



MONARCA MINERALS

I N C .

MONARCA MINERALS INC.

**Consolidated Financial Statements
For the Years Ended November 30, 2021 and 2020
Expressed in Canadian Dollars**

MONARCA MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2021 and 2020

Contents	
Independent Auditor's Report	1-3
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 27

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of Monarca Minerals Inc.

Opinion

We have audited the consolidated financial statements of Monarca Minerals Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at November 30, 2021 and 2020, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at November 30, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had an accumulated deficit as at November 30, 2021 and, as of that date, the Company's current liabilities exceeded its current assets and the Company's long-term debt was in default. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

McGovern Hurley

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such

McGovern Hurley

disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
March 29, 2022

MONARCA MINERALS INC.
Consolidated Statements of Financial Position
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

	Note	2021	2020
Assets			
Current assets			
Cash		\$ 498,658	\$ 1,769,640
Amounts receivable		20,773	56,888
Note receivable	6c	134,363	134,363
Prepaid expenses		31,530	50,108
Short-term investments		25,000	-
Total current assets		710,324	2,010,299
Non-current assets			
Note receivable	6c	-	134,363
Equipment	5	11,219	12,015
Total non-current assets		11,219	146,378
Total assets		\$ 721,543	\$ 2,157,377
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11,16	\$ 1,458,324	\$ 1,372,328
Interest payable	10,11 (b)(c)	212,732	14,595
Promissory notes	9	400,000	400,000
Current portion of long-term debt	10	853,685	853,685
Total liabilities		2,924,741	2,640,608
Shareholders' equity (deficiency)			
Share capital	7(a)	28,862,147	28,048,887
Share purchase warrants reserve	7(c)	944,726	1,102,655
Share-based payment reserve	8	629,103	347,288
Equity conversion option	10	121,130	121,130
Accumulated deficit		(32,760,303)	(30,103,192)
Total shareholders' equity (deficiency)		(2,203,198)	(483,232)
Total liabilities and shareholders' equity (deficiency)		\$ 721,543	\$ 2,157,377

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 6 and 15)

Approved on behalf of the Board:

"Frank Högel"

Director

"Paul Teniere"

Director

MONARCA MINERALS INC.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended November 30, 2021 and 2020
Expressed in Canadian Dollars

	Note	2021	2020
Administrative and exploration expenses			
Accounting and legal		\$ 124,180	\$ 108,555
Amortization	5	796	936
Business development		6,667	-
Exploration expenses		1,408,938	479,641
Geological consulting		76,300	8,800
Insurance		11,472	7,268
Investor relations		13,221	11,036
Management fees and salaries		401,731	680,487
Office expenses		17,588	277
Regulatory and filing fees		24,339	20,567
		<u>(2,085,232)</u>	<u>(1,317,567)</u>
Loss before undernoted items			
Other income (expenses)			
Other income/(loss)		-	50,000
Interest and bank charges		(229,017)	(130,939)
Stock compensation	7(b)	(281,815)	(85,500)
Gain on debenture modification	10	-	312,980
Gain on sale of mineral properties		-	411,357
Gain/(loss) on foreign exchange		(61,047)	(17,038)
		<u>(571,879)</u>	<u>540,860</u>
Total other income (expenses)			
		\$ (2,657,111)	\$ (776,708)
(Loss) for the year before income taxes			
Current income tax (expense)	16(a)	-	(118,000)
		<u>\$ (2,657,111)</u>	<u>\$ (894,708)</u>
Net loss and comprehensive loss for the year			
Basic and diluted loss per share		\$ (0.0209)	\$ (0.0132)
Weighted average number of shares outstanding – basic and diluted (Note 7 (a)(i))			
		<u>120,235,019</u>	<u>67,875,891</u>

See accompanying notes to the consolidated financial statements.

MONARCA MINERALS INC.
Consolidated Statements of Changes in Shareholders' Equity(deficiency)
For the Years Ended November 30, 2021 and 2020
Expressed in Canadian Dollars

	Share Capital		Share Purchase Warrants Reserve \$	Share-Based Payments Reserve \$	Equity Conversion Option \$	Accumulated Deficit \$	Total \$
	Number	Amount \$					
Balance, November 30, 2019	49,529,306	25,775,730	857,647	261,788	39,370	(30,066,131)	(3,131,596)
Private placement August 2020 (note 7ai)	60,000,000	1,658,235	-	-	-	-	1,658,235
Shares for debt September 2020 (note 7aii)	6,026,499	451,987	-	-	-	-	451,987
Debt conversion October 2020 (note 7aiii)	1,907,600	143,070	-	-	-	-	143,070
Warrants issued (note 7 (c))	-	-	1,102,655	-	-	-	1,102,655
Warrants expired (note 7 (c))	-	-	(857,647)	-	-	857,647	-
Stock based compensation (note 7(b))	-	-	-	85,500	-	-	85,500
Reissuance of convertible debentures (note 10)	-	-	-	-	101,625	-	101,625
Debenture conversion (note 7aiii)	-	19,865	-	-	(19,865)	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(894,708)	(894,708)
Balance, November 30, 2020	117,463,405	28,048,887	1,102,655	347,288	121,130	(30,103,192)	(483,232)
Grant date value of warrants transferred to share capital (note 7 (c))	-	157,929	(157,929)	-	-	-	-
Warrants exercised (note 7(a))	8,340,000	519,500	-	-	-	-	519,500
Stock based compensation	-	-	-	281,815	-	-	281,815
Shares for debt	751,201	135,831	-	-	-	-	135,831
Net loss and comprehensive loss for the year	-	-	-	-	-	(2,657,111)	(2,657,111)
Balance, November 30, 2021	126,554,606	28,862,147	944,726	629,103	121,130	(32,760,303)	(2,203,197)

See accompanying notes to the consolidated financial statements.

MONARCA MINERALS INC.
Consolidated Statements of Cash Flows
For the Years Ended November 30, 2021 and 2020
Expressed in Canadian Dollars

	Note	2021	2020
Cash provided by (used in):			
Operating			
Loss for the year		\$ (2,657,111)	(894,708)
Items not affecting cash:			
Gain on debt modification		-	(312,980)
Amortization	5	796	936
Stock based compensation		281,815	85,500
		<u>(2,374,500)</u>	<u>(1,121,252)</u>
Changes in non-cash operating accounts:			
Amounts receivable		36,115	(296,725)
Prepaid expenses		18,576	(35,813)
Accounts payable and accrued liabilities		221,827	349,642
Interest payable		332,500	225,641
		<u>(1,765,482)</u>	<u>(878,507)</u>
Net cash flows from operating activities			
Investing			
Short-term investments		<u>(25,000)</u>	-
Net cash (used in) provided by investing activities			
		<u>(25,000)</u>	-
Financing			
Warrants exercised		519,500	-
Private placement	7ai	-	3,000,000
Cost of issue		-	(239,110)
Repayment of convertible debentures	10	-	(116,400)
		<u>519,500</u>	<u>2,644,490</u>
Net cash flows from financing activities			
		<u>(1,270,982)</u>	<u>1,765,983</u>
Increase/(Decrease) in cash			
		<u>1,769,640</u>	<u>3,657</u>
Cash, beginning of year			
		<u>\$ 498,658</u>	<u>1,769,640</u>
Cash, end of year			
		<u>\$ 498,658</u>	<u>1,769,640</u>
Supplemental information			
Finders warrants		0	92,600
Shares for debt		135,831	451,987
Shares issued for debenture conversion		0	143,070

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Going Concern

Monarca Minerals Inc. (the “Company” or “Monarca”), was incorporated on March 22, 1995 under the Canada Business Corporations Act. The Company’s shares are traded on the TSX Venture Exchange under the trading symbol MMN. The Company is in the process of exploring and evaluating its exploration and evaluation property interests in Mexico. The address of the Company’s corporate office and principal place of business is 390 Bay Street, Suite 806, Toronto, Ontario, Canada.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The Company presently has no proven reserves, and on the basis of information to date, has not yet determined whether any of its exploration and evaluation property interests contain economically recoverable ore resources. The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake expanded exploration and development of its exploration and evaluation properties.

At November 30, 2021, the Company had a working capital deficit of \$2,214,417 (November 30, 2020 - \$630,309) and had incurred losses since inception, and at November 30, 2021, had an accumulated deficit of \$32,760,303 (November 30, 2020 - \$30,103,192). In addition, the Company’s long-term debt, secured by certain exploration property interests, was in default as at November 30, 2021 and 2020 (see Note 10). The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company’s continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

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

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the years ended November 30, 2021 and 2020.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements of the Company for the years ended November 30, 2021 and 2020 were approved and authorized for issue by the Board of Directors on March 29, 2022.

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

3. Changes in Accounting Policies

During the year ended November 30, 2020, 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.

4. Significant Accounting Policies

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

(a) Principles of Consolidation

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

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

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

(b) Critical Judgments and Estimation Uncertainties

The preparation of consolidated financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial

4. Significant Accounting Policies – continued

statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

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

i. Assets' Carrying Values and Impairment Charges

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

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

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

iii. Income, value added, withholding and other taxes

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

iv. Share-Based Payments

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

v. Commitments and Contingencies

Refer to Notes 1, 6, 9, 10 and 15.

4. Significant Accounting Policies – continued

vi. Convertible debt

The classification of the Company's convertible debentures required Management to analyze the terms and conditions of debentures and use judgment to assess whether the debentures are a liability, equity, or a combination of the two. IAS 32 – Financial Instruments – Presentation ("IAS 32"), provides the criteria for Management to assess these complicated financial instruments to determine their appropriate classification(s). Factors considered are, but not limited to, whether the Company has a future obligation to settle the instrument in cash or exchange other assets or liabilities, the currency of settlement and if the settlement is already known to be equity, the amount will not vary based on the Company's future share price.

(c) Equipment

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

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

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

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

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

(d) Exploration and Evaluation Properties

All expenditures on exploration and evaluation activities, including costs incurred to acquire and secure exploration property licenses, are recorded as exploration expenses until it has been established that a mineral property is commercially viable.

(e) Impairment

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

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

4. Significant Accounting Policies – continued

money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of operations for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(e) Impairment - continued

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

(f) Restoration, Rehabilitation and Environmental Obligations

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

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

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

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

As at November 30, 2021 and 2020, the Company has no material restoration, rehabilitation or environmental obligations.

(g) Income Taxes

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

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

4. Significant Accounting Policies – continued

Deferred tax is provided using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position reporting date applicable to the period of expected realization or settlement.

(g) Income Taxes – continued

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

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

(h) Share-Based Payments

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

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

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

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

(i) Loss per Share

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

(j) Foreign Currency Translation

4. Significant Accounting Policies – continued

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

(j) Foreign Currency Translation - continued

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

(k) Financial Instruments

Financial Assets and Liabilities

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement- financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company’s cash, amounts receivable and note receivable are recorded at amortized cost.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of earnings (loss). The Company’s short term investments are measured at FVPL.

4. Significant Accounting Policies – continued

(k) Financial Instruments - continued

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of earnings (loss) when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are amounts and notes receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. Financial liabilities include accounts payable and accrued liabilities, interest payable, promissory notes and current portion of long-term debt. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of loss.

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

4. Significant Accounting Policies – continued

(l) Share Issue Costs

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

(m) Compound Financial Instruments

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

The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

5. Equipment

	Software	Leasehold Improvements	Total
Cost,			
November 30, 2019	\$ 17,498	\$ 13,858	\$ 31,356
Additions	-	-	-
Disposals	-	-	-
Cost,			
November 30, 2020	\$ 17,498	\$ 13,858	\$ 31,356
Additions	-	-	-
Disposals	-	-	-
Cost,			
November 30, 2021	\$ 17,498	\$ 13,858	\$ 31,356
Accumulated			
Amortization,			
November 30, 2019	\$ (12,110)	\$ (6,295)	\$ (18,405)
Charge for the year	(577)	(359)	(936)
Accumulated			
Amortization,			
November 30, 2020	\$ (12,687)	\$ (6,654)	\$ (19,341)
Charge for the year	(490)	(306)	(796)
Accumulated			
Amortization,			
November 30, 2021	\$ (13,177)	\$ (6,960)	\$ (20,137)
Net book value,			
November 30, 2020	\$ 4,811	\$ 7,204	\$ 12,015
Net book value,			
November 30, 2021	\$ 4,321	\$ 6,898	\$ 11,219

6. Exploration and Evaluation Properties

(a) Tejamen Property, State of Durango

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

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

The property has been pledged as security for the long-term debt of the Company discussed in Note 10.

(b) San Lucas Property, State of Durango

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

(c) El Sol Property

On August 3, 2020, the Company sold its 100% interest in the El Sol property located in Durango State, Mexico. The property was sold for US\$300,000 that is payable in three equal instalments to a subsidiary of Southern Silver Exploration Corp;

- i) on signing (received)
- ii) twelve months after signing (received)
- iii) eighteen months after signing (received subsequent to year-end)

In connection with this agreement, the Company has retained a 2% Net Smelter Return ("NSR") on production from the claim with the acquirer holding an option to purchase the royalty at any time for US\$1,000,000.

(d) San Jose Property

On June 10, 2019, 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 Chihuahua, Mexico. The Company was granted the right to evaluate and explore the property for a period of two years upon signing the agreement and can acquire 100% interest at the end of this period in exchange for aggregate payments of \$115,000 within the two-year period as follows:

- i. Payment of US\$5,000 (paid);
- ii. Payment of US\$50,000 on or before June 10, 2020 (paid); and
- iii. Payment of US\$60,000 on or before June 10, 2021 (paid)

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

7. Share Capital

(a) Common Shares

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

	Number	Amount
Balance November 30, 2019	49,709,306	\$ 25,775,730
Share issue (note 7a(i))	60,000,000	3,000,000
Warrants	-	(1,127,591)
Share issue (note 7a(ii))	6,026,499	451,987
Share issue (note 7a(iii))	1,907,600	143,070
Equity conversion (note 7a(iii))	-	19,865
Cost of share issue	-	(214,174)
Balance November 30, 2020	117,463,405	\$ 28,048,887
Shares for debt (note 7a(iv))	751,201	135,831
Warrants exercised (note 7a(v))	1,900,000	142,500
Warrants exercised (note 7a(vi))	4,240,000	212,000
Warrants exercised (note 7a(vii))	100,000	7,500
Warrants exercised (note 7a(viii))	1,000,000	75,000
Warrants exercised (note 7a(ix))	1,100,000	82,500
Balance November 30, 2021	126,554,606	\$ 28,862,147

- i. 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 \$92,600 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 156%; risk-free interest rate of 0.27%, expected dividend yield of 0% and an expected life of 2 years

- ii. On September 8, 2020, the Company issued 6,026,498 common shares with an estimated fair value of \$0.075 based on a quoted market price per common share to settle \$301,325 of debt pursuant to debt settlement agreements. 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
- iii. On October 21, 2020, the Company issued 1,907,600 common shares upon the conversion of \$143,070 of convertible debentures in accordance with the terms of the debenture agreements (note 10). The corresponding equity conversion option was valued at \$19,865.
- iv. 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.

7. Share Capital (continued)

- v. On February 22, 2021, 1,900,000 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 \$31,985.
- vi. 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.
- vii. 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.
- viii. 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.
- ix. 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.

(b) Share Purchase Options

The Company has a 10% rolling share purchase option plan (the "Plan") whereby options may not exceed 10% of the total number of shares issued and outstanding of the Company from time to time on a non-diluted basis. Options granted under the Plan have an exercise price equal to the quoted market price of the Company's shares and vest at the discretion of the Board.

On July 28, 2020, the Company granted 1,250,000 stock options 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% based on the historical volatility of the Company; risk-free interest rate of 0.28%, expected dividend yield of 0% and an expected life of 4 years.

On August 2, 2021, the Company granted 2,400,000 stock options to certain directors, officers and consultants of the Company. The options vest immediately, are exercisable at a price of \$0.09 per share and have a term of four years from the grant date. The fair value of the options was estimated at \$143,058 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 113% based on the historical volatility of the Company, risk-free interest rate of 0.72%, expected dividend yield of 0% and an expected life of 4 years.

On November 11, 2021, the Company granted 2,250,000 stock options to certain directors, officers, and consultants of the Company. The options vest immediately, are exercisable at a price of \$0.09 per share and have a term of four years from the grant date. The fair value of the options was estimated at \$138,757 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 122% based on the historical volatility of the Company; risk-free interest rate of 1.39%, expected dividend yield of 0% and an expected life of 4 years.

A summary of the status of the Company's stock option plan for the years ended November 30, 2021 and November 30, 2020 is as follows:

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

7. Share Capital (continued)

	Number of Options	Weighted Average Exercise Price (\$)
Balance, November 30, 2019	2,075,000	0.140
Issued	1,250,000	0.075
Balance November 30, 2020	3,325,000	0.116
Issued	4,650,000	0.085
Balance November 30, 2021	7,975,000	0.102

The weighted average remaining contractual life of the options as at November 30, 2021 is 2.38 years (2020 – 2.32 years).

(c) Share Purchase Warrants Reserve

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

	Number of warrants	Grant Date Fair Value -net of issue costs (\$)	Weighted Average Exercise Price
Balance, November 30, 2019	17,473,322	857,647	0.180
Expired	(17,473,322)	(857,647)	0.180
Granted	64,416,000	1,102,655	0.073
Balance, November 30, 2020	64,416,000	1,102,655	0.073
Exercised (note 7a(ix))	(1,100,000)	(18,518)	0.075
Exercised (note 7a(v))	(1,900,000)	(31,985)	0.075
Exercised (note 7a(vi))	(4,240,000)	(88,909)	0.050
Exercised (note 7a(vii))	(100,000)	(1,683)	0.075
Exercised (note 7a(viii))	(1,000,000)	(16,834)	0.075
Balance, November 30, 2021	56,076,000	944,726	0.0746

The following warrants are outstanding at November 30, 2021:

Number of Warrants	Exercise Price (\$)	Expiry Date
55,900,000	0.075	May 9, 2022
176,000	0.05	August 20, 2022

8. Share-Based Payment Reserve

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

	Year Ended November 30, 2021	Year Ended November 30, 2020
Balance, beginning of year	\$ 347,288	\$ 261,788
Options issued (note 7b)	281,815	85,500
Balance, end of year	\$ 629,103	\$ 347,288

9. Promissory Notes

During 2016 and 2017, the Company received \$400,000 from a company controlled by a Director of the Company. The loans are unsecured, bear interest at 5% and are due on demand.

10. Long-Term Debt

On October 9, 2012, the Company closed a convertible debenture financing for gross proceeds of \$727,500 through the issue of 72.75 units with each unit consisting of \$10,000 in convertible debentures and 100,000 common share purchase warrants, at a purchase price of \$10,000 per unit. Each warrant 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 120th 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 15th 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. Effective April 1, 2020, the Company issued new debentures in settlement of mature debentures and accrued interest.

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 new debentures was \$727,500 plus accrued interest of \$287,945 for a total of \$1,015,445.

As a result of the issuance of the new debentures, a gain of \$312,980 was recorded during the year ended November 30, 2020.

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.

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 increasing to 21% if certain covenants are not met. The Company will have the option, in its sole discretion, to pay the interest in shares based on the market price of the Company in accordance with the policies of the TSX Venture Exchange.

On October 21, 2020, the Company issued 1,907,600 common shares upon the conversion of \$143,070 of convertible debentures in accordance with the terms of the debenture agreements.

Certain covenants of this loan were not met as at November 30, 2021. As a result, the loan has been reclassified to current liabilities. See Note 1.

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

10. Long-Term Debt (continued)

During 2021, interest of \$198,137 (2020 - \$109,240) was incurred of which \$nil (2020 - \$94,645) was paid in cash. Included in interest payable on the consolidated statement of financial position as at November 30, 2021 is \$307,907 relating to this debt (2020 - \$14,595). Payments on the principal amount owing equal to \$nil were made during the year ended November 30, 2021 (2020 - \$21,755).

11. Related Party Transactions

During the years ended November 30, 2021 and 2020, the Company entered into the following transactions with related parties that are not subsidiaries of the Company and are not disclosed elsewhere in these consolidated financial statements.

- (a) Key management includes the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, the Vice President of Exploration, and the Directors. During the year ended November 30, 2021, the cash compensation paid or payable to key management for services was \$392,005 (2020 - \$203,283). Included in accounts payable and accrued liabilities at November 30, 2021 is \$120,000 (November 30, 2020 - \$50,000) due to Directors and Officers. This amount is unsecured, non-interest bearing and has no specific terms of repayment. Stock based compensation for the year ended November 30, 2021 was \$281,815 (2020 - \$85,500).
- (b) Companies controlled by a director of the Company hold \$751,243 of the long-term debt as at November 30, 2021 (2020 - \$751,243). During the year ended November 30, 2021, interest of \$170,625 (2020 - \$84,397) was accrued on the long-term debt payable to these companies and as at November 30, 2021, \$183,468 (2020 - \$12,843) is included in interest payable on the consolidated statement of financial position. This amount is unsecured, bears interest at 21% and is due on demand.
- (c) During the year ended November 30, 2021, interest accrued on the promissory notes (Note 9) totaled approximately \$20,164 (2020 - \$20,164). Included in interest payable on the consolidated statement of financial position as at November 30, 2021 is \$146,623 (2020 - \$126,459) related to this interest. The interest is payable to companies controlled by a director of the Company. This amount is unsecured, bears interest at 5% and is due on demand.
- (d) During the year ended November 30, 2021, legal fees were incurred of \$15,890 (2020 - \$31,325) 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, 2021 is \$1,450 (2020 - \$3,254) relating to these fees. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- (e) See Notes 7b, 9 and 10.
- (f) An officer and a director of the Company acquired, in aggregate, 2,900,000 units for gross proceeds of \$145,000 in the private placement closed on August 20, 2020. See Note 7a.

12. Segmented Information

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

	November 30, 2021	November 30, 2020
Mexico	\$213,844	\$415,313
Canada	\$507,779	\$1,747,364

13. Management of Capital Risk

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

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

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

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

The Company has not changed its approach to capital management during fiscal 2021 or 2020. The Company and its subsidiaries are not subject to any external capital restrictions. The Company expects that it will be necessary to raise additional capital during the current fiscal year to meet its budgeted exploration and development plans and fund operations.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

14. Financial Risk Management

	Financial instrument classification Under IFRS 9
Financial assets	
Cash	Amortized cost
Amounts receivable and note receivable	Amortized cost
Short term investment	FVPL
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Promissory notes	Amortized cost
Long-term debt	Amortized cost

Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At November 30, 2021, the Company's financial instruments carried at fair value, consisting of short term investments, were

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

14. Financial Risk Management - continued

classified as level 2 within the fair value hierarchy. At November 30, 2020, the Company had no financial instruments carried at fair value to classify in the fair value hierarchy.

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

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk, and price risk. The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during fiscal 2021 and 2020.

(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 and United States dollars. A significant change in the currency exchange rates between the Canadian dollar relative to the Mexican Peso and US dollars 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, 2021 and 2020, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos ("MP\$"):

	2021		2020	
Cash	MP\$	685,771	MP\$	216,454
Amounts receivable and prepaid expenses		481,956		844,788
Accounts payable and accrued liabilities		(824,562)		(2,014,129)
Total	MP\$	343,165	MP\$	(952,887)
Canadian dollar equivalent	CAD\$	20,315	CAD\$	(61,461)

(a) Currency Risk - continued

At November 30, 2021 and 2020, the Company is exposed to currency risk through the following assets and liabilities denominated in United States Dollars ("US\$"):

	2021		2020	
Cash	US\$	8,159	US\$	52,938
Amounts receivable and prepaid expenses		100,000		200,000
Total	US\$	108,159	US\$	252,938
Canadian dollar equivalent	CAD\$	138,357	US\$	328,237

(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.

14. Financial Risk Management - continued

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 and note 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 2021 and 2020.

(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 2021 and 2020.

(d) Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company has cash balances maintained in Canada. The Company's current policy is to invest excess cash in GICs issued by Canadian banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank. The Company's interest-bearing debt is at a fixed interest rate and is therefore not impacted by changes in interest rates.

(e) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company does not actively manage this risk as it is considered a low risk area given the Company is not a producing entity.

(f) Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period.

- Based on the net exposures as at November 30, 2021 (as seen in Note 14(a)), and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the Mexican Peso and US dollar 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 \$4,987 based on the cash balance at November 30, 2021.

15. Commitments and Contingencies

Environmental

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming

15. Commitments and Contingencies (continued)

more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Consulting Contracts

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

Legal Proceedings

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the normal course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at November 30, 2021 and 2020, no amounts have been accrued related to such matters.

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

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.

Exploration and Evaluation Properties

In order to maintain the Company's mineral concessions and titles in good standing the Company is required to pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum annual commitments of approximately \$35,000 are due within one year.

16. Income Taxes

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 26.5% (2020 – 26.5%) were as follows:

MONARCA MINERALS INC.
Notes to the Consolidated Financial Statements
As at November 30, 2021 and 2020
Expressed in Canadian Dollars

	2021	2020
Weighted average statutory income tax rate	26.5%	26.5%
(Loss) income before income taxes	\$ (2,657,112)	\$ (776,708)
Expected income tax (recovery) expense at statutory rates	(700,000)	(206,000)
Adjustment to expected income tax benefit:		
Non-deductible items for tax purposes	(75,000)	(3,000)
Other		63,000
Benefit of tax losses not recognized	775,000	264,000
Total tax provision for the year	\$ -	\$ 118,000

(b) Deferred Income Tax Balances

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

	2021	2020
Deferred income tax assets:		
Non-capital loss carry-forwards	\$ 14,800,000	\$ 14,517,000
Share issuance costs	160,000	190,000
Capital loss	27,000	27,000
Total	\$ 14,987,000	\$ 14,734,000

(c) Non-Capital Losses

The Company has non-capital losses available for income tax purposes in Canada totaling approximately \$14,800,000 which may be carried forward to reduce future year's taxable income. These losses will expire at different stages up to and including 2041:

Year of Expiry	Amount
2026	\$ 602,000
2027	1,261,000
2028	1,285,000
2029	1,522,000
2030	1,731,000
2031	495,000
2032	1,508,000
2033	1,653,000
2034	630,000
2035	412,000
2036	259,000
2037	729,000
2038	572,000
2039	843,000
2040	1,015,000
2041	283,000
	\$ 14,800,000