



MONARCA MINERALS

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MONARCA MINERALS INC.

**Management's Discussion & Analysis
For the Year Ended November 30, 2018**

MONARCA MINERALS INC.

Management's Discussion & Analysis For the Year Ended November 30, 2018

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 year ended November 30, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended November 30, 2018 and 2017. Monarca's audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

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

General and Outlook

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

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

In fiscal 2014 and 2015, the Company performed limited work on its silver properties as its efforts were focused on re-arranging its corporate affairs. In fiscal 2018, the Company continued to pursue a strategy to maximize the value of its properties with a particular focus on Tejamén. In addition, Monarca will continue to evaluate near-term production and joint venture opportunities.

Mineral Properties

Tejamén Property, State of Durango

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

Monarca owns 100% of the mineral rights at Tejamén. 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 Tejamén in 2012.

No exploration or development work has occurred on Tejamén 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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Mineral Properties – continued

Tejamen Property, State of Durango - continued

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

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

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

The Company 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 in San Augustin in the state of Durango. Now that the drill holes have been logged, their rate and forecasted completion is being evaluated and some re-interpretation of the geology has been started.

Discussions regarding the surface rights at Tejamen continue moving forward on a number of fronts. Carlos Espinosa, the President and CEO of Monarca, has 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 their program and presented their report strategy and recommendations to the management. Monarca is currently working together with the consulting firm discussing and analyzing the best way to implement the strategy to reopen the dialog with the community and access to the project.

Meanwhile, Monarca is keeping Federal, State and Municipal governments involved to be consistent on the strategy, information and actions we are taking.

Carlos Espinosa will continue meeting on a regular basis with government officials and other Mexican stakeholders as well as the consultants to continue working on the negotiation of the surface rights.

San Lucas Property, State of Durango

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

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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Mineral Properties – continued

San Lucas Property, State of Durango - continued

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

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

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

During fiscal 2012, the Company focused on reviewing drill targets for a core drilling program and continued compiling surface sampling assay results and mapping. In June 2012, the Company received positive results from a surface outcrop sampling program in the El Doctor zone of the San Lucas silver project. The El Doctor zone had not been previously sampled at the surface. The El Doctor zone is located in the middle portion of the precious metal-mineralized San Lucas trend. Approximately a dozen old surface and underground workings are located in the immediate area, including two shafts.

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

Since 2013, the Company's focus was on the 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

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

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

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

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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Mineral Properties – continued

El Sol Property - continued

The El Sol property has 63 hectares and is located 75 km northeast of Durango City. It is accessed by paved highway to within about 5 km of the project. It is located about 1 km northwest of Southern Silver's Las Minitas deposit. Exploration work done in 2010 through 2012 indicates the possible extension of mineralization onto the El Sol concession. Ground geophysics shows strong chargeability anomalies on trend with mineralization drilled by Southern Silver up to the El Sol concession. A hole was drilled by Southern Silver on the south edge of the El Sol concession, but did not cut the chargeability anomaly. The hole returned 0.3m at 87 ppm Ag, 1.88% lead, 1.01% zinc and 0.11% copper. A single mine dump samples returned 358 ppm silver, 1.94ppm gold, 19.6% zinc and 22.6% lead.

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

Navidad and Chalchihuites Group Concessions

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

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

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

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

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

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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Mineral Properties – continued

Navidad and Chalchihuites Group Concessions - continued

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).

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 2017 audited financial statements. The total amount received as at August 31, 2018 and November 30, 2017 pursuant to the Navidad and Chalchihuites option agreements is \$1,333,600.

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.

San Jose

On November 21, 2017 Monarca announced the signing of a non-binding Letter of Intent (LOI) to purchase the San Jose Property (5,580 hectares) in Chihuahua, Mexico. Terms of the LOI call for payment of US\$20,000 on execution of the LOI (paid), US\$20,000 on execution of a definitive agreement, US\$50,000 on the first anniversary of the definitive agreement and US\$60,000 on the second anniversary of the definitive agreement. The owners retain a 2% NSR. One percent of the NSR can be purchased by Monarca for US\$100,000. Back taxes on the property of US\$570,000 will be paid over a period of time. Concession taxes per year are approximately US\$46,000. Monarca has extended the initial four-month due diligence period to May 8, 2019 in order to conduct additional due diligence. Monarca hired a geophysics company to complete an IP Survey for a better understanding of this property. The San Jose Property, upon successful completion of ongoing fieldwork could be an excellent addition to Monarca's portfolio of properties. This IP Survey is currently under process.

The San Jose Property has many similarities to the nearby Bismark Mine which is 50 km to the to the southeast and has been in production since 1993. Monarca's preliminary work seems to indicate higher levels of gold mineralization and significant silver, lead and zinc grades. The Bisarmark Mine was a blind discovery utilizing geophysics, primarily IP, which indicated sulfide concentrations at depth.

The 5,580-hectare San Jose Property area has excellent indications of multi-element mineralization associated with skarn, gossan and altered intrusive rocks. An existing geological report (2011) discloses assays of up to 26.84ppm Au, 161 g/tonne (5 opt) Ag, 6.5% Pb, 0.9% Zn, and 4.2% Cu, as summarized in the map below.

The area was conventionally mapped by boots on the ground and utilizing a handheld GPS to obtain location. The strong alteration is indicated by pervasive visual occurrence of dissemination, stockwork and veins of skarn, gossan and altered intrusive rocks with disseminated pyrite. The mapped area of the San Jose Property covers about 10% of the concession and indicates a strong area of continuous mineralization of about 1 km by several hundred meters. The mapped area is coincident with a strong aeromagnetic anomaly, associated with outcropping mineralized

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Mineral Properties – continued

San Jose - continued

intrusive rocks. Early history is evidenced by about 15 old mining excavations, up to about 10m deep, exposing mineralization in areas of skarn, gossan and altered intrusive rocks. At San Jose, there are large areas of Fe-oxide in garnet skarn outcropping in the areas between and around mining excavations and veins. The historical mining and exploration work, as reported by the owner, was done in the early 1970s. The mineralization at San Jose is very similar to the Bismark Mine, located about 50 km to the southeast, which has been in production since 1992. The Bismark Mine had a starting resource of 8,200,000 tonnes at 8% Zn, 0.5 % Pb, 0.2 % Cu and 50 g/t Ag. The Bismark Mine is a stock-contact skarn, with massive sulfide zones, within altered limestone and adjacent to a mineralized intrusive, like at San Jose. The mine started production in 1992 at 600,000 tons/year and is looking for ore to feed their processing facility.

Qualified Person

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

Selected Annual Information

The table below provides selected financial information for the Company on a consolidated basis for each of the past three years ended November 30.

| | 2018 | | 2017 | | 2016 | |
|---|------|----------|------|----------|------|----------|
| In \$000s, except EPS | | | | | | |
| Total Revenues | \$ | nil | \$ | nil | \$ | nil |
| Net Loss | \$ | 764 | \$ | 1,117 | \$ | 49 |
| Net Loss Per Share (basic and fully diluted) | \$ | (0.0154) | \$ | (0.0225) | \$ | (0.0017) |
| Total Assets | \$ | 14,731 | \$ | 14,981 | \$ | 13,467 |
| Long-term Debt | \$ | Nil | \$ | Nil | \$ | nil |
| Mineral Property Interests Expenditures – for the year | \$ | 704 | \$ | 401 | \$ | 296 |
| Mineral Property Interests – cumulative, net | \$ | 14,534 | \$ | 13,829 | \$ | 13,429 |
| Dividends | \$ | nil | \$ | nil | \$ | nil |

Results of Operations - Annual

During the year ended November 30, 2018, the Company reported a net loss of \$764,164 (\$0.0154 per share) compared to a net loss of \$1,116,894 (\$0.0225 per share) reported in fiscal 2017. The fiscal 2018 and 2017 net losses relate to the cost of maintaining the Company and its properties, while the Board and Management continue to work to generate funds through private placements and evaluate near term production and joint venture opportunities.

In an attempt to preserve cash flow and working capital the Company closely managed its spending during fiscal 2018 and 2017. The result was fiscal 2018 administrative expenses totaling \$417,073 (2017 - \$895,942) impacted by fiscal 2018 increases in management fees and salaries, investor relations, business development, accounting and legal, and regulatory and filing fees expenses as the company resumes exploration and evaluation activities.

During the years ended November 30, 2018 and 2017, the Company continued its precious metals corporate strategy. The Company continues to focus on receiving the surface rights at Tejamen.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Summary of Quarterly Results (unaudited)

| Three months ended | Nov 30, 2018 | Aug 31, 2018 | May 31, 2018 | Feb 28, 2018 | Nov 30, 2017 | Aug 31, 2017 | May 31, 2017 | Feb 28, 2017 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total revenues | \$nil | nil | nil | nil | \$nil | nil | nil | nil |
| Net and comprehensive income (loss) | (486,700) | (74,049) | (100,506) | (102,909) | (56,835) | (850,885) | (150,020) | (59,154) |
| Net earnings (loss) per share (basic and diluted) | (0.0098) | (0.0015) | (0.0020) | (0.0021) | (0.0011) | (0.0172) | (0.0030) | (0.0012) |

During the fourth quarter of fiscal 2018, the Company recorded a net loss of \$486,700 (\$0.0098 per share) as compared to the fiscal 2017 fourth quarter net income of \$56,835 (\$0.0011 per share). The fiscal 2018 fourth quarter income was largely comprised of a management fees and salaries of \$251,437 (2017 -\$96,243) offset by quarterly expenses and the income tax expenses of \$264,000 (2017 - \$255,000).

Capital Expenditures

Total exploration spending net of capitalized borrowing costs for the year ended November 30, 2018 increased to \$551,380 from \$400,792 incurred in fiscal 2017. The increase is primarily a result of increased fiscal 2018 exploration work done on the exploration and evaluation properties.

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 November 30, 2018 and at November 30, 2017 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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Financing and Investing Activities - continued

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.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during 2018 utilized cash of \$921,050 (2017 – generated cash of \$1,022,056). As at November 30, 2018, the Company had cash of \$109,846 (2017 - \$1,030,896) and a working capital deficit of \$2,258,959 (2017 – \$866,821).

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.

Effective April 26, 2016 further to the TSX Venture Exchange Bulletins dated June 3, 2014 and June 19, 2014, the Cease Trade Order issued by the British Columbia Securities Commission dated June 3, 2014 has been revoked.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Transactions with Related Parties

The Company entered into the following transactions with related parties during year ended November 30, 2018:

- (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.
- (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)).

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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Future Accounting Changes – Continued

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

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.

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

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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

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

| | November 30, 2018 | | November 30, 2017 | |
|--|-------------------|-------------|-------------------|-------------|
| Cash | MP\$ | 167,560 | MP\$ | 21,813 |
| Amounts receivable | | 799,991 | | 604,986 |
| Accounts payable and accrued liabilities | | (8,559,683) | | (6,339,569) |
| Total | MP\$ | (7,592,132) | MP\$ | (5,712,770) |
| Canadian dollar equivalent | CAD\$ | (496,829) | CAD\$ | (397,194) |

(b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The majority of the Company's cash is held through large Canadian financial institutions. The Company is also exposed to credit risk on its amounts receivable, which are unsecured. The Company considers the risk of loss to be low. There have been no significant changes to how management manages credit risk during 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.

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Financial Risk Management - Continued

(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.

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 November 30, 2018 are 49,709,306 common shares and April 1, 2019 are 49,709,306 common shares.

The following warrants are outstanding at November 30, 2018 and April 1, 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

MONARCA MINERALS INC.

Management's Discussion & Analysis
For the Year Ended November 30, 2018

Risks and Uncertainties - Continued

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.

April 1, 2019