



# SAN MARCO

— R E S O U R C E S —

Management Discussion and Analysis  
For the Nine Months Ended August 31, 2019

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## **GENERAL**

This Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the business of San Marco Resources Inc. (“San Marco” or the “Company”) for the nine months ended August 31, 2019 (the “Current Quarter”), in comparison to the nine months ended August 31, 2018. This MD&A contains information up to and including October 29, 2019 and should be read in conjunction with the Company’s interim condensed consolidated financial statements and related notes for the Current Quarter, which have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and do not include all of the information required for full annual financial statements. The following should also be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended November 30, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the related annual MD&A for the year ended November 30, 2018, and all other disclosure documents of the Company. All amounts are stated in Canadian dollars, the reporting and functional currency of the Company, unless otherwise indicated.

Additional information relevant to the Company’s activities is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company’s web site at [www.sanmarcocorp.com](http://www.sanmarcocorp.com).

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A that are not historical facts may be forward-looking statements and prospective. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results. Readers are cautioned not to place undue reliance on these forward-looking statements. See also the **Caution Regarding Forward-Looking Statements** at the end of this MD&A.

## **OVERVIEW**

The Company was incorporated on September 27, 2005 under the *Business Corporations Act* of British Columbia. The Company is engaged in the acquisition, exploration and advancement of mineral properties, currently active in Mexico. The Company has no operations from which to derive revenues and relies on its cash, raised through the issuance of common shares, in order to fund its exploration and general and administrative expenses.

The Company's exploration portfolio includes but is not limited to the Buck Property in British Columbia, Canada, and the Chunibas, 1068, Espiritu SMR and Mariana projects in Mexico. These projects are discussed further under **Mineral Projects – Exploration and Acquisition Activities** below.

The business of mining and exploration involves a high degree of risk. As San Marco has no operations and is without revenues, it is entirely reliant on its current cash and upon future financings in order to fund its exploration and administration expenses. The Company's ability to secure future financing necessary to advance its projects, is dependent on numerous factors, many of which are outside of its control, including fluctuations in the Company's share price, investor perceptions and expectations, and global financial and metals markets. While these factors are dynamic and likely to change over time, at present, equity financing for mineral exploration companies is difficult and there can be no assurance that future financing will be available or secured. Furthermore, given the Company's recent share price and the current state of equity markets, such financing, if available, may be very dilutive to the Company's shares and shareholders. As it has in the past, the Company would likely seek additional financing through, but not limited to, the issuance of additional equity.

Title to mining properties involves certain inherent risks as well, particularly in foreign jurisdictions, including the difficulties of determining the validity of title and the potential for problems arising from numerous transfers of historical mining properties. The Company has diligently investigated the rights of ownership to all of the mineral concessions in which it has an interest and, to the best of its knowledge, such ownership rights are valid and in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

## **EXPLORATION AND ACQUISITION ACTIVITIES**

### **British Columbia, Canada**

The Company entered into an option agreement to acquire a 100% interest in the Buck Property, an intermediate sulphidation, epithermal gold/silver zinc property near the town of Houston in north-central British Columbia.

The Buck Property highlights include:

- large hydrothermal system, intensely altered and oxidized breccia bodies possibly diatreme related, all mineralization is open in all directions;
- considered to be part of the Telkwa Formation of the lower Jurassic Hazelton Group; similar to some major bulk tonnage gold deposits in B.C., such as NewGold's Blackwater-Davidson deposit;
- close proximity to several former operating mines: Equity Silver, (Equity Silver Mines Inc.), Endako (Centerra Gold Inc.) and Huckleberry (Imperial Metals Corporation);
- total of 68 prior drill holes have been conducted within the property - most holes ended in gold/silver/zinc mineralization. Mineralization extends up to 300 meters below surface suggesting bulk tonnage gold/silver/zinc potential;
- excellent exploration potential for possible new discoveries at multiple untested targets including porphyry copper deposit; high grade, structurally controlled gold/silver mineralization; and additional mineralized breccia bodies;
- road accessible with excellent infrastructure, including access to electrical and gas utilities, highways and major airports; and
- large land package totaling approximately 15,000 hectares.

To exercise the option and obtain a 100% interest in the Property, the Company must incur \$112,000 in exploration expenditures by December 31, 2019, and make cash payments totalling \$300,000 and issue 4,000,000 common shares of the Company on or before the fifth anniversary of TSX Venture Exchange approval of the Agreement. On the exercise of the option, the optionors will be granted a 2.5% net smelter return royalty on any commercial production from the Property. An additional 4,000,000 common shares are also to be issued to the optionors upon the earlier of the completion of a bankable feasibility study or the eighth anniversary of the exchange approval of the Agreement.

Property maps and further information with respect to the Buck Property are available on the Company's website. For additional details please refer to the Company's news releases of July 16, 2019, August 15, 2019, September 16, 2019 and September 24, 2019.

**Sonora, Mexico**

Current exploration activities are located in Sonora State, Mexico. Regional exploration is focused in the Sierra Madre mountains, and consists of various concessions which total 103,797 hectares. A table outlining these properties is provided below.

Concession Group <sup>(i)</sup>	Acquired	Size (hectares)	Terms
Chunibas	January 2015; from Argonaut Gold Inc.	530	Owned 100% subject to a 1% net smelter return royalty.
Mariana	February 2015; from Argonaut Gold Inc.	72,820	Purchased for a 1% net smelter return royalty (one half of which can be purchased back by the Company for US\$2.0 million) and a one-time bonus payment of US\$6 per ounce of any gold contained in the Proven and Probable Reserve categories located on the Concession Group.
Suzanne	October 2017	2,159	Owned 100% subject to a 2% net smelter return royalty.
1068	September 29, 2017	1,795	Owned 100% subject to a 2% net smelter return royalty.
La Caridad Este	May 31, 2017	7,758	Owned 100% subject to a 2% net smelter return royalty.
Agua Zarca	September 29, 2017	4,096	Owned 100% subject to a 2% net smelter return royalty.
Chapis	May 18, 2018	64	Owned 100%
Ceja Colorada	September 29, 2017	4337	Owned 100% subject to a 2% net smelter return royalty
San Martin	November 15, 2016	30	Owned 100%
La Gloria	August 13, 1993	6	Owned 100%
Espiritu SMR	October 12, 2018	2711	Owned 100%
Los Ocotes	September 18, 2018	2283	Owned 100%
El Dipo	September 18, 2018	5208	Owned 100%
Total		103,797	

(i) With respect to titles to the various concessions acquired by the Company, some have been transferred to it (in the case of purchased concessions) or remain with the underlying optionor (in the case of

optioned concessions) with the exception of the Mariana I concession (one of the Mariana Concession Group), for which title was applied by Argonaut and which is currently awaiting issuance by the Registro Publico de Minería (the Mexican public mining registry department). Pursuant to the Mariana purchase agreement, title to Mariana I concession will be transferred to the Company by Argonaut when such title is granted to Argonaut.

Property maps of San Marco's concessions are available on its website. For additional details please refer to the Company's news releases of May 14, 2014, December 16, 2014, February 10, 2015, February 25, 2015, November 29, 2017, January 10, 2018, February 27, 2018, March 26, 2018, August 9, 2018, November 6, 2018, December 20, 2018 and January 17, 2019.

In May 2018 the Company announced the acquisition of two properties through the Mexican government lottery system. Both properties are located in Sonora State and within prolific mining districts. The Company is preparing to do a first-pass ground validation and prospecting work on both properties.

On August 7, 2018, the Company entered into an Earn-In Agreement (the "Earn-In Agreement") with Antofagasta Minerals S.A. ("Antofagasta") whereby the Company granted Antofagasta the option to earn a 70% interest in the Company's Chunibas project by:

- Funding or incurring mineral property expenditures totalling US\$8,000,000 on or before the fourth anniversary of the Earn-In Agreement. Antofagasta advanced US\$100,000 for previously incurred expenditures and US\$600,000 to the Company during the year ended November 30, 2018 for exploration costs to be incurred.
- Making cash payments totalling US\$200,000 to the Company on or before the third anniversary of the Earn-In Agreement.

Upon earning the 70% interest in the Chunibas project, Antofagasta and the Company would enter into a Joint Venture agreement for further exploration of the Chunibas project.

The Company would act as the operator during the option period and be entitled to an operator's fee equal to 10% of all exploration expenditures on the Chunibas project other than airborne surveys and drilling costs for which the Company would be entitled to operator's fee equal to 5%.

The Company and Antofagasta mutually terminated this agreement during the period ended August 31, 2019.

### **Geology and Mineralization:**

With the exception of certain anomalous targets identified by the Company's exploration alliance with GlobeTrotters Resources Group Inc. ("GlobeTrotters"), greenfield exploration has been focused in the Sierra Madre Occidental area of Northern Mexico. The area is more specifically located in the Sahuaripa District, which regionally consists of Cretaceous to Tertiary sedimentary and volcanic sequences. This region is known to host numerous mineral targets representing a wide variety of mineralization types, including epithermal gold and silver, porphyry copper and molybdenum, strata-bound gold in volcanoclastics, mesothermal silver and CRD type targets (in mantos and skarns). Many of these known targets are related to NNW-trending regional structures and to multi-phase felsic plutonic rocks that intrude the older volcano-sedimentary sequences. Historic, as well as recent artisanal mineral workings are noted across most of the Chunibas property.

### **Known Targets and Work to Date:**

The Company has currently prioritized three known properties in the Sahuaripa District, namely:

- Chunibas, at which recently discovered mineralization is represented by high grade copper and silver volcanic hosted stratiform structure. High copper and silver values from rock chip sampling results aided in the definition of a mineralized "corridor" of at least 1.7 kilometres long by 300 metres in width. Follow up exploration work may be conducted by the Company or other potential interested parties in the future.
- Espiritu SMR, a recently acquired concession via the Mexican Government lottery, hosts gold and copper porphyry style of mineralization as well as lead, zinc, silver and potentially CRD mineralization. Follow up exploration work may be conducted by the Company or other potential interested parties in the future.
- 1068 (Victoria 1 concession), is a Laramide-age porphyry copper and molybdenum prospect which was recently investigated by a geophysical survey. San Marco's geological staff proposes to evaluate the various identified induced polarization chargeability targets. Follow up exploration work may be conducted by the Company or other potential interested parties in the future.

San Marco's geologists made several field visits to the area since the first concessions were acquired in May 2014, to confirm the location of certain previously identified mineral showings and conduct preliminary mapping and sampling. In March and April 2015, a three-week regional exploration program, consisting of field verifying and sampling a number of new and known targets was undertaken. Additional field work in May and June, 2015, has confirmed numerous mineralized targets expected to warrant further detailed exploration. Significant areas of the Mariana concession property remain to be evaluated.

Readers are referred to the Company's MD&A for the year ended November 30, 2014 and to any news releases noted above for a description of previous exploration and sampling results from the Chunibas and 1068 projects.

## **Other Projects**

### **Agua Zarca:**

An initial field evaluation included geological mapping, limited rock chip sampling and stream sediment sampling have been completed on the concessions. No further work is planned at this time.

### **La Caridad Este:**

An initial field evaluation included geological mapping, limited rock chip sampling and stream sediment sampling have been completed on the concessions. Preliminary results warrant further exploration work over the areas with prospective alteration zones, however, no further work is planned at this time.

### **Suzanne:**

This mining concession was staked after a target was identified by the Company's exploration alliance with GlobeTrotters. Exploration work, including rock sampling and mapping, was conducted with limited positive results. No further work is planned at this time.

### **Suanse Property:**

This property has been recently acquired through the government mineral concession lottery. Suanse property covers 1,115 hectares and is located 62 kilometres southeast of the world class Buenavista copper mine (formerly named Cananea) and 42 kilometres to the north-west of La Caridad mine (both operated by Southern Copper Corporation). Exploration work may be conducted by the Company or other potential interested parties in the future.

### **Espiritu SMR:**

This property has been recently acquired through the government mineral concession lottery. This new land acquisition covers approximately 2,712 hectares and is located less than 30 km southeast of the Company's Chunibas and 1068 projects. Exploration work may be conducted by the Company or other potential interested parties in the future.

### **Los Ocotes Property:**

This property has been recently acquired through the government mineral concession lottery. Los Ocotes property covers 2283 hectares of underexplored ground located 180 kilometres southeast of Hermosillo and 6 km northeast of Santana gold project (Minera Alamos Inc.).

Exploration work may be conducted by the Company or other potential interested parties in the future.

**El Dipo Property:**

This property has been recently acquired through the government mineral concession lottery. El Dipo property covers 5208 hectares is located approximately 100 kilometres northwest of Hermosillo, adjacent to the previously mined, high grade copper-zinc and silver Tecolote deposit. Follow up exploration work may be conducted by the Company or other potential interested parties in the future.

## **SELECTED FINANCIAL INFORMATION**

The following table sets out selected quarterly financial information derived from the Company's unaudited interim condensed consolidated financial statements for each of the eight quarters ended on the dates indicated below. The data should be read in conjunction with the Company's consolidated financial statements for the year ended November 30, 2018 and the notes thereto.

<b>Period</b>	<b>Revenue</b>	<b>Net Loss</b>	<b>Basic and Diluted Loss per share</b>
	\$	\$	\$
3 <sup>rd</sup> quarter ended August 31, 2018	Nil	247,076	0.01
2 <sup>nd</sup> quarter ended May 31, 2019	Nil	155,393	0.01
1 <sup>st</sup> quarter ended February 28, 2019	Nil	232,461	0.02
4 <sup>th</sup> quarter ended November 30, 2018	Nil	326,404	0.02
3 <sup>rd</sup> quarter ended August 31, 2018	Nil	460,162	0.03
2 <sup>nd</sup> quarter ended May 31, 2018	Nil	404,335	0.03
1 <sup>st</sup> quarter ended February 28, 2018	Nil	381,612	0.03
4 <sup>th</sup> quarter ended November 30, 2017	Nil	551,795	0.03

The Company's quarterly losses will vary primarily in accordance with its exploration activities.

## **RESULTS OF OPERATIONS**

The Company currently has no properties in production and, consequently, has no operating income or cash inflows with the exception of investment and other income. All expenses directly related to the acquisition of the Company's mineral properties have been capitalized as mineral properties. All other costs relating to exploration, evaluation and property maintenance are expensed as incurred.

**OPERATIONS DURING THE NINE MONTHS ENDED AUGUST 31, 2019  
COMPARED TO THE NINE MONTHS ENDED AUGUST 31, 2018**

The Company incurred a total loss of \$634,930 during the current nine-month period compared to \$1,246,110 during the nine-month period ended August 31, 2018.

Some of the significant changes are as follows:

- Exploration and evaluation: \$214,866 (2018 - \$447,756) – The decrease in the exploration and evaluation expenses during the current year relate to the Company focusing on strategic targets and incurring exploration expenditures on behalf of Antofagasta with respect to the Earn-In Agreement with Antofagasta signed during the year ended November 30, 2018. During the period ended August 31, 2019, the Earn-In Agreement with Antofagasta was terminated, resulting in the recognition of a recovery on exploration costs of \$106,530 which was applied against the total exploration and evaluation costs recorded during the period.
- Insurance: \$38,117 (2018 - \$7,497) – The Company incurred additional insurance cost during the current year relating to insuring its operations in Mexico.
- Investor relations: \$15,397 (2018 - \$78,253) – The Company decreased investor relation activity during the current year as it focused on executing the Earn-In Agreement with Antofagasta and exploring other strategic targets.
- Legal and professional fees: \$106,473 (2018 - \$85,199) – The increase in legal and professional fees relate to the Company assessing and negotiating several potential agreements and the execution of the Buck Property agreement.
- Share-based payments: \$48,339 (2018 - \$400,963) – This decrease in expense in the current year resulted from the recognition of value of incentive stock options granted to directors, officers, and consultants during the 2018 fiscal year and their related vesting in the current period.

Other costs incurred for the Company's operations during the current period remained relatively consistent with those incurred during the comparative period.

**OPERATIONS DURING THE THREE MONTHS ENDED AUGUST 31, 2019  
COMPARED TO THE THREE MONTHS ENDED AUGUST 31, 2018**

The Company incurred a total loss of \$247,076 during the current three-month period compared to \$721,022 during the three-month period ended August 31, 2018.

Some of the significant changes are as follows:

- Accounting and audit fees: \$28,327 (2018 - \$11,609) – The increase in accounting and audit fees during the current year relates to increased costs relating to the Company’s operations in Mexico and the termination of the Earn-In Agreement with Antofagasta during the current period.
- Exploration and evaluation: \$106,905 (2018 - \$331,005) – The decrease in the exploration and evaluation expenses during the current year relates to the Company focusing on strategic targets and incurring exploration expenditures on behalf of Antofagasta with respect to the Earn-In Agreement with Antofagasta signed during the year ended November 30, 2018. During the period ended August 31, 2019, the Earn-In Agreement with Antofagasta was terminated, resulting in the recognition of a recovery on exploration costs of \$106,530 which was applied against the total exploration and evaluation costs recorded during the period.
- Management fees: \$13,800 (2018 - \$30,800) – The decrease in management fees during the current year is due to the Company scaling back its operations in Mexico in the current period.
- Office and administration expenses: \$4,189 (2018 - \$16,305) – The decrease in office and administration expenses during the current year is due to the Company scaling back its operations in Mexico in the current period.
- Share-based payments: \$Nil (2018 - \$254,494) – This decrease in expense in the current year resulted from the recognition of value of incentive stock options granted to directors, officers, and consultants during the 2018 fiscal year which were fully vested prior to the current period.

Other costs incurred for the Company’s operations during the current quarter remained relatively consistent with those incurred during the comparative period.

## **LIQUIDITY AND CAPITAL RESOURCES**

At August 31, 2019 and November 30, 2018 the Company's liquidity and capital resources were as follows:

	<u>August 31, 2019</u>	<u>November 30, 2018</u>
	\$	\$
Cash and receivables	271,202	1,252,504
Payables and accrued liabilities	24,527	419,345
Working capital	260,024	839,946

As at August 31, 2019, the Company had \$263,719 (November 30, 2018 - \$1,171,251) in cash. The Company's plan is to continue to conserve its cash resources while focusing on further evaluating the current project portfolio and staking other claims of merit through generative work which includes the evaluation of any mineral property that might be available from the Mexican government. The Company is also exploring projects in British Columbia, Canada.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

## **RELATED PARTY TRANSACTIONS AND BALANCES**

### **Compensation of key management personnel**

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole.

The remuneration of the directors, chief executive officer and the chief financial officer were as follows:

	<u>2019</u>	<u>2018</u>
	\$	\$
Management fees <sup>(i)</sup>	265,976	195,590
Share based payments	48,339	311,835
<b>Total</b>	<b>314,315</b>	<b>507,425</b>

(i) Management fees includes \$184,076 included in exploration and evaluation costs.

Certain of the Company's officers render services to the Company through companies in which they are an officer, director, or partner.

The Company incurred the following fees and expenses with these related parties as follows:

	<b>2019</b>	<b>2018</b>
	\$	\$
Accounting fees	45,000	39,000
Legal fees	38,173	40,451
<b>Total</b>	<b>83,173</b>	<b>79,451</b>

At August 31, 2019, there was \$645 (November 30, 2018 - \$14,840) included in accounts payable and accrued liabilities that was owing to related parties for expense reimbursements, management, accounting and legal fees.

### **FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT**

As at August 31, 2019 the carrying values of the reclamation deposit, receivables, accounts payable and deposits approximate their fair values due to the short-term nature of these instruments. Cash, restricted cash and marketable securities are measured at fair value.

### **ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments classified as financial instruments at fair value through profit and loss, which are stated at fair value. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars unless otherwise specified.

#### **Exploration and evaluation expenditures**

Costs directly related to the acquisition of mineral properties are capitalized. Option payments are considered acquisition costs if the Company has the intention of exercising the underlying option.

Exploration, evaluation and property maintenance costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are expensed as incurred up to the date of establishing that property costs are economically recoverable and that the project is technically feasible.

If no economically viable ore body is discovered, previously capitalized acquisition costs are expensed in the period that the property is determined to be uneconomical or abandoned.

#### **Significant accounting estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of

accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

### **Recent accounting pronouncements**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee. During the period ended August 31, 2019, the Company adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*. The adoption of IFRS 9 did not have any significant impact on the Company's interim condensed consolidated financial statements other than the classification of financial instrument categories. The adoption of IFRS 15 did not have any impact on the Company's interim condensed consolidated financial statements.

IFRS 16 *Leases* - IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

### **CAPITAL MANAGEMENT**

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to meet the Company's exploration plans to ensure the on-going growth of the business.

The Company considers the items in the shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

Subsequent to August 31, 2019, the Company completed a three-for-one share consolidation. All share and per share figures in MD&A have been retroactively adjusted to reflect the three-for-one share consolidation.

Authorized share capital consists of an unlimited number of common shares without par value. As at the date of this MD&A, the Company had 22,888,694 common shares issued and outstanding and options outstanding to purchase common shares as follows:

<b>Number of Shares issuable under Options Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
	\$	
100,000	0.30 to 0.57	June 20, 2020
383,333	0.3	June 6, 2021
133,333	0.56	February 1, 2022
500,000	0.57	June 2, 2022
66,667	0.54	October 2, 2022
683,334	0.56	June 25, 2023
<b>1,866,667</b>		

## **EFFECTIVENESS OF DISCLOSURE CONTROLS**

The Company has internal controls over financial reporting to provide reasonable assurance as to the reliability of financial reporting and the preparation of financial statements prepared for external purposes are in accordance with IFRS. There is an inability to totally segregate duties due to the small size of the Company, but management believes these weaknesses have been mitigated through management and directors' involvement.

## **FUTURE PLANS AND OUTLOOK**

### **Exploration**

Initial investigations by the Company in the Sahuaripa District, have already resulted in the identification of a number of targets. The majority of the properties are known to comprise numerous mineral showings. As a result of the significant mineral potential in current greenfields exploration areas, the Company's success in its early exploration initiatives, the low opportunity cost of the various acquisitions, and the location of the properties in a highly mineral endowed belt and in the vicinity of several operating gold mines, San Marco's management and Board of Directors strongly believe that the Company's properties provide opportunity for increasing shareholder value.

While the Company does not intend to conduct any significant work at the La Gloria properties in the foreseeable future, it is continuing to seek opportunities to realize value from them by way of joint venture or sale and is currently entertaining business proposals for these non-core assets.

## **Corporate**

Based on the completion of the recent private placement and common share issuances through the exercise of previously granted warrants, the Company expects to have sufficient financial resources to meet its administrative overhead expenses for the next twelve months. The Company bases its decisions regarding where to direct its exploration expenditures on a number of factors including the priority of targets, the type of exploration program required to add meaningful technical understanding, and the level of financial resources available to it and is therefore able to increase or decrease these expenditures as necessary depending on its level of funding. Nonetheless, as the Company has no revenues or sources of income at this time, it will be reliant on future financing to meet its ongoing working capital and exploration expenses.

While San Marco has been successful in raising capital in the past, there can be no assurance that additional capital will be available to it in the future. Such financing, if available, it may be very dilutive to the Company's shares and shareholders. As it has in the past, the Company would likely continue to seek additional financing through, but not limited to, the issuance of additional equity.

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

Statements contained in this document that are not historical facts may be forward-looking statements and prospective. These statements appear in a number of different places in this MD&A and can be identified by words such as “estimates”, “projects”, “expects”, “intends”, “continues” “plans”, “may”, “will”, “could” or their negatives or other comparable words.

Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the commencement or advancement of exploration activities on our properties, statements about future market conditions, forecasts of future costs and expenditures, the outcome of any legal proceedings, and other expectations, intention and plans that are not historical fact. Forward-looking statements are based on certain factors and assumptions including expected economic conditions, precious metal prices, results of operations, performance, and business prospects and opportunities.

The Company considers the factors and assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions readers that these assumptions may ultimately prove to be incorrect. Forward-looking statements by their nature necessarily involve risks, uncertainties and other factors including, without limitation, the risk that precious metal prices fluctuations could adversely affect the Company, that the Company’s exploration activities may not result in profitable commercial mining operations, that competition in the precious metal industry could adversely affect the Company, that failure to obtain additional financing on a timely basis could cause the Company to reduce its interest in its properties, that compliance with and changes to environmental and other regulatory laws could adversely affect the Company, as well as other unanticipated and unusual events. These and other factors could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Consequently, all forward-looking statements made in this MD&A are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized.

For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Except as required by applicable securities laws and the Company’s disclosure policy, the Company disclaims any intention or obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise.

## **NI 43-101 DISCLOSURE**

The technical information contained in this document has been verified, and the disclosure of such technical information has been approved, by Robert D. Willis, P. Eng. a “Qualified Person” as defined in National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators.

All technical information for the Company’s exploration programs is obtained and reported under a formal quality assurance and quality control (QA/QC) program. San Marco's sample collection, integrity, and quality control and assurance procedures are in line with industry best practices.

Blanks and certified standards are routinely inserted into the drill core sample stream as part of San Marco's quality assurance and control program. Core samples are split using a hydraulic splitter, with one half retained in secure storage for logging and the other half sent to ALS Chemex Lab in Hermosillo, Sonora, Mexico or Bureau Veritas Minerals (Acme/Inspectorate) Lab in Hermosillo, Sonora, Mexico.

At ALS Chemex all samples are prepared using the PREP -31 method. Pulps weighing 125 grams are sent to ALS Chemex Lab in Vancouver, B.C. A 30 gram portion is analyzed for gold, using the Au-AA23 method. Sample results greater than 10 parts per million (“ppm”) are re-assayed, using AA23 fire assay and gravimetric finish. For silver, copper, lead and zinc, a multi-element, four acid digestion (ME -- ICP 61 is used. For initial assays of silver greater than 100 ppm, copper, lead and zinc greater than 10,000 ppm (over limits), the OG62 method is used for re-analysis.

At Bureau Veritas Minerals (Acme/Inspectorate) Lab in Mexico samples are crushed, pulverized and pulps are sent for analysis to Bureau Veritas Minerals in Vancouver. A 15 gram portion is analyzed for 36 elements using ICP-ES/MS method (AQ201). Sample results greater than 1000 ppm copper, lead, zinc, molybdenum and silver over 10 ppm, and antimony, arsenic and mercury over the detection limit are re-assayed, using hot multi-acid digestion using ICP-ES method (MA370). Samples that report gold greater than 100 parts per billion in AQ201 are analyzed by fire assay, AA finish (FA430) using a 30 gram sample. Over limit gold from FA430 and/or silver from MA370 analysis is automatically assayed (30 grams) via fire three assay fusion and gravimetric finish (FA530).

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning San Marco’s operating expenses and exploration costs is provided in the Company’s consolidated statements of net and comprehensive loss and in Note 5 of the consolidated financial statements for the year ended November 30, 2018 available on San Marco’s website at [www.sanmarcocorp.com](http://www.sanmarcocorp.com) or on its SEDAR company page accessed through [www.sedar.com](http://www.sedar.com).

**APPROVAL**

The Audit Committee of the Company has approved the disclosure contained in this MD&A.