



MONARCA MINERALS

— I N C . —

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

MONARCA MINERALS INC.

Management's Discussion & Analysis For the Nine Months Ended August 31, 2019

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, 2019. 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, 2019 and August 31, 2018 and the audited consolidated financial statements and related notes for the years ended November 30, 2018 and 2017.

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 precious and base metal projects in Mexico. The Company presently holds interests in four mineral projects, each with one to multiple mining concessions: San Jose, Tejamen, San Lucas, and El Sol (see technical details below under "Mineral Properties").

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, the silver properties retained by Monarca generally contain varying amounts of other metals including gold and base metals.

In fiscal 2014 to 2016, the Company performed limited work on its silver properties as its efforts were focused on re-arranging its corporate affairs. In fiscal 2018 and into 2019, the Company continued to pursue a strategy to maximize the value of its properties with a particular focus on San Jose and Tejamen projects. In addition, Monarca will continue to evaluate near-term production and joint venture opportunities.

Mineral Properties

San Jose Property, State of Chihuahua

On May 22, 2019, Monarca Minerals entered into an Option Agreement to acquire a 100% interest in the 5,580-hectare San Jose Project (the "Project") located in Chihuahua, northern Mexico. The Option Agreement is an arm's length transaction. The decision was made to acquire this skarn and potential CRD/porphyry deposit after a surface geophysics program comprised of induced polarization (IP), resistivity, and magnetics survey completed in July and August 2018, discovered strong IP/magnetic anomalies over a 2.8 km strike length resulting in numerous drill targets. Based on these geophysical results and previous chip sampling on the property that resulted in elevated gold, silver, copper, zinc and lead results, the Company is currently planning an 18-hole reverse circulation (RC) drilling program to test the IP and magnetic anomalies for potential precious and base metals at depth.

The San Jose Property is located in Chihuahua, Mexico near the USA border, approximately 125 km west of El Paso, Texas (Juarez, Chihuahua, Mexico). The Property is also located 52 km northwest of the underground Bismark Mine operated by Grupo Peñoles. The Bismark Mine commenced production of silver, lead, zinc and copper in 1992 and mining has continued at a 2,500 tpd production rate. The Bismark Mine is regarded as a comparative exploration

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Mineral Properties - continued

San Jose Property, State of Chihuahua - continued

model for the San Jose Property, and mineralization at the Bismark Mine is not indicative of any mineralization that may be hosted on the San Jose Property.

The San Jose property has the potential to host polymetallic mineralization associated with skarn, gossan and altered intrusive rocks based on previous field mapping and geophysics.

- Accessibility and Terrain: Road access and local infrastructure in the area is good, and the agricultural settlement of Guadalupe Victoria is located 15 km to the east. The property is dominantly rolling hill country with no steep mountainous terrain.
- Geology and Mineralization: Intrusive rocks on the property include granodiorite, intermediate monzonite and late diorite dikes associated with IP and magnetic anomalies and mineralization. Intrusive rocks occur with various types and degrees of alteration including propylitic, silicification, endoskarn, exoskarn, disseminated pyrite and specularite/magnetite. Exoskarn mineralization is grossularite ± diopside, locally with hydrous retrograde silica + clay and overprinting quartz veins and silicification.
- Community Relations: The Company has very good relations with the local Ejido and Community who own the surface rights.
- Historical Mining: 14+ short shafts and pits exist on the property with a small amount of mining production dating back to 1975.

In order to acquire a 100% interest in the San Jose Project, Monarca will pay a total of USD\$150,000 to the mining concession owners (the "Owners") and the Agreement includes a 2% Net Smelter Return (NSR) royalty upon reaching commercial production. The Company has the right to purchase one percentage point (1%) of the royalty through a single payment of USD\$100,000 made to the Owners after the first year of commercial production.

SCHEDULE OF PAYMENTS

Due Dates	Cash Payments (US Dollars)
Paid to date	\$40,000
12 months after signing of Option Agreement	50,000
24 months after signing of Option Agreement	\$60,000
TOTAL	\$150,000

Tejamen Property, State of Durango

The Tejamen property is located 130 kilometres northwest of Durango, the capital of the State of Durango, and 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.

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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Mineral Properties – continued

Tejamen Property, State of Durango - continued

During 2015, Gustavson Associates LLC was commissioned by Monarca to prepare an independent NI 43-101 compliant technical report on mineral resources (prepared in accordance with CIM 2014 guidelines) for the Tejamen Project located near the town of Nuevo Ideal in the State of Durango, Mexico (Gustavson, 2016). This technical report was filed on SEDAR on February 2, 2016 and reported an Inferred Mineral Resource of 19.8 million tonnes at 45 g/t silver grade resulting in 28.7 million contained ounces of silver.

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

The Company has been taking initial steps to reinitiate engagement with the local community. During 2017, drill hole logging commenced. Monarca has completed the re-logging of 202 reverse circulation drill holes and 10 core holes. Now that the drill holes have been logged some re-interpretation of the geology has been started.

During 2018, the Company took steps to reinitiate engagement with the local community regarding the surface rights at Tejamen. Carlos Espinosa met with municipal, state and federal officials, and Monarca engaged a Mexican consulting firm specialized in community relations in Mexico with strong track record resolving similar issues to those that Monarca is facing at Tejamen project.

The Mexican consulting firm finished the second phase of their program and presented their report strategy and recommendations to the management. Monarca has not pursued further engagement with the local community at Tejamen following the release of the report. Monarca will continue to monitor the situation at Tejamen and meet on a regular basis with government officials and other Mexican stakeholders in order to determine if and when to pursue further engagement with the local community.

San Lucas Property, State of Durango

The San Lucas Property ("San Lucas") is located 86 kilometres north of the city of Durango and accessed via paved highway, and consists of 8 mineral concessions covering 79.6 hectares. San Lucas consists of a series of northeast trending mineralized shear zones in volcanic and sedimentary rocks. Monarca's land position represents a minor portion of a larger total area of mineralization, as more broadly described below.

In 2005, the Company drilled 12 shallow reverse circulation drill holes totaling about 1,896 metres across one of the mineralized zones. Drill holes, spaced approximately 100 metres apart along the northeast striking structure, indicated disseminated silver-lead-zinc mineralization. The mineralization was historically traced over the larger area by drilling for 1,700 metres. Surface mapping over the larger area 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, over the larger area. That program intersected silver mineralization at surface with a zone of low-grade lead-zinc mineralization at depth.

During fiscal 2009, the Company re-evaluated this property and collected chip samples.

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

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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Mineral Properties – continued

San Lucas Property, State of Durango - continued

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 been previously sampled at the surface. The El Doctor zone is located in the middle portion of the 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.

Since 2013, the Company's focus has been on the Tejaman 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

The El Sol property is 63 hectares in size 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 completed 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.

Chalchihuites and Navidad Properties

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 was expected to 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 will grant the Vendors a 1% Net Smelter Returns. Royalty ("NSR") from the aggregate commercial production of the project up to US\$250,000 annually.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Mineral Properties – continued

Chalchihuites and Navidad Properties - 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 9), 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. The final \$166,400 was scheduled to be released in October 2017, but has not yet been received by the Company. 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 of the fiscal 2018 audited financial statements. The total amount received as at August 31, 2019 and November 30, 2018 pursuant to the Navidad and Chalchihuites option agreements is \$1,333,600. The Company will complete the transfer the Chalchihuites property to First Majestic once the security on the property has been released.

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 Statement

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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Summary of Quarterly Results (unaudited)

Operations	Aug-19 \$	May-19 \$	Feb-19 \$	Nov-18 \$	Aug-18 \$	May-18 \$	Feb-18 \$	Nov-17 \$
Total revenues	nil							
Net and comprehensive income (loss)	(66,820)	(84,988)	(94,682)	(486,700)	(74,049)	(100,506)	(102,909)	(56,835)
Net earnings (loss) per share (basic and diluted)	(0.0013)	(0.0017)	(0.0019)	(0.0098)	(0.0015)	(0.0020)	(0.0021)	(0.0011)

Financial Position	Aug-19 \$	May-19 \$	Feb-19 \$	Nov-18 \$	Aug-18 \$	May-18 \$	Feb-18 \$	Nov-17 \$
Total assets	14,851,873	14,787,293	14,743,425	14,731,958	14,776,523	14,793,934	14,905,561	14,980,858
Total long-term Liabilities	0	0	0	0	0	0	0	0
Shareholders' Equity	9,215,663	9,282,483	9,367,471	9,462,153	9,948,853	10,022,902	10,123,408	10,213,318

Results of Operations – Three Months Ended August 31, 2019

For the three-month period ended August 31, 2019, the Company reported a net loss of \$66,820 compared to a net loss of \$74,049 reported in the third quarter of fiscal 2018. The decrease in costs of \$7,229 largely relates to a decrease in accounting and legal fees of \$5,117, a decrease to investor relations of \$8,477 which was offset by an increase to office expenses of \$7,882. These cost decreases are reflective of the fact the company's efforts to maintain a cash balance to fund further activities. The Company is actively pursuing 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, 2019 was \$0.0013 (2018 - \$0.0015). During the period ended August 31, 2019 and November 30, 2018, the Company continued its precious metals corporate strategy. The Company continues to focus on receiving the surface rights at Tejaman.

Results of Operations – Nine Months Ended August 31, 2019

For the nine-month period ended August 31, 2019, the Company reported a net loss of \$246,490 compared to a net loss of \$277,464 reported in the similar period of fiscal 2018. The decrease in costs of \$30,974 largely relates to a decrease in accounting and legal of \$22,112, a decrease in investor relations of \$10,288, a decrease to accounting and legal of \$11,141 and a decrease to investor relations of \$23,730. The resulting basic and diluted loss per share for the nine-month period ended August 31, 2019 was \$0.0050 (2018 - \$0.0056). The consistency in operating costs, is reflective of the company's approach to maintaining operating activities as the Company raises equity funding and re-structures its governance and management as it resumes exploration and evaluation activities in fiscal 2019.

Capital Expenditures

Total exploration spending including capitalized borrowing costs for the nine-month period ended August 31, 2019, was \$232,022 (2018 - \$603,090). The decrease is primarily a result of increased fiscal 2018 exploration work done on the exploration and evaluation properties and exploring the opportunities with the San Jose property.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Financing and Investing Activities

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 in five years from the date of issue. Further details of this transaction are disclosed in the consolidated financial statements for the years ended November 30, 2018 and 2017 in Note 9. The loan was considered to be in default at August 31, 2019 and at November 30, 2018 for failure to meet certain conditions as per the terms of the loan agreement. As a result, the loan is classified in current liabilities and is reported at its face value of \$727,500.

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. 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 \$89,904 and issued 691,563 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.

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.

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. 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.

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.

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.

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

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

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).

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the first three quarters of fiscal 2019 used cash of \$97,322 (2018 – used cash of \$787,338). As at August 31, 2019 the Company had cash of \$12,524 (November 30, 2018 - \$430,070) and a working capital deficit of \$2,661,881 (November 30, 2018 - \$2,184,534).

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 2019.

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 2019 and 2020 plan is to advance the Tejamen Property and to pursue joint venture opportunities.

Transactions with Related Parties

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries (note 2). During the periods ended August 31, 2019 and 2018 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, 2019, the cash compensation paid or payable to key management for services was \$185,001 (2018 – \$174,624). Included in accounts payable and accrued liabilities at August 31, 2019 is \$185,001 (November 30, 2018 - \$14,808) 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, 2019 and as at November 30, 2018. During the period ended August 31, 2019, interest of \$75,600 (2018 - \$75,600) was payable to these companies and as at August 31, 2019, \$363,560 (November 30, 2018 - \$287,960) 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, 2019, interest accrued on the promissory notes totaled approximately \$15,123 (2018 - \$15,014). Included in interest payable on the consolidated statement of financial position as at August 31, 2019 is \$96,212 (November 30, 2018 - \$86,130) related to this interest. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Transactions with Related Parties - continued

- (d) During the period ended August 31, 2019, legal fees incurred of \$3,821 (2018 - \$9,964) 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, 2019 is \$3,821 (November 30, 2018 - \$nil) 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, 2018 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.

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.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

Future Accounting Changes – continued

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

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

There are no material decisions by the Board of Directors of the Company with respect to any imminent or proposed transactions that have not been disclosed.

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, 2019 and at November 30, 2018, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	August 31 2019		November 30 2018	
Cash	MP\$	17,680	MP\$	167,560
Amounts receivable and prepaid expenses		772,026		799,991
Accounts payable and accrued liabilities		(1,129,537)		(8,559,683)
Total	MP\$	(339,831)	MP\$	(7,592,132)
Canadian dollar equivalent	CAD\$	(22,515)	CAD\$	(496,829)

(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, 2019 and November 30, 2018.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

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 and accrued liabilities 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 that is 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, 2019, 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 \$1,100 based on the cash balance at August 31, 2019.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Nine Months Ended August 31, 2019

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, 2019 are 49,709,306 common shares and October 18, 2019 are 49,709,306 common shares.

As at August 31, 2019 and October 18, 2019, the Company had share purchase options outstanding of 2,075,000.

The following warrants are outstanding at August 31, 2019 and October 18, 2019:

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		

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 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 annual MD&A.

October 18, 2019