



# **MONARCA MINERALS**

---

**I N C .**

**MONARCA MINERALS INC.**

Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

---

This Management Discussion and Analysis ("MD&A") provides relevant information on the operations and financial condition of Monarca Minerals Inc. ("Monarca" or the "Company") for the nine months ended August 31, 2022. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes thereto for the nine months ended August 31, 2022 and 2021 and the audited consolidated financial statements and related notes for the years ended November 30, 2021 and 2020. The Monarca Board of Directors approved both this MD&A and the unaudited condensed consolidated financial statements for the nine months ended August 31, 2022 and 2021 on October 26, 2022.

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](http://www.monarcaminerals.com) and on SEDAR, at [www.sedar.com](http://www.sedar.com).

#### Caution Regarding Forward Looking Statements

Readers are cautioned that actual results may differ materially from the results projected in any "forward-looking" statements included in the foregoing report, which involve a number of risks or uncertainties. This MD&A contains "forward-looking statements" and "forward-looking information" within the meaning of the applicable Canadian securities legislation. Forward-looking statements are not historical facts and include statements regarding the Company's planned development activities, anticipated future profitability, losses, revenues, expected future expenditures, the Company's intention to raise new financing, sufficiency of working capital for continued operations and other statements regarding anticipated future events and the Company's anticipated future performance.

Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "continue", "anticipates" or "does not anticipate", or "believes" or a variation of such words and phrases that state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". All forward-looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. While Monarca considers its assumptions to be reasonable and appropriate based on the current information available, there is a risk that they may not be accurate. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievement of Monarca to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to the integration of acquisitions, as well as those factors discussed in the section entitled "Risk Factors" in this MD&A. Before making any investment decisions and for a detailed discussion of the risks, uncertainties and environment associated with our business, fully review the section entitled "Risk Factors" in this MD&A.

Although management has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Monarca does not undertake to update any forward-looking statements that are incorporated by reference herein, except as required by law.

## General and Outlook

The Company is a Canadian-based mineral exploration company with a focus on the acquisition and development of silver and base metal 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 San José. Tejamén is the Company's flagship mineral property with an Inferred mineral resource estimate completed in accordance with NI 43-101 and CIM standards.

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 2022, the Company continues to pursue a strategy to maximize the value of its properties with a particular focus on Tejamén and San José. In addition, Monarca will continue to evaluate near-term production and joint venture opportunities.

## Mineral Properties

### San José Property, State of Chihuahua

On June 10, 2019, Monarca Minerals entered into an option agreement to acquire a 100% interest in the 5,850-hectare San José Project (the "Project") located in Chihuahua, in northern Mexico. The option agreement is an arm's length transaction. The decision was made to acquire this skarn and potential CRD/porphyry deposit after a surface geophysics program comprised of induced polarization (IP), resistivity, and magnetics survey was completed in July and August 2018, discovering strong IP/magnetic anomalies over a 2.8 km strike length, resulting in numerous drill targets. Based on these geophysical results and previous chip channel sampling on the property, which resulted in elevated gold, silver, copper, zinc and lead values, the Company is currently planning a 5,000m drilling program to test the IP and magnetic anomalies on 10 targets for potential precious and base metals at depth.

Surface lands for the San José project area are partially covered by "Ejido" lands and "Colonia" lands (community or communal lands), therefore the Company is required to sign a surface rights agreement with both the Ejido and Colonia authorities to advance its environmental permit to proceed with its planned drilling program.

On February 21, 2021, Colonia elected its new authorities and approved to sign an agreement with Monarca Mining (Mexican subsidiary of Monarca Minerals) to change the use of land and temporary occupation allowing the Company to complete its drilling program at San José.

On April 13, 2021 Monarca Mining (Mexican subsidiary of Monarca Minerals) signed the agreement with "Colonia" to change the use of land and temporary occupation.

On July 14, 2021 Monarca obtained an Environmental Permit (known as Informe Preventivo) to complete its planned 5,000 metre drilling program on its Silver Project ("San José") in Mexico.

Monarca engaged Layne de México, SA de CV, a Mexican subsidiary of Layne's Mineral Services Division as a contractor for the up to 5,000-metre reverse circulation (RC) drilling program. On July 27, 2021 the Company started road rehabilitation and on August 26, 2021 started the RC drilling program. A total of 15 drill holes (4,640.6 m) were completed on the San José Project and significant drill assay results are indicated in Table 1 below.

Mineral Properties – continued

San Jose Property, State of Chihuahua

The 2021 RC drilling program indicates that the San Jose Property has significant exploration potential, especially to the west of the areas drilled to date. The area to the west has mineralized intrusives at depth, which have long anomalous Au and Cu intercepts, overlain by strongly altered limestone, which has not yet been drilled from above. There is potential for skarn development at the un-drilled intrusive/limestone contact and Cu and Mo mineralization in altered intrusive rocks. All of the drill holes were drilled at angles ranging from 45° to 60° to cross contacts between limestone and intrusives, where skarn mineralization occurs. Downhole surveys were completed for all of the drill holes, which ranged in depth from 140.2 m to 408.4 m (Table 1).

The San Jose Property is located in Chihuahua, Mexico near the USA border, approximately 125 km west of El Paso, Texas and Juarez, Chihuahua, Mexico. The Property is also located 52 km northwest of the underground Bismark Mine operated by Grupo Peñoles. The Bismark Mine commenced production of silver, lead, zinc and copper in 1992 and mining continued at a 2,500 tpd production rate until early 2021. The Bismark Mine is regarded as a comparative exploration model for the San Jose Property but there is no guarantee that the San Jose exploration and drilling programs will result in a viable mine.

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

- **Accessibility and Terrain:** Road access and local infrastructure in the area is good, and the agricultural settlement of Guadalupe Victoria is located 15 km to the east. The property is dominantly rolling hill country in the area of the geophysical survey.
- **Geology and Mineralization:** Intrusive rocks on the property include granodiorite, intermediate monzonite and late diorite dikes associated with IP and magnetic anomalies and mineralization. Outcrops of intrusive rocks and limestone occur with various types and degrees of alteration including propylitic, silicification, endoskarn, exoskarn, disseminated pyrite and specularite/magnetite. Exoskarn mineralization is grossularite ± diopside, locally with hydrous retrograde silica + clay and overprinting quartz veins and silicification.
- **Community Relations:** The Company has very good relations with the local Ejido and Community who own the surface rights. In October 2020, Monarca engaged O Trade, a Canadian company specialized in community relations to assist the Company in building a strong and well-structured ESG program across all of the projects.
- **Historical Mining:** 14+ short shafts and pits exist on the property with a small amount of mining production dating back to 1975.
- No previous drilling has been done on the property.

In order to acquire a 100% interest in the San Jose Project, Monarca will pay a total of USD\$115,000 to the mining concession owners and the agreement includes a 2% Net Smelter Return (NSR) royalty upon reaching commercial production. The Company has the right to purchase one-half of the royalty (1%) through a single payment of USD\$100,000 made to the Owners after the first year of commercial production.

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

---

Mineral Properties – continued

San Jose Property, State of Chihuahua

Schedule of payments

| Due Dates                                        | Cash Payments (US Dollars) |
|--------------------------------------------------|----------------------------|
| Paid at signing                                  | \$5,000                    |
| Paid 12 months after signing of Option Agreement | \$50,000                   |
| Paid 24 months after signing of Option Agreement | \$60,000                   |
| TOTAL                                            | \$115,000                  |

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 MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

Mineral Properties – continued

San Jose Property, State of Chihuahua

Table 1: Significant Drill Assay Results from 2021 RC Drilling Program

| Drillhole # | TD (m) | From (m)                               | To (m) | Interval (m) | Au g/t | Ag g/t | Cu %  | Pb %  | Zn %  | Mo %  | Lith/Alteration                                 | Release Date |
|-------------|--------|----------------------------------------|--------|--------------|--------|--------|-------|-------|-------|-------|-------------------------------------------------|--------------|
| SJ01        | 140.2  | 134.1                                  | 137.2  | 3.0          | 4.07   | 6.4    | 0.02  | 0.23  | 0.49  | trace | Granodiorite/Silic                              | 11/9/2021    |
| including   |        | 134.1                                  | 135.6  | 1.5          | 6.66   | 11.0   | 0.03  | 0.40  | 0.84  | trace | "                                               |              |
| SJ02        | 292.6  | 228.6                                  | 230.1  | 1.5          | 0.30   | <0.5   | 0.05  | trace | trace | trace | Biotite Porphyry / Silic & Potassic             | 12/13/2021   |
| and         |        | 281.9                                  | 283.5  | 1.5          | 0.20   | 2.9    | 1.02  | trace | trace | 0.17  | "                                               |              |
| SJ03        | 329.2  | 207.3                                  | 208.8  | 1.5          | 0.12   | 0.5    | 0.07  | trace | 0.01  | trace | Granodiorite/Silic                              | 11/9/2021    |
| SJ04        | 152.4  | anomalous Au and Zn values             |        |              |        |        |       |       |       |       | Granodiorite / Endoskarn                        | 12/13/2021   |
| SJ05        | 313.9  | 93.0                                   | 97.5   | 4.6          | 0.30   | 2.0    | 0.94  | trace | trace | trace | Limestone / Exoskarn                            | 12/13/2021   |
| and         |        | 192.0                                  | 193.5  | 1.5          | 0.42   | 5.0    | 0.21  | 0.05  | 0.05  | trace | Granodiorite / Endoskarn                        |              |
| SJ06        | 339.9  | 175.3                                  | 176.8  | 1.5          | 0.30   | 3.2    | 0.05  | 0.06  | 0.04  | trace | Limestone / Exoskarn                            | 12/13/2021   |
| SJ07        | 317.0  | 193.5                                  | 195.1  | 1.5          | 0.28   | 7.0    | 0.01  | trace | trace | trace | Granodiorite / Endoskarn                        | 12/13/2021   |
| and         |        | 278.9                                  | 280.4  | 1.5          | 0.02   | <0.5   | 0.04  | trace | trace | 0.22  | Biotite Porphyry / Endoskarn                    |              |
| SJ08        | 355.1  | 62.5                                   | 64.0   | 1.5          | 0.04   | 79.5   | 0.34  | 0.36  | 1.49  | trace | Granodiorite / Endoskarn                        | 11/9/2021    |
| and         |        | 91.4                                   | 97.5   | 6.1          | 0.36   | 2.7    | 1.00  | trace | 0.02  | trace | Granodiorite / Endoskarn                        |              |
| and         |        | 231.6                                  | 233.2  | 1.5          | 0.84   | <0.5   | 0.07  | trace | trace | 0.023 | Granodiorite / Endoskarn                        |              |
| and         |        | 257.6                                  | 260.6  | 3.0          | 3.11   | 31.6   | 0.13  | 0.08  | 0.06  | trace | Granite / Endoskarn                             |              |
| including   |        | 257.6                                  | 259.1  | 1.5          | 4.29   | 53.4   | 0.18  | 0.11  | 0.04  | trace | Granite / Endoskarn                             |              |
| and         |        | 286.5                                  | 288.0  | 1.5          | 0.02   | <0.5   | 0.06  | trace | trace | 0.11  | Biotite Porphyry / Silic & Potassic             |              |
| SJ09        | 408.4  | anomalous Au, Cu, Pb, Zn and Mo values |        |              |        |        |       |       |       |       | Limestone & Granodiorite / Exoskarn & Endoskarn | 12/13/2021   |
| SJ10        | 352.0  | 349.0                                  | 350.5  | 1.5          | 0.92   | 2.40   | trace | 0.06  | 0.08  | trace | Granodiorite / Endoskarn                        | 11/9/2021    |
| SJ11        | 259.1  | 12.2                                   | 15.2   | 3.0          | 0.86   | 1.20   | 0.17  | trace | 0.01  | trace | Limestone / Jasperoid                           | 11/9/2021    |
| SJ12        | 342.9  | 80.8                                   | 85.3   | 4.6          | 0.13   | 1.50   | 0.33  | trace | 0.04  | trace | Granodiorite / Endoskarn                        | 11/9/2021    |
| SJ13        | 371.9  | anomalous Au values                    |        |              |        |        |       |       |       |       | Limestone & Granodiorite / Exoskarn & Endoskarn | 12/13/2021   |
| SJ14        | 317.0  | anomalous Au, Cu, Pb, Zn and values    |        |              |        |        |       |       |       |       | Limestone & Granodiorite / Exoskarn & Endoskarn | 12/13/2021   |
| SJ15        | 349.0  | anomalous Au, Ag and Zn values         |        |              |        |        |       |       |       |       | Limestone & Granodiorite / Exoskarn & Endoskarn | 11/9/2021    |

Mineral Properties – continued

Tejamen Property, State of Durango

Tejamen is the Company's most advanced project. The property, located 130 km 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 km of good gravel road from Nuevo Ideal to Tejamen.

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

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

During 2008, the Company completed a new topographical survey in Los Mantos portion of the project, 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 technical report reporting mineral resources for the Tejamen Project. This report was filed on SEDAR on February 2, 2016. The resulting inferred resource is approximately 28.7 million ounces of silver at a 15ppm cutoff (19.8 million tonnes at 45.0 g/t Ag).

The Company has been taking initial steps to reinitiate engagement with the local community. During 2017, drill hole re-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, 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, a Director of Monarca has met with municipal, state, and federal officials.

In October 2020, Monarca engaged a Canadian consulting firm specialized in Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) to do a new assessment on Tejamen, and built a new strategy to re-open the dialog with the community that will allow the Company to restart the exploration work at Tejamen. This firm is also working on the San Jose project and the San Lucas project, developing a strategy that will prevent conflicts with the communities in the future.

Meanwhile, Monarca is keeping federal, state and municipal governments involved to be consistent on the strategy, information and actions we are taking.

San Lucas Property, State of Durango

The San Lucas Property ("San Lucas"), located 86 km north of the city of Durango and accessed via paved highway, consists of 8 mineral concessions covering 79.6 hectares. San Lucas consists of a series of northeast trending mineralized shear zones in volcanic and sedimentary rocks.

In 2005, the Company drilled 19 shallow reverse circulation drill holes totaling 3,042m across one of the mineralized zones. Drill holes, spaced approximately 100m apart along the northeast striking structure, indicate a disseminated silver-lead-zinc system. The mineralization was traced by drilling for 1,700m. Surface mapping has traced the zone for over four km and has identified a separate sub parallel structures. In 2007, the Company

Mineral Properties – continued

San Lucas Property, State of Durango

negotiated a long-term lease with the Community of San Lucas for the use of surface rights at San Lucas. The Company completed a 7,000m 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 depths up to 200m.

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 fiscal 2012, the Company focused on reviewing drill targets within the remaining post spinout concessions (79.6 hectares) for a 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 270m. The mineralized shear zones are approximately 20 meters apart and strike north-easterly, as is typical of the San Lucas trend. The mineralized shear zones range from 5m to 10m 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.

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 as option agreement terminated)
- iv. Payment of US\$850,000 on or before June 20, 2016 (not received as option agreement terminated)

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.

Mineral Properties – continued

El Sol Property

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 Exploration Corp'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; it was located about 600m south of the center of the main 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, 1.94 ppm gold, 19.6% zinc and 22.6% lead.

In May 2016, Southern Silver filed a 43-101 Mineral Resource Estimate for Cerro Las Minitas on Sedar citing an estimated Inferred Resource of 77.3Mil Silver Equivalent ounces and an estimated Indicated Resource of 36.5Mil Silver Equivalent ounces. This mineralization extends up to the south side of the El Sol concession and based on the geophysics could continue into the concession. The Cerro Las Minitas deposit is considered a comparative exploration model and is not indicative of any mineralization that may be hosted on the San Jose Property.

On August 3, 2020, Monarca Minerals sold El Sol to Southern Silver Exploration Corp. The agreement is US\$300,000 payable in three equal instalments on execution of a definitive agreement, twelve months and eighteen months together with retention by the Company of 2% NSR on production from the claim with a right in Southern Silver to purchase the royalty at any time for US\$1,000,000.

- i. Payment of US\$100,000 upon signing (received)
- ii. Payment of US\$100,000 due August 2021 (received)
- iii. Payment of US\$100,000 due February 2022 (received)

Qualified Person Statement

Mr. Michael R. Smith, Registered Member - Geology (Society for Mining, Metallurgy & Exploration), Executive Vice President of Exploration for the Company and a Qualified Person as defined by NI 43-101, has prepared and approved the scientific and technical information contained in this MD&A.

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

Summary of Quarterly Results (unaudited)

| Three months ended                                | August 31<br>2022 | May 31<br>2022 | Feb 28<br>2022 | Nov 30<br>2021 | Aug 31<br>2021 | May 31<br>2021 | Feb 28<br>2021 | Nov 30<br>2020 |
|---------------------------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total revenues                                    | \$nil             | \$nil          | nil            | nil            | nil            | nil            | nil            | nil            |
| Net and comprehensive income (loss)               | (227,816)         | (300,277)      | (191,610)      | (1,509,811)    | (374,271)      | (338,540)      | (434,489)      | (998,038)      |
| Net earnings (loss) per share (basic and diluted) | (0.0018)          | (0.0024)       | (0.0016)       | (0.0113)       | (0.0031)       | (0.0028)       | (0.0037)       | (0.0153)       |

Results of Operations – Three Months Ended August 31, 2022

For the three-month period ended August 31, 2022, the Company reported a net loss of \$227,816 compared to a net loss of \$374,271 reported in the third quarter of fiscal 2021. The fiscal 2022 third quarter change largely relates to a reduction in exploration expenses of \$93,146, an increase in geological consulting of \$12,900 and a reduction in management fees and salaries of \$71,831. The remaining costs 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. The resulting basic and diluted loss per share for the three-month period ended August 31, 2022 was \$0.0018 (2021 – loss \$0.0031).

Results of Operations – Nine Months Ended August 31, 2022

For the nine-month period ended August 31, 2022, the Company reported a net loss of \$719,704 compared to a net loss of \$1,147,300 reported in the similar period of fiscal 2021. The decreased profitability largely relates to the reduction in exploration expenses of \$308,523 and management fees and salaries of \$191,307. The resulting basic and diluted loss per share for the nine-month period ended August 31, 2022 was \$0.0057 (2021 – loss \$0.0096).

Financing and Investing Activities

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

On May 9, 2017, the Company completed the first tranche of a non-brokered private placement of 13,232,182 units at \$0.13 per unit to raise \$1,720,184. Each unit was composed of one common share and one warrant. 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. These options expired on June 7, 2022.

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.

On December 1, 2017, 100,000 units were issued for consideration of \$13,000 as the July 19, 2017 issuance as noted above.

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 was exercisable into one common share of the Company at a price of \$0.10, expiring five years from the date of issue.

The debentures were 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 ceased 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. Certain covenants of this loan were not met as at November 30, 2021. As a result, the loan has been reclassified to current liabilities

The debentures matured on October 9, 2017 and on April 1, 2020, the debentures along with all accrued interest were rolled into new debentures. The outstanding amount of the debentures was \$727,500 plus accrued interest of \$126,185 for a total of \$853,685.

From April 1, 2020 until the maturity date of October 9, 2022, each convertible debenture will be convertible into common shares of the company at the option of the holder at a conversion price of \$0.075 per share for the first 12 months from closing, being an amount of 133,333 shares per \$10,000 principal amount; and at \$0.10 per share thereafter until maturity, being an amount of 100,000 shares per \$10,000 principal amount.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the debentures assuming a market interest rate of 18%, which was the estimated rate for the debentures without the equity component of the conversion feature. The residual of the principal less the present value of the liability component was allocated to the conversion option based on their relative fair value, resulting in an allocation of \$140,995 to the conversion option.

Financing and Investing Activities - continued

Interest shall be paid annually in arrears on each anniversary of the issue date of the debentures and on the maturity date. The rate of interest will be 12% per annum. The Company will have the option, in its sole discretion, to pay the interest in shares of the Company in accordance with the policies of the TSX Venture Exchange.

On July 28, 2020, the Company granted 1,250,000 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 \$0.075 per share and have a term of four years from the grant date. The fair value of the options was estimated at \$85,500 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 170%; risk-free interest rate of 0.28% and an expected life of 4 years.

On August 20, 2020, the Company completed a non-brokered private placement of 60,000,000 units at \$0.05 per unit to raise \$3,000,000. 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 \$0.075 for a twenty-four month period commencing at the date of issuance. The Company paid cash finder's fees of \$212,000 and issued 4,416,000 finder warrants in connection with the financing. Each finder warrant is exercisable for one common share at a price of \$0.05 per share for a period of twenty-four months commencing at the date of issuance.

The fair value of the warrants was estimated at \$1,127,591 and the fair value of the finders' warrants was estimated at \$88,600 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 156.22%; risk-free interest rate of 0.27% and an expected life of 2 years.

On September 8, 2020, the Company closed a shares for debt transaction to settle an aggregate of \$301,325 owing to certain officers and directors, and service providers to the Company through the issuance of an aggregate of 6,026,498 common shares of the Company at an implied issue price of C\$0.05 per common share. The amount settled includes \$194,000 out of \$342,000 in accrued directors' fees and management and consulting fees owing to the Company's directors and officers. The company recorded a loss on this debt settlement of \$150,662.

On October 21, 2020, the Company issued 1,907,600 common shares upon the conversion of \$143,700 of convertible debentures in accordance with the terms of the debenture agreements. The corresponding equity conversion option was valued at \$19,865.

On December 16, 2020, the Company issued 751,201 common shares with an estimated fair value of \$0.18 price per common share to settle \$135,831 of debt pursuant to debt settlement agreements.

On February 22, 2021, 1,900,000 warrants were exercised to purchase shares at a price of \$0.075 per share. The fair value of the warrants exercised was originally estimated at \$34,791.

On October 29, 2021, 4,240,000 warrants were exercised to purchase shares at a price of \$0.05 per share. The grant date fair value of the warrants exercised was originally estimated at \$88,909.

On November 1, 2021, 100,000 warrants were exercised to purchase shares at a price of \$0.075 per share. The grant date fair value of the warrants exercised was originally estimated at \$1,683.

On November 2, 2021, 1,000,000 warrants were exercised to purchase shares at a price of \$0.075 per share. The grant date fair value of the warrants exercised was originally estimated at \$16,834.

On November 9, 2021, 1,100,000 warrants were exercised to purchase common shares at a price of \$0.075 per share. The grant date fair value of the warrants exercised was originally estimated at \$18,518.

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

---

### Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the first nine months of fiscal 2022 used cash of \$431,287 (2021 – used \$556,470). As at August 31, 2022, the Company had cash of \$67,372 (November 30, 2021 - \$498,659) and a working capital deficit of \$2,933,470 (November 30, 2021 – \$2,214,416).

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 one year.

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 2022 and 2021 plan is to advance the San Jose Property and to pursue joint venture opportunities.

### Transactions with Related Parties

During the nine-month period ended August 31, 2022 and 2021 the Company entered into the following transactions with related parties that are not subsidiaries of the Company and are not disclosed elsewhere in these condensed consolidated interim financial statements.

- (a) Key management includes the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, the Vice President of Exploration, and the Directors. During the period ended August 31, 2022, the cash compensation paid or payable to key management for services and directors fees was \$93,645 (2021 – \$259,545). Included in accounts payable and accrued liabilities at August 31, 2022 is \$309,053 (November 30, 2021 - \$120,000) due to Directors and Officers for management fees and expense reimbursements. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- (b) Companies controlled by a director of the Company hold \$751,243 of the long-term debt as at August 31, 2022 (November 30, 2021 – \$751,243). During the period ended August 31, 2022, interest of \$62,264 (2021 - \$127,492) was payable to these companies and as at August 31, 2022, \$338,698 (November 30, 2021 - \$186,468) is included in interest payable on the condensed consolidated interim statement of financial position. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- (c) During the period ended August 31, 2022, interest accrued on the promissory notes (Note 7) totaled approximately \$15,123 (2021 - \$15,123). Included in interest payable on the condensed consolidated interim statement of financial position as at August 31, 2022 is \$161,746 (November 30, 2021 - \$146,623) 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.

#### Transactions with Related Parties – continued

- (d) During the period ended August 31, 2022, legal fees were incurred of \$1,689 (2021 - \$13,885) 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 August 31, 2022 is \$2,757 (November 30, 2021 - \$1,450) relating to these fees. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

#### Subsequent Events

##### Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

#### Changes in Accounting Policies

During the year ended November 30, 2021 and the period ended August 31, 2022, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards including IAS 1 and IFRS 3. These new standards did not have any material impact on the Company's 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.

#### Financial Risk Management

##### Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At August 31, 2022 and November 30, 2021, the Company had no financial instruments carried at fair value to classify in the fair value hierarchy.

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

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

Financial Risk Management - continued

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk, and price risk. The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during the periods ended August 31, 2022 and November 30, 2021.

(a) Currency Risk:

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

At August 31, 2022 and November 30, 2021, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

|                                          | August 31<br>2022 |             | November 30<br>2021 |           |
|------------------------------------------|-------------------|-------------|---------------------|-----------|
| Cash                                     | MP\$              | 501,609     | MP\$                | 685,771   |
| Amounts receivable and prepaid expenses  |                   | 3,298,770   |                     | 481,956   |
| Accounts payable and accrued liabilities |                   | (1,646,314) |                     | (824,562) |
| Total                                    | MP\$              | 2,154,065   | MP\$                | 343,165   |
| Canadian dollar equivalent               | CAD\$             | 140,090     | CAD\$               | 20,315    |

At August 31, 2022 and November 30, 2021, the Company is exposed to currency risk through the following assets and liabilities denominated in United States Dollars ("US\$"):

|                                         | August 31<br>2022 |       | November 30<br>2021 |         |
|-----------------------------------------|-------------------|-------|---------------------|---------|
| Cash                                    | US\$              | 6,183 | US\$                | 8,159   |
| Amounts receivable and prepaid expenses |                   | -     |                     | 100,000 |
| Total                                   | US\$              | 6,183 | US\$                | 108,159 |
| Canadian dollar equivalent              | CAD\$             | 8,107 | US\$                | 138,357 |

(b) Credit Risk

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

The majority of the Company's cash is held through large Canadian financial institutions. The Company is also exposed to credit risk on its amounts receivable, which are unsecured. The Company considers the risk of loss to be low. There have been no significant changes to how management manages credit risk during the period ended August 31, 2022 and November 30, 2021.

Financial Risk Management – continued

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable, accrued liabilities, interest payable, promissory notes and 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 the period ended August 31, 2022 and November 30, 2021.

(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 six-month period.

- Based on the net exposures as at August 31, 2022 (as seen in Note 11(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 \$710 based on the cash balance at August 31, 2022.

MONARCA MINERALS INC.  
Management's Discussion & Analysis  
For the Nine Months Ended August 31, 2022

---

Outstanding Share Data

Authorized Capital:

An unlimited number of common shares and an unlimited number of preferred shares issuable in series issued and outstanding as at August 31, 2022 and October 26, 2022 are 126,554,606 common shares.

The following options are outstanding at August 31, 2022 and October 26, 2022:

| Number of Options | Exercise Price (\$) | Expiry Date       |
|-------------------|---------------------|-------------------|
| 1,250,000         | 0.075               | July 28, 2024     |
| 4,650,000         | 0.085               | November 11, 2025 |

The following warrants are outstanding at August 31, 2022 and October 26, 2022:

| Number of Warrants | Exercise Price (\$) | Expiry Date     |
|--------------------|---------------------|-----------------|
| 55,900,000         | 0.075               | August 20, 2023 |

Risks and Uncertainties

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

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

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