



# **MONARCA MINERALS**

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## **MONARCA MINERALS INC.**

**Consolidated Financial Statements  
For the Years Ended November 30, 2018 and 2017  
Expressed in Canadian Dollars**

**MONARCA MINERALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED NOVEMBER 30, 2018 and 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Monarca Minerals Inc.

We have audited the accompanying consolidated financial statements of Monarca Minerals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at November 30, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Monarca Minerals Inc. and its subsidiaries as at November 30, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Monarca Minerals Inc. had a working capital deficiency as at November 30, 2018, continuing losses during the year ended November 30, 2018 and a cumulative deficit as at November 30, 2018. In addition, Monarca Minerals Inc.'s long-term debt, secured by its exploration and evaluation property, was in default as at November 30, 2018. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about Monarca Minerals Inc.'s ability to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
April 1, 2019

**MONARCA MINERALS INC.**  
**Consolidated Statements of Financial Position**  
**As at November 30, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 109,846	\$ 1,030,896
Amounts receivable		68,615	33,786
Prepaid expenses		5,810	70,036
<b>Total current assets</b>		<b>184,271</b>	<b>1,134,718</b>
<b>Non-current assets</b>			
Equipment	4	14,114	16,722
Exploration and evaluation properties	5	14,533,573	13,829,418
<b>Total assets</b>		<b>\$ 14,731,958</b>	<b>\$ 14,980,858</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 804,865	\$ 590,375
Interest payable	9,10 (a)(c)	436,440	283,665
Promissory notes	8	400,000	400,000
Current portion of long-term debt	9	727,500	727,500
<b>Total current liabilities</b>		<b>2,368,805</b>	<b>2,001,540</b>
<b>Non-current liabilities</b>			
Deferred tax liability	15	2,901,000	2,766,000
<b>Total liabilities</b>		<b>5,269,805</b>	<b>4,747,540</b>
<b>Shareholders' equity</b>			
Share capital	6(a)	25,775,730	25,768,357
Share purchase warrants reserve	6(a)(ii)(iii),6(c)	857,647	852,021
Share-based payment reserve	7	261,788	261,788
Equity conversion option	9	39,370	39,370
Accumulated deficit		(17,472,382)	(16,708,218)
<b>Total shareholders' equity</b>		<b>9,462,153</b>	<b>10,213,318</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 14,731,958</b>	<b>\$ 14,980,858</b>

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

Approved on behalf of the Board:

"Frank Högel"

Director

"Allan Folk"

Director

**MONARCA MINERALS INC.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the Years Ended November 30, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	2018	2017
<b>Administrative expenses</b>			
Accounting and legal		\$ 97,367	\$ 379,021
Amortization	4	2,251	2,251
Business development		4,209	64,673
Insurance		9,180	9,608
Investor relations		42,949	26,666
Management fees and salaries		251,437	96,423
Office expenses		-	3,839
Regulatory and filing fees		9,680	51,673
Stock based compensation	7	-	261,788
		<u>(417,073)</u>	<u>(895,942)</u>
<b>Loss before undernoted items</b>			
<b>Other income (expenses)</b>			
Other income		1,055	1,390
Interest and bank charges		(44,203)	(27,138)
Settlement of accounts payable		-	69,804
(Loss) on foreign exchange		(39,943)	(10,008)
		<u>(83,091)</u>	<u>34,048</u>
<b>Total other income (expenses)</b>			
		<u>(417,073)</u>	<u>(895,942)</u>
		<u>\$ (500,164)</u>	<u>\$ (861,894)</u>
<b>(Loss) for the year before income taxes</b>			
Current income tax expense	15(a)	(129,000)	(172,000)
Deferred income tax expense	15(a)	(135,000)	(83,000)
		<u>(764,164)</u>	<u>(1,116,894)</u>
<b>Net loss and comprehensive loss for the year</b>			
		<u>\$ (764,164)</u>	<u>\$ (1,116,894)</u>
<b>Basic and diluted loss per share</b>			
		<u>\$ (0.0154)</u>	<u>\$ (0.0225)</u>
<b>Weighted average number of shares outstanding - basic and diluted (Note 6 (a)(i))</b>			
		<u>49,609,306</u>	<u>29,295,139</u>

See accompanying notes to the consolidated financial statements.

**MONARCA MINERALS INC.**
**Consolidated Statements of Changes in Shareholders' Equity  
For the Years Ended November 30, 2018 and 2017  
Expressed in Canadian Dollars**

	Share Capital		Shares to be issued	Share Purchase Warrants Reserve	Share- Based Payments Reserve	Equity Conversion Option	Accumulated Deficit	Total
	Number	Amount \$						
<b>Balance, November 30, 2016</b>	<b>29,295,139</b>	<b>24,113,252</b>	<b>22,500</b>	<b>476,250</b>	<b>-</b>	<b>39,370</b>	<b>(16,067,574)</b>	<b>8,583,798</b>
Share issue (note 6(a)(ii)(iii)(iv))	20,314,167	1,655,105	-	-	-	-	-	1,655,105
Shares to be issued	-	-	(22,500)	-	-	-	-	(22,500)
Warrants granted (notes 6(a)(ii)(iii), 6(c))	-	-	-	852,021	-	-	-	852,021
Warrants expired	-	-	-	(476,250)	-	-	476,250	-
Stock based compensation (note 6(b))	-	-	-	-	261,788	-	-	261,788
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(1,116,894)	(1,116,894)
<b>Balance, November 30, 2017</b>	<b>49,609,306</b>	<b>25,768,357</b>	<b>-</b>	<b>852,021</b>	<b>261,788</b>	<b>39,370</b>	<b>(16,708,218)</b>	<b>10,213,318</b>
Share issue (note 6(a)(vi))	100,000	7,373	-	-	-	-	-	7,373
Warrants granted (notes 6(a)(vi))	-	-	-	5,626	-	-	-	5,626
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(764,164)	(764,164)
<b>Balance, November 30, 2018</b>	<b>49,709,306</b>	<b>25,775,730</b>	<b>-</b>	<b>857,647</b>	<b>261,788</b>	<b>39,370</b>	<b>(17,472,382)</b>	<b>9,462,153</b>

See accompanying notes to the consolidated financial statements.

**MONARCA MINERALS INC.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended November 30, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	2018	2017
Cash provided by (used in):			
<b>Operating</b>			
Loss for the year		\$ (764,164)	\$ (1,116,894)
Items not affecting cash:			
Amortization	4	2,251	2,251
Settlement of accounts payable		-	69,804
Stock based compensation	6b	-	261,788
Deferred income tax expense		135,000	83,000
		<u>(626,913)</u>	<u>(700,051)</u>
Changes in non-cash operating accounts:			
Amounts receivable		(34,829)	(27,008)
Prepaid expenses		64,226	(66,325)
Accounts payable and accrued liabilities		227,103	316,616
		<u>(370,413)</u>	<u>(476,768)</u>
<b>Net cash flows from operating activities</b>			
<b>Investing</b>			
Exploration and evaluation properties	5	(563,636)	(307,744)
<b>Net cash flows from investing activities</b>			
<b>Financing</b>			
Promissory notes	8	-	50,000
Repayments of promissory notes	8	-	(265,000)
Issuance of shares and warrants	6a	12,999	2,154,384
Costs of issuance of shares and warrants	6c	-	(132,816)
<b>Net cash flows from financing activities</b>			
		<u>12,999</u>	<u>1,806,568</u>
<b>(Decrease) increase in cash</b>		(921,050)	1,022,056
<b>Cash, beginning of year</b>		<u>1,030,896</u>	<u>8,840</u>
<b>Cash, end of year</b>		<u>\$ 109,846</u>	<u>\$ 1,030,896</u>
<b>Supplemental information</b>			
<b>Finders' warrants</b>		<u>\$ -</u>	<u>\$ 44,000</u>
<b>Shares issued in settlement of debt</b>		<u>\$ -</u>	<u>\$ 485,558</u>

See accompanying notes to the consolidated financial statements.

## **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. 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 390 Bay Street, Suite 806, Toronto, Ontario, Canada.

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 November 30, 2018, the Company had a working capital deficit of \$2,184,534 (November 30, 2017 - \$866,822) and had incurred losses since inception, and at November 30, 2018, had an accumulated deficit of \$17,472,382 (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 November 30, 2018 and 2017 (see Note 9). 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 consolidated 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**

### *Statement of Compliance*

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the years ended November 30, 2018 and 2017.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements of the Company for the years ended November 30, 2018 and 2017 were approved and authorized for issue by the Board of Directors on April 1, 2019.

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

## **3. Significant Accounting Policies**

These annual consolidated financial statements have been prepared by the Company in accordance with IFRS, using the following significant accounting policies:

### (a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- Oremexico S.A. de C.V., ("Oremexico"), incorporated under the federal laws of Mexico on July 27, 2007;
- Minera Mantos S de R.L de C.V ("Mantos"), incorporated under the federal laws of Mexico and acquired September 26, 2007.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

### (b) Critical Judgments and Estimation Uncertainties

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

**3. Significant Accounting Policies – continued**

(b) Critical Judgments and Estimation Uncertainties – continued

i. Assets' Carrying Values and Impairment Charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

ii. Capitalization of Exploration and Evaluation Costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 5 for details of capitalized exploration and evaluation costs.

iii. Impairment of Exploration and Evaluation Properties

While assessing whether any indications of impairment exist for exploration and evaluation properties, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation properties. Internal sources of information include the manner in which exploration and evaluation properties are being used or are expected to be used and indications of expected economic performance of the properties. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's exploration and evaluation properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation properties.

iv. Estimation of Decommissioning and Restoration Costs and the Timing of Expenditure

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

**3. Significant Accounting Policies – continued**

(b) Critical Judgments and Estimation Uncertainties – continued

v. Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

vi. Share-Based Payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

vii. Commitments and Contingencies

Refer to Notes 5, 8, 9 and 14.

(c) Equipment

Equipment is stated at cost less accumulated amortization and any accumulated impairment losses. Where an item of equipment comprises major components having different useful lives, they are accounted for as separate items of equipment.

The gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of operations.

Expenditures to replace a component of an item of equipment that is accounted for separately are capitalized with the existing carrying amount of the component written off. Other subsequent expenditures are capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the consolidated statement of operations as incurred.

**3. Significant Accounting Policies – continued**

(c) Equipment - continued

Amortization is computed using the following methods over the useful lives of the assets at the following rates:

Asset	Basis	Rate
Computer equipment	declining balance	30%
Office furniture and equipment	declining balance	20%
Software	declining balance	100%
Leasehold improvements	straight-line	7 years
Site vehicles	declining balance	30%

(d) Exploration and Evaluation Properties

General exploration and evaluation expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statement of operations as incurred. Exploration and evaluation property expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory mines and directly attributable overhead including salaries and employee benefits, are initially capitalized as exploration and evaluation properties. The Company also capitalizes borrowing costs to exploration and evaluation properties. Exploration and evaluation properties are not depleted and are moved into property and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property and equipment, exploration and evaluation properties are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

Farm-outs in the exploration and evaluation phase

The Company does not record any expenditures made by the farmee in its accounts. It does not recognize any gain or loss on its exploration and evaluation farm-out agreements, but redesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

(e) Impairment

At the end of each reporting period the carrying amounts of the Company's non-current assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of operations for the period. For an asset that does not generate

### 3. Significant Accounting Policies – continued

#### (e) Impairment - continued

largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of operations.

#### (f) Restoration, Rehabilitation and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of facts such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in operations.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

As at November 30, 2018 and 2017, the Company has no material restoration, rehabilitation or environmental obligations.

#### (g) Income Taxes

Income tax on the earnings or loss for the periods presented comprises current and deferred tax. Income tax is recognized in operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax

### 3. Significant Accounting Policies – continued

#### (g) Income Taxes - continued

provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### (h) Share-Based Payments

The Company has a stock option plan as described in Note 7(b). The fair value of options issued to directors, officers and employees is recognized as an expense over their vesting period, with a corresponding increase in share-based payments reserve. The fair value of broker warrants issued to agents in conjunction with public offerings is charged to share issue costs with an offsetting amount recorded to share purchase warrants reserve.

When options are exercised, the proceeds received, together with any amount in share-based payments reserve are credited to share capital.

Fair value is estimated using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the estimated expected life of the option, the current price of the underlying stock and its estimated expected volatility, estimated expected dividends on the stock and the risk-free interest rate over the estimated expected life of the option. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

For share-based payments granted to non-employees, the Company measures the goods and services received directly at their fair value, unless that fair value cannot be estimated reliably, in which case they are also measured using the fair value of the equity instruments granted.

#### (i) Loss per Share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted loss per common share is determined whereby the deemed proceeds on the exercise of share options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease the loss per share. For the periods presented, all convertible instruments, options and warrants were excluded from the calculation of diluted loss per share because they were anti-dilutive.

### 3. Significant Accounting Policies – continued

#### (j) Foreign Currency Translation

The financial statements of the Company and its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company and its subsidiaries is the Canadian dollar. The presentation currency of the Company is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the consolidated statement of operations.

#### (k) Financial Instruments

Upon initial recognition, all financial instruments are measured on the consolidated statement of financial position at fair value. Subsequent measurement depends on the initial classification of the instrument.

##### Financial assets

Upon initial recognition, all financial instruments are measured on the consolidated statement of financial position at fair value. Subsequent measurement depends on the initial classification of the instrument. The Company classifies its financial assets in the following categories: loans and receivables and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of cash and amounts receivable.

Amounts receivable are classified as loans and receivables and are initially recorded at the fair value of the amount expected to be received and subsequently measured at amortized cost less any provision for impairment. Individual significant receivables are considered for recoverability when they are past due or when other objective evidence is received that a specific counterparty will default.

##### Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations. The Company has no financial instruments classified as fair value through profit or loss.

##### Financial liabilities

The Company classifies all of its financial liabilities as other financial liabilities. Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and

### 3. Significant Accounting Policies – continued

#### (k) Financial Instruments - continued

the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities, interest payable, promissory notes and current portion of long-term debt.

#### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### (l) Share Issue Costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

#### (m) Investments in Associated Company

Investments in companies over which the Company has or is deemed to have significant influence, but does not control, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter, to reflect the Company's pro-rata share of income or loss of the equity accounted investment and any dividends received from the investment. The Company's share of net income or losses of such investments is included in the consolidated statement of operations. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

#### (n) Marketable Securities

Marketable securities are investments in equity securities and consist of investments that are designated as held-for-trading. Unrealized holding gains and losses, to the extent that they can be determined, related to held-for-trading investments are included in the consolidated statement of operations.

#### (o) Compound Financial Instruments

Compound financial instruments comprise convertible debentures that can be converted into common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts.

### 3. Significant Accounting Policies – continued

#### (o) Compound Financial Instruments - continued

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

#### (p) 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 recognised 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.

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**3. Significant Accounting Policies – continued**

(p) 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.

During the year ended November 30, 2018, the Company adopted a number of new IFRS Standards Interpretations and improvements of existing standards including the amendments to IAS 7 and 12. These new standards and changes did not have any material impact on the Company’s consolidated financial statements.

**4. 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	-	-	-	-	-	(357)
Cost,						
November 30, 2018	\$ 10,477	\$ 21,542	\$ 17,855	\$ 13,858	\$ 27,856	\$ 91,231
Accumulated Amortization,						
November 30, 2016	\$ (10,477)	\$ (21,542)	\$ (11,504)	\$ (5,306)	\$ (23,786)	\$ (72,615)
Charge for the year	-	-	(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 year	-	-	(209)	(359)	(1,683)	(2,251)
Accumulated Amortization,						
November 30, 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,						
November 30, 2018	\$ -	\$ -	\$ 5,933	\$ 7,834	\$ 704	\$ 14,114

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**5. Exploration and Evaluation Properties**

(a) Background

	November 30, 2018				
	Tejamen	San Lucas	Navidad and Chalchihuites	Other	Total
<b>Acquisition costs</b>					
Balance, beginning and end of year	\$ 2,976,736	\$ -	\$ -	\$ -	\$ 2,976,736
<b>Exploration expenditures</b>					
Balance, beginning of year	\$ 10,852,682	\$ -	\$ -	\$ -	\$ 10,852,682
Incurred during the year:					
Administration	417,962	-	-	-	417,962
Geological consulting	67,200	-	-	-	67,200
Permitting and land holding costs	66,218	-	-	-	66,218
Borrowing costs (note 9)	152,775	-	-	-	152,775
Balance, end of year	\$ 11,556,838	\$ -	\$ -	\$ -	\$ 11,556,838
Total exploration and evaluation properties	\$ 14,533,573	\$ -	\$ -	\$ -	\$ 14,533,573

	November 30, 2017				
	Tejamen	San Lucas	Navidad - Chalchihuites	Other	Total
<b>Acquisition costs</b>					
Balance, beginning and end of year	\$ 2,976,736	\$ -	\$ -	\$ -	\$ 2,976,736
<b>Exploration expenditures</b>					
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 9)	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 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.

**5. Exploration and Evaluation Properties - continued**

(b) Tejamen Property, State of Durango - continued

The property has been pledged as security for the long-term debt of the Company discussed in Note 9.

(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 2016, 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

The Company owns a 100% interest in the El Sol property located in Durango State, Mexico.

(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 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)

**5. Exploration and Evaluation Properties - continued**

(e) Navidad and Chalchihuites Group Concessions - continued

- 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.

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, and 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).

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.

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**6. Share Capital**

(a) Common Shares

Authorized: Unlimited number of common shares, without par value

Issued and outstanding common shares:

	<u>Number</u>		<u>Amount</u>
Balance November 30, 2016	29,295,139	\$	24,113,252
Share issue (note 6a ii, iii, iv)	20,314,167		1,759,942
Balance November 30, 2017	49,609,306		25,768,357
Share issue (note 6a ii, iii, iv)	100,000		7,373
Balance November 30, 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 presented, 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. 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.

- 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

**6. 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 6a (iv). 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.

(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 years ended November 30, 2018 and November 30, 2017 is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance, November 30, 2016	-	-
Issued	2,075,000	0.14
Balance, November 30, 2017	2,075,000	0.14
Issued	-	-
Balance November 30, 2018	2,075,000	0.14

The weighted average remaining contractual live of the options as at November 30, 2018 is 3.5 years (2017 – 4.5 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 (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.

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**6. Share Capital – continued**

(c) Share Purchase Warrants Reserve: - continued

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 6ai, 6aiv, 6c)	17,373,322	852,021	0.18
Balance, November 30, 2017	17,373,322	852,021	0.18
Expired	-	-	-
Granted (note 6vi)	100,000	5,626	0.13
Balance, November 30, 2018	17,473,322	857,647	0.18

The following warrants are outstanding at November 30, 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		

**7. Share-Based Payment Reserve**

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

	Year Ended November 30, 2018	Year Ended November 30, 2017
Balance, beginning of year	\$ 261,788	\$ -
Options issued (note 6b)	-	261,788
Balance, end of year	\$ 261,788	\$ 261,788

**8. 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.

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**8. Promissory Notes - continued**

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

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

**9. 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 120<sup>th</sup> 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 15<sup>th</sup> 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 November 30, 2017 and April 1, 2019.

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 year-ended November 30, 2018 totaled \$152,775 (2017 - \$152,775). These amounts have been capitalized to exploration and evaluation properties as a borrowing cost.

### **9. Long-Term Debt – continued**

The debentures are secured by the Tejaman property (see Note 5). 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.

The loan was considered to be in default as at November 30, 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. See Note 1.

During 2018, interest of \$152,775 (2017 - \$152,775) was incurred of which \$nil (2017 - \$nil) was paid in cash. Included in interest payable on the consolidated statement of financial position as at November 30, 2018 is \$436,440 relating to this debt (2017 - \$283,665).

### **10. Related Party Transactions**

During the years ended November 30, 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 consolidated financial statements.

- (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 year ended November 30, 2018, the cash compensation paid or payable to key management for services was \$226,655 (2017 – \$227,589). Included in accounts payable and accrued liabilities at November 30, 2018 is \$14,808 (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. Stock based compensation for the year ended November 30, 2018 was \$nil (2017 - \$246,018) (note 6b).
- (b) Companies controlled by a director of the Company hold \$480,000 of the long-term debt as at November 30, 2018 and 2017. During the year ended November 30, 2018, interest of \$100,800 (2017 - \$100,800) was payable to these companies and as at November 30, 2018, \$287,960 (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 year ended November 30, 2018, interest accrued on the promissory notes (Note 8) totaled approximately \$20,164 (2017 - \$20,055). Included in interest payable on the consolidated statement of financial position as at November 30, 2018 is \$86,130 (2017 - \$65,966) related to this interest. The interest is paid or payable to directors of the Company. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

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**10. Related Party Transactions - continued**

- (d) During the year ended November 30, 2018, legal fees were incurred of \$10,728 (2017 - \$65,993) with a law firm of which a partner is a director of the Company. This amount is included in cost of share issue within equity, or as accounting and legal fees on the consolidated statement of operations. Included in accounts payable and accrued liabilities at November 30, 2018 is \$nil (2017 - \$10,404) relating to these fees. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- (e) On July 19, 2017, two companies controlled by directors of the Company subscribed to units of the second tranche of the non-brokered private placement at \$0.13 per unit for gross proceeds totaling \$57,200. (Note 6(a)(iv)).
- (f) See Notes 8 and 9.

**11. Segmented Information**

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

	<b>November 30, 2018</b>	<b>November 30, 2017</b>
Mexico	\$ 14,611,004	\$ 13,889,554
Canada	120,954	1,091,304
	\$ 14,731,958	\$ 14,980,858

**12. 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.

**12. Management of Capital Risk - continued**

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 November 30, 2018, and 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.

**13. 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 November 30, 2018 and 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 of 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 fiscal 2018 and 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 November 30, 2018 and 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	<b>2018</b>		<b>2017</b>	
Cash	MP\$	167,560	MP\$	21,813
Amounts receivable and prepaid expenses		799,991		604,986
Accounts payable and accrued liabilities		(8,559,683)		(6,339,569)
<b>Total</b>	<b>MP\$</b>	<b>(7,592,132)</b>	<b>MP\$</b>	<b>(5,712,770)</b>
Canadian dollar equivalent	CAD\$	(496,829)	CAD\$	(397,194)

**13. Financial Risk Management - continued**

(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 2018 and 2017.

(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, interest payable, promissory notes and current portion of long-term debt are due within the current operating period.

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 2018 and 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 interest bearing 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 given 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 November 30, 2018 (as seen in Note 13(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 year of approximately \$1,100 based on the cash balance at November 30, 2018.

#### **14. Commitments and Contingencies**

##### Environmental

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.

##### 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 be paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at November 30, 2018 and 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, if 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.

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**15. Income Taxes**

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 26.5% (2017 – 26.5%) were as follows:

	<b>2018</b>	<b>2017</b>
Weighted average statutory income tax rate	26.5%	26.5%
(Loss) income before income taxes	\$ (500,164)	\$ (861,894)
Expected income tax (recovery) expense at statutory rates	(133,000)	(228,000)
Adjustment to expected income tax benefit:		
Non-deductible items for tax purposes	-	69,000
Other	241,000	305,000
Benefit of tax losses not recognized	156,000	109,000
Total tax provision for the year	\$ 264,000	\$ 255,000
Current income tax expense	\$ 129,000	\$ 172,000
Deferred income tax expense	135,000	83,000

(b) Deferred Income Tax Balances

Deferred tax assets and liabilities are attributable to the following:

	<b>2018</b>	<b>2017</b>
Deferred income tax assets:		
Non-capital loss carry-forwards	\$ -	\$ -
Exploration and evaluation properties	(2,916,000)	(2,766,000)
Deferred tax liability	\$ (2,916,000)	\$ (2,766,000)

Deferred tax assets have not been recognized in respect of the following temporary differences:

	<b>2018</b>	<b>2017</b>
Deferred income tax assets:		
Non-capital loss carry-forwards	\$ 12,098,000	\$ 12,241,000
Share issuance costs	60,000	80,000
Capital loss	27,000	27,000
	\$ 12,185,000	\$ 12,348,000

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**15. Income Taxes - continued**

(c) Non-Capital Losses

The Company has non-capital losses available for income tax purposes in Canada totaling approximately \$12,098,000 which may be carried forward to reduce future year's taxable income. These losses will expire at different stages up to and including 2037:

<u>Year of Expiry</u>	<u>Amount</u>
2027	\$ 1,261,000
2028	1,285,000
2029	1,522,000
2030	1,731,000
2031	495,000
2032	1,508,000
2033	1,653,000
2034	630,000
2035	412,000
2036	259,000
2037	729,000
2038	613,000
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	\$ 12,098,000