamen Property, State of Durango

Tejamen is, located 130 kilometres northwest of Durango, the capital of the State of Durango, and consists of certain mineral concessions.

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.

The property has been pledged as security for the long-term debt of the Company discussed in Note 8.

4. Exploration and Evaluation Properties - continued

(c) San Lucas Property, State of Durango

The San Lucas Property ("San Lucas"), located 86 kilometres north of the city of Durango and consists of certain mineral concessions.

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.

(d) 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.

(e) 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 (see below)
ix. Payment of US$600,000 on or before October 25, 2015 (see below)

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.

4. Exploration and Evaluation Properties - continued

(e) Navidad and Chalchihuites Group Concessions - continued

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 (see Note 8), the Company signed an Escrow Agreement dated October 23, 2013, whereby First Majestic agreed to deposit with the 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, 2018 and November 30, 2017 pursuant to the Navidad and Chalchihuites option agreements is $1,333,600.

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.

Expressed in Canadian Dollars

5. Share Capital

(a) Common Shares

Authorized: Unlimited number of common shares, without par value
Issued and outstanding common shares:

	Number		Amount
Balance November 30, 2017	49,609,306	$	25,768,357
Share issue (note 5a vi)	100,000		7,373
Cost of share issue	-		-
Balance August 31, 2018	49,709,306	$	25,775,730

i. 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. All share and per share amounts, including those related to options and warrants, have been retroactively restated to reflect the effects of the consolidation.

ii. 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.

The fair value of the warrants was estimated at $692,000 and the fair value of the finders’ warrants was estimated at $38,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 140%; risk-free interest rate of 0.71% and an expected life of 3 years.

iii. On June 16, 2017, the Company issued 3,561,985 common shares at a price of $0.13 per common share to settle $463,058 of debt pursuant to debt settlement agreements including 180,000 common shares pursuant to a prior debt settlement agreement.

iv. 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. 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 Company paid cash finder’s fees of $14,245 and issued 109,577 finder warrants in connection with the financing. Each finder warrant is exercisable for one common share at a price of $0.13 per share for a period of thirty-six months (Note 10 e).

The fair value of the warrants was estimated at $188,000 and the fair value of the finders’ warrants was estimated at $6,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 162%; risk-free interest rate of 1.24% and an expected life of 3 years.

Expressed in Canadian Dollars

5. Share Capital – continued

(a) Common Shares - continued

v. During 2017, 274,200 shares initially valued at $22,500 were issued pursuant to a debt settlement agreement.

vi. On December 1, 2017, 100,000 units were issued for consideration of $13,000 with the same terms as those issued in Note 5a (iv).

(b) Share Purchase Options

In April 2004, the Company adopted a 10% rolling share purchase option plan (the "Plan") whereby options may not exceed 10% of the total number of shares issued and outstanding of the Company from time to time on a non-diluted basis. Options granted under the Plan have an exercise price equal to the quoted market price of the Company's shares and vest at the discretion of the Board. This option plan was re-approved at the Company's July 7, 2016 Annual and Special Meeting of Shareholders.

A summary of the status of the Company's stock option plan for the nine months ended August 31, 2018 and for the year ended November 30, 2017 is as follows:

	Number of Options	Weighted Average Exercise Price ($)
Balance, November 30, 2016	-	-
Issued	2,075,000	0.14
Balance, November 30, 2017	2,075,000	0.14
Issued	-	-
Balance August 31, 2018	2,075,000	0.14

In connection with a financing that closed during 2012, the Company was committed to granting 2,069,000 stock options as compensation to the finder. The options were to be exercisable at $0.10 each. The grant of the options was contingent on achieving approval of the stock option plan. During 2016, the commitments to grant these options was waived by the optionees.

In March 2014, the Company committed to granting 5,050,000 stock options to directors and service providers. The options vest immediately and will be exercisable at $0.05 each until March 19, 2019. The grant of the options was contingent on achieving approval of the stock option plan. During 2016, the commitments to grant these options was waived by the optionees.

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 (note 10a). The fair value of the options was estimated at $261,788 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 165%; risk-free interest rate of 0.71% and an expected life of 5 years.

Expressed in Canadian Dollars

5. Share Capital - continued

(c) Share Purchase Warrants Reserve:

Transactions involving the Company's share purchase warrants have been summarized as follows:

	Number of warrants	Grant Date Fair Value -net of issue costs ($)	Weighted Average Exercise Price
Balance, November 30, 2016	5,429,248	476,250	0.50
Expired	(5,429,248)	(476,250)	(0.50)
Granted (note 5a(i), 5a(iv), 5c)	17,373,322	852,021	0.18
Balance, November 30, 2017	17,373,322	852,021	0.18
Expired	-	-	-
Granted (note 5a(vi))	100,000	5,626	0.13
Balance, August 31, 2018	17,473,322	857,647	0.18

The following warrants are outstanding at August 31, 2018:

Number of Warrants	Exercise Price ($)	Expiry Date
13,232,182	0.18	May 9, 2020
691,563	0.13	May 9, 2020
3,340,000	0.18	July 19, 2020
209,577	0.13	July 19, 2020
17,473,322		

6. Share-Based Payment Reserve

Transactions involving the Company's share-based payments have been summarized as follows:

	Period Ended August 31, 2017	Year Ended November 30, 2016
Balance, beginning of period	$ 261,788	$ -
Options issued * (note 5b)	-	261,788
Balance, end of period	$ 261,788	$ 261,788

7. Promissory Notes

On March 29, 2016 and April 13, 2016, the Company received $40,000 and $100,000 as loans from a director of the Company. On August 26, 2016, the Company received $25,000 as a loan from a director of the Company. On August 12, 2016, the Company received $25,000 as a loan from a company controlled by a director of the Company. On January 23, 2017, the Company received $50,000 as a loan from a director of the Company. The loans are unsecured, bear interest at 5% and are due on demand. On May 12, 2017, the Company repaid $240,000 and accrued interest of $10,659 owing to a director of the Company and on May 23, 2017 repaid $25,000 of loans and accrued interest of $935 owing to a company controlled by a director of the Company of $10,659 owing to a director of the Company and on May 23, 2017 repaid $25,000 of loans and accrued interest of $935 owing to a company controlled by a director of the Company.

Expressed in Canadian Dollars

7. Promissory Notes - continued

Transactions involving the Company's promissory notes have been summarized as follows:

	Period Ended August 31, 2018	Year Ended November 30, 2017
Balance, beginning of period	$ 400,000	$ 615,000
Promissory notes received	-	50,000
Repayments	-	(265,000)
Balance, end of period	$ 400,000	$ 400,000

8. Long-Term Debt

On October 9, 2012, the Company closed a convertible debenture financing for gross proceeds of $727,500 through the issue of 72.75 units with each unit consisting of $10,000 in convertible debentures and 100,000 common share purchase warrants, at a purchase price of $10,000 per unit. Each warrant is exercisable into one common share of the Company at a price of $0.10, expiring five years from the date of issue.

The debentures are convertible into shares at a price of $0.10 per common share at the option of the holder. If the average closing price of the Company's shares exceeds $0.35 for every trading day for 120 consecutive trading days (with the 120th day referred to as the "Triggering Date"), then, (i) the Company shall cease to have an obligation to pay any interest that accrues after the Triggering Date and, (ii) before the first anniversary of the Triggering Date, the holder must convert.

The debentures bear interest at 16% per year; 8% is payable in cash and, at the option of the Company, 8% is payable in shares. Interest is payable annually on October 15th of each year. Upon the occurrence of a default the interest rate shall increase to 21% per annum.

On or after 30 months from issuance, the holders may redeem their debentures for 150% of the principal amount. In order to redeem the debentures, the holders must deliver to the Company the number of common shares equal to the result of the principal amount of the holders' debenture multiplied by 10. These shares are to be cancelled by the Company.

The debentures matured on October 9, 2017. The debentures remain outstanding as at August 31, 2018 and November 5, 2018.

The debentures were initially accounted for as a compound instrument and classified as a liability, with the exception of the portion relating to the conversion feature of $72,750 ($39,370 after taxes and costs of issuance) which was credited to equity. The estimated fair value of the warrants included in the units was also credited to equity. This resulted in the carrying value of the debentures being less than their face value. The discount was being accreted over 30 months (i.e., up to the date that the debentures become redeemable at the option of the holder), utilizing the effective interest rate method at a 53% discount rate. For the period from October 9, 2012 to November 30, 2013, accretion of the discount totaled $337,419.

Interest for the nine months ended August 31, 2018 totaled $114,581 (nine months ended August 31, 2017 - $114,581). These amounts have been capitalized to exploration and evaluation properties as a borrowing cost.

8. Long-Term Debt - continued

The debentures are secured by the Tejamen property (see Note 4). If the Company breaches the terms of the debentures, the debenture holders may sell the properties and retain an amount equal to 280% of the amounts owing under the terms of the debentures.

With the termination of the option agreement on the Navidad properties. The Navidad and Chalchihuites properties are no longer security for the loan.

In the event that the Company receives surface rights to the Tejamen project, the debenture holders will have the option to purchase additional debentures on the same terms. The investors may purchase between $250,000 and $2,000,000 in debentures until October 9, 2017. If this option is exercised, the investors will receive a 1.5% NSR on either the Tejamen or Chalchihuites properties. The NSR is subject to a maximum amount which will be determined at the time of the exercise.

The loan was considered to be in default as at August 31, 2018 and as at November 30, 2017 for failure to meet certain conditions as per the terms of the loan agreement. As a result, the loan has been reclassified to current liabilities and its carrying value has been increased to $727,500 being the face value of the convertible notes. See Note 1.

During the period, interest of $114,581 (2017 - $114,581) was incurred of which $nil (2017 - $nil) was paid in cash. Included in interest payable on the consolidated statement of financial position as at August 31, 2018 is $398,246 relating to this debt (November 30, 2017 - $283,665).

9. Related Party Transactions

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries (note 2). During the periods ended August 31, 2018 and 2017 the Company entered into the following transactions with related parties that are not subsidiaries of the Company and are not disclosed elsewhere in these condensed consolidated interim financial statements.

(a) Key management includes the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer and Directors. During the period ended August 31, 2018, the cash compensation paid or payable to key management for services was $174,624 (2017 – 131,897). Included in accounts payable and accrued liabilities at August 31, 2018 is $nil (November 30, 2017 - $7,686) 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.

(b) Companies controlled by a director of the Company hold $480,000 of the long-term debt as at August 31, 2018 and as at November 30, 2017. During the period ended August 31, 2018, interest of $75,600 (2017 - $75,600) was payable to these companies and as at August 31, 2018, $262,760 (November 30, 2017 - $187,160) 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, 2018, interest accrued on the promissory notes totaled approximately $15,123 (2017 - $15,014). Included in interest payable on the consolidated statement of financial position as at August 31, 2018 is $81,089 (November 30, 2017 - $65,966) related to this interest. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

Expressed in Canadian Dollars

9. Related Party Transactions - continued

(d) During the period ended August 31, 2018, legal fees incurred of $9,964 (2017 - $57,075) 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, 2018 is $4,005 (November 30, 2017 - $10,404) relating to these fees. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

(e) See Notes 7 and 8.

10. Segmented Information

The Company operates in a single industry segment. Assets by geographic location are as follows:

	August 31, 2018	November 30, 2017
Mexico	$ 14,520,409	$ 13,889,554
Canada	256,114	1,091,304
	$ 14,776,523	$ 14,980,858

11. Management of Capital Risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity, as well as the cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company has not changed its approach to capital management during fiscal 2018 or 2017. The Company and its subsidiaries are not subject to any external capital restrictions. The Company expects that it will be necessary to raise additional capital during the current fiscal year to meet its budgeted exploration and development plans and fund operations.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of August 31, 2018, and November 30, 2017, the Company was not compliant with the requirement. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

12. Financial Risk Management

Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At August 31, 2018 and November 30, 2017, the Company had no financial instruments carried at fair value to classify in the fair value hierarchy.

The fair value of cash, amounts receivable, accounts payable and accrued liabilities, interest payable, promissory notes and current portion long-term debt approximate their carrying value due to their short-term to maturity.

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk, and price risk. The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during the periods ended August 31, 2018 and November 30, 2017.

(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, 2018 and at November 30, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		August 31 2018		November 30 2017
Cash	MP$	318,615	MP$	21,813
Amounts receivable and prepaid expenses		765,048		604,986
Accounts payable and accrued liabilities		(740,902)		(6,339,569)
Total	MP$	342,761	MP$	(5,712,770)
Canadian dollar equivalent	CAD$	23,339	CAD$	(397,194)

(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. 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 the period ended August 31, 2018 and November 30, 2017.

12. 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 during the period ended August 31, 2018 and November 30, 2017.

(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 balances maintained in Canada. The Company’s current policy is to invest excess cash in GICs 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, 2018 (as seen in Note 12(a)), 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 period of approximately $10,300 based on the cash balance at August 31, 2018.

13. Commitments and Contingencies

<u>Environmental</u>

The Company’s mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

13. Commitments and Contingencies - continued

Consulting Contracts

The Company has granted a consultant a silver purchase option whereby the consultant may purchase 100,000 ounces of silver per year at a price of USD $27.50 for the first five years of production at any producing mine of the Company.

Legal Proceedings

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the normal course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at August 31, 2018 and November 30, 2017, no amounts have been accrued related to such matters.

The Company has discontinued mining operations in various jurisdictions and has written down the carrying value of the related assets to nominal amounts. An estimate of the total liability, it any, for which the Company might become obligated as a result of its role as operator, guarantor or indemnifier, is not determinable, nor expected to be material, and no amount has been provided for in these consolidated statements.

Exploration and Evaluation Properties

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 annual commitments of approximately $35,000 are due within one year.