



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
AUGUST 31, 2019 AND 2018**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SAN MARCO RESOURCES INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	August 31, 2019	November 30, 2018
	\$	\$
ASSETS		
Current assets		
Cash	263,719	792,492
Restricted cash	-	378,759
Marketable securities	1,165	1,162
Receivables	7,483	81,253
Prepaid expenses	11,914	5,625
	284,281	1,259,291
Non-current assets		
Reclamation deposit	2,000	2,000
Equipment	30,247	36,950
Exploration advances	2,191	2,158
Mineral properties (Note 4)	79,165	79,165
	397,884	1,379,564
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	24,256	40,586
Deposits	-	378,759
	24,256	419,345
Shareholders' equity		
Share capital (Note 6)	13,556,719	13,556,719
Equity reserves (Note 6)	2,558,912	2,510,573
Deficit	(15,742,003)	(15,107,073)
	373,628	960,219
	397,884	1,379,564

Nature of operations and going concern (Note 1)
Subsequent events (Note 8)

APPROVED AND AUTHORIZED BY THE DIRECTORS ON OCTOBER 29, 2019:

“ C. PRENTER ” , Director

“ R. STUART ANGUS ” , Director

SAN MARCO RESOURCES INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	For the three months ended August 31,		For the nine months ended August 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
EXPENSES				
Accounting and audit fees	28,327	11,609	94,629	71,257
Depreciation	1,378	2,559	6,605	4,354
Exploration and evaluation (Note 4)	106,905	331,005	214,866	447,756
Insurance	13,074	3,382	38,117	7,497
Investor relations	6,288	10,006	15,397	78,253
Legal and professional fees	57,910	57,165	106,473	85,199
Management fees (Note 5)	13,800	30,800	81,900	69,300
Office and administration expenses	4,189	16,305	18,555	41,400
Share-based payments (Note 5)	-	254,494	48,339	400,963
Transfer agent and filing fees	8,579	5,977	15,812	18,009
Travel	853	341	17,797	13,188
Total Expenses	241,303	723,643	658,490	1,237,176
OTHER ITEMS				
Foreign exchange gain (loss)	(5,918)	1,466	21,285	(16,946)
Interest income	145	2,049	2,275	9,119
Unrealized loss on marketable securities	-	(894)	-	(1,107)
Total Other Items	(5,773)	2,621	23,560	(8,934)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	(247,076)	(721,022)	(634,930)	(1,246,110)
Basic and diluted loss per common share	(0.01)	(0.03)	(0.03)	(0.06)
Weighted average number of common shares outstanding – basic and diluted	22,638,694	22,106,955	22,638,694	22,006,464

SAN MARCO RESOURCES INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
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	For the nine months ended August 31,	
	2019	2018
	\$	\$
OPERATING ACTIVITIES		
Net and comprehensive loss for the period	(634,930)	(1,246,110)
Items not affecting cash:		
Depreciation	6,605	4,354
Share-based payments	48,339	400,963
Unrealized gain on marketable securities	-	1,107
Shares issued for exploration and evaluation expenses	-	32,000
Foreign exchange	60	34
Changes in non-cash working capital items:		
Receivables	73,770	(27,700)
Prepaid expenses	(6,289)	(7,945)
Accounts payable and accrued liabilities	(16,328)	20,850
Net cash provided by (used in) operating activities	(528,773)	(822,447)
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(31,505)
Deposits	(378,759)	784,642
Net cash used in investing activities	(378,759)	753,137
FINANCING ACTIVITIES		
Proceeds from exercise of warrants and options	-	220,538
Net cash provided by financing activities	-	220,538
INCREASE (DECREASE) IN CASH	(907,532)	151,228
CASH, BEGINNING OF THE PERIOD	1,171,251	1,579,424
CASH, END OF THE PERIOD	263,719	1,730,652
CASH, END OF THE PERIOD, being:		
Cash	263,719	946,011
Restricted Cash	-	784,641
CASH, END OF THE PERIOD	263,719	1,730,652

SAN MARCO RESOURCES INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited – Prepared by Management)
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	Share Capital		Equity	Deficit	Total
	Common Shares		Reserves		Shareholders'
	#	\$	\$	\$	\$
Balance at November 30, 2017	21,571,944	13,126,754	2,106,005	(13,534,560)	1,698,199
Exercise of warrants	423,417	223,362	(32,824)	-	190,538
Exercise of stock options	100,000	54,000	(24,000)	-	30,000
Shares issued for exploration and evaluation expenses	66,667	32,000	-	-	32,000
Share-based payments	-	-	400,963	-	400,963
Net and comprehensive loss for the period	-	-	-	(1,246,110)	(1,246,110)
Balance at August 31, 2018	22,162,028	13,436,116	2,450,144	(14,780,670)	1,105,590
Balance at November 30, 2018	22,638,694	13,556,719	2,510,573	(15,107,073)	960,219
Share-based payments	-	-	48,339	-	48,339
Net and comprehensive loss for the period	-	-	-	(634,930)	(634,930)
Balance at August 31, 2019	22,638,694	13,556,719	2,558,912	(15,742,003)	373,628

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED AUGUST 31, 2019 AND 2018
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1. NATURE OF OPERATIONS AND GOING CONCERN

San Marco Resources Inc. (“the Company”) was incorporated on September 27, 2005 under the *Business Corporations Act* of British Columbia. The Company’s mailing address is 17th Floor – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The registered and records office address is Suite 704 – 595 Howe Street, Vancouver, BC, V6C 2T5.

The Company is engaged in the acquisition, exploration and development of precious metal properties in Mexico and Canada.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain resources that are economically recoverable. The realization of amounts shown for mineral properties and related deferred costs is dependent upon the discovery and exploitation of economically recoverable resources, the ability of the Company to obtain necessary financing to complete development, and attaining future profitable production or proceeds from the disposition of such properties.

These interim condensed consolidated financial statements have been prepared by management on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At August 31, 2019, the Company had not yet achieved profitable operations and has an accumulated deficit of \$15,742,003 since its inception. A number of alternatives including, but not limited to selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. These material uncertainties may cast significant doubt on the entity’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended November 30, 2018, which have been prepared in accordance with IFRS as issued by IASB. The accounting policies adopted are consistent with those of the previous financial year, except for recent accounting pronouncements as described in Note 3 below. The Board of Directors approved the interim condensed consolidated financial statements on October 29, 2019.

Subsequent to August 31, 2019, the Company completed a three-for-one share consolidation. All share and per share figures in these interim condensed consolidated financial statements have been retroactively adjusted to reflect the three-for-one share consolidation.

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3. 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.

4. MINERAL PROPERTIES

A summary of capitalized acquisition costs is as follows:

	CHUNIBAS PROJECT
	\$
Balance at November 30, 2017 and 2018	79,165
Cash payments	-
Balance at August 31, 2019	79,165

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED AUGUST 31, 2019 AND 2018
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4. MINERAL PROPERTIES (continued)

Exploration and evaluation costs incurred during the nine months ended August 31, 2019 and 2018 are as follows:

	BUCK	CHUNIBAS	1068	OTHER PROJECTS	TOTAL
	\$	\$	\$	\$	\$
Field supplies and on-site expenses	14,484	1,190	-	23,137	38,811
Geological consulting	9,800	19,877	-	145,601	175,278
Geophysics, topographic, mapping	14,440	-	-	3,702	18,142
Mineral rights	-	-	3,616	58,351	61,967
Sampling, prospecting, study	14,030	-	346	509	14,885
Travel expenses	4,479	81	-	7,753	12,313
	57,233	21,148	3,962	239,053	321,396
Less: recovery of exploration costs	-	(106,530)	-	-	(106,530)
Expenses for the nine months ended August 31, 2019	57,233	(85,382)	3,962	239,053	214,866
Field supplies and on-site expenses	-	93,868	9,492	11,151	114,512
Geological consulting	-	201,538	52,984	3,169	257,690
Geophysics, topographic, mapping	-	-	37,539	32,000	69,539
Mineral rights	-	9,741	5,357	34,999	50,097
Sampling, prospecting, study	-	33,318	-	3,277	36,595
Travel expenses	-	36,472	6,725	6,556	49,753
	-	374,937	112,097	91,152	578,186
Less: recovery of exploration costs	-	(130,430)	-	-	(130,430)
Expenses for the nine months ended August 31, 2018	-	244,507	112,097	91,152	447,756

Buck

On July 16, 2019, the Company entered into an option agreement (the “Agreement”) to acquire a 100% interest in a mineral property in north-central British Columbia (the “Property”). 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.

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4. MINERAL PROPERTIES (continued)

Chunibas

On January 22, 2015, the Company signed an option agreement with Argonaut Gold Inc. (“Argonaut”) to acquire a concession in the El Chunibas area in northwestern Mexico, for cash payments of US\$50,000 over two years. The Company paid \$12,250 (US\$10,000) during fiscal 2015 and the remaining \$54,511 (US\$40,000) during the year ended November 30, 2016. Argonaut retains a 1% net smelter return (“NSR”) royalty on any future production, one half of which can be purchased by the Company for US\$1,000,000.

On January 27, 2015, the Company acquired 100% ownership of an additional claim in the El Chunibas area in northwestern Mexico for \$12,404 (US\$10,000). There is no retained interest or future royalty payable to the counterparty to the acquisition agreement, a private Mexican citizen.

On August 7, 2018, the Company entered into an Earn-In Agreement (the “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 Agreement. Antofagasta advanced US\$700,000 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 Agreement.

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

In accordance with the terms of the Agreement, US\$100,000 (CAD\$130,430) of the US\$700,000 advanced by Antofagasta was recorded as reimbursement against previously incurred exploration and evaluation costs and was recorded as recovery of exploration and evaluation costs during the year ended November 30, 2018.

The Company shall act as the operator during the option period and shall be entitled to 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 shall be entitled to operator’s fee equal to 5%.

During the period ended August 31, 2019, the Company and Antofagasta mutually terminated the Agreement, and accordingly the Company recorded a recovery of exploration costs of \$106,530 on the consolidated statement of comprehensive loss.

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4. MINERAL PROPERTIES (continued)

Other Projects

On May 3, 2016, the Company entered into an Exploration Alliance Agreement with GlobeTrotters Resources Group Inc. (“GlobeTrotters”) to generate and acquire new high potential mineral targets primarily in the state of Sonora, Mexico. The Company was granted an exclusive three-year license to use the data generated from GlobeTrotters’ analysis, filtering and initial target selection through the imagery and data files which GlobeTrotters acquired from the state of Sonora. The data from GlobeTrotters has resulted in identification of various properties, such as La Caridad Este, La Pitahaya, Aqua Zarca, Ofelia, Suzanne, and Victoria 1 (1068 project).

Pursuant to the Exploration Alliance Agreement, the Company will hold all interest in properties acquired as part of the collaborative effort with GlobeTrotters entitled to a 2% NSR royalty on all properties in which the Company acquires a 100% interest. For properties in which the Company acquires less than 100% interest, it will pay GlobeTrotters 20% of all future consideration received in respect of the property, reducing to 10% after the commencement of commercial production. As consideration for the acquisition of the license, the Company issued 333,333 common shares to GlobeTrotters on May 20, 2016, valued at \$90,000, which was recognized as property investigation costs within exploration and evaluation expenses.

During the period ended August 31, 2019, the Company terminated the three year old Exploration Alliance Agreement with GlobeTrotters.

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5. 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 and the chief executive officer for the nine months ended August 31, 2019 and 2018 were as follows:

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

(i) Management fees includes \$81,900 (2018 – \$69,300) in management fees and \$184,076 in exploration and evaluation costs (2018 - \$126,290) in fees paid to related parties.

Transactions with other related parties

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 during the nine months ended August 31, 2019 and 2018 with these related parties as follows:

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

Related party balances

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.

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6. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized

Unlimited number of common shares without par value

b) Issued

During the nine months ended August 31, 2019:

The Company did not issue any common shares during the nine months ended August 31, 2019.

During the nine months ended August 31, 2018:

The Company issued 423,417 common shares for gross proceeds of \$190,538 pursuant to the exercise of share purchase warrants and 100,000 common shares for gross proceeds of \$30,000 pursuant to the exercise of stock options.

c) Stock options

The Company's stock option transactions are as follows:

	Number of Shares issuable under Options	Weighted Average Exercise Price
		\$
Shares issuable under Options outstanding at November 30, 2017	1,426,667	0.54
Granted	950,000	0.57
Exercised	(100,000)	0.3
Cancelled	(283,333)	0.57
Shares issuable under Options outstanding at November 30, 2018	1,993,334	0.57
Expired	(126,667)	1.5
Shares issuable under Options outstanding and exercisable at August 31, 2019	1,866,667	0.51

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6. SHARE CAPITAL AND EQUITY RESERVES (continued)

As at August 31, 2019, the following stock options were outstanding:

Number of Shares issuable under Options Outstanding	Exercise Price	Expiry Date
	\$	
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
1,866,667		

As at August 31, 2019, the stock options outstanding have a weighted average outstanding life of 2.83 years.

The Company has a 10% rolling stock option plan whereby the Company may from time to time, in accordance with the TSX Venture Exchange (“Exchange”) requirements, grant to directors, officers, employees and consultants options to purchase common shares of the Company. The options can be granted for a maximum of 5 years, the vesting provisions are determined by the Board of Directors and, the exercise price of each option is required to be no less than the market price of the Company’s stock as calculated immediately preceding the day of the grant and shall not be less than \$0.10 per share.

On February 1, 2018, the Company granted a stock option to an officer of the Company to purchase 133,333 common shares. The option is exercisable for four years from the date of grant at a price of \$0.56 per share, and vests, as to 25% on the date of grant, and 25% every three months thereafter.

On February 14, 2018, the Company granted a stock option to a consultant of the Company to purchase 100,000 common shares. The option is exercisable for three years from the date of grant at a price of \$0.65 per share, and vests, as to 25% on the date of grant, and 25% every three months thereafter. This stock option was cancelled during the year ended November 30, 2018 as a result of the termination of the services provided by the consultant.

On June 25, 2018 the Company granted stock options to certain officers and directors of the Company to purchase a total of 633,333 common shares. The options are exercisable for five years from the date of grant at a price of \$0.56 per share, and vest, as to 25% each, on the date of grant, and every three months thereafter.

On June 25, 2018 the Company granted stock options to certain consultants of the Company to purchase a total of 83,333 common shares. The options are exercisable for five years from the date of grant at a price of \$0.56 per share, and vest, as to 50% each, on the date of grant, and three months thereafter.

During the nine months ended August 31, 2019, the Company recorded share-based payments of \$48,339 (2018 - \$146,469) in connection with the stock options granted and vested during the period.

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6. SHARE CAPITAL AND EQUITY RESERVES (continued)

The fair value of the stock options granted was estimated as at the date of the grant using the Black-Scholes Option Pricing Model and the following weighted average assumptions:

	2019	2018
Risk free interest rate	-	1.95%
Expected life of options	-	3.20 years
Expected dividend yield	-	0%
Expected stock price volatility	-	117%
Exercise price	-	\$0.60
Stock price	-	\$0.56
Weighted average fair value per option	-	\$0.51

d) Warrants

The Company's warrant transactions are as follows:

	Number of Shares issuable under Warrants	Weighted Average Exercise Price
		\$
Shares issuable under Warrants outstanding at November 30, 2017	3,564,083	0.24
Exercised	(900,083)	0.30
Expired	(423,333)	0.45
Shares issuable under Warrants outstanding at November 30, 2018	2,240,667	0.84
Expired	(2,240,667)	0.84
Shares issuable under Warrants outstanding at August 31, 2019	-	-

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7. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada and Mexico in one business segment being the exploration and development of mineral properties. Geographical information for the Company's significant non-current assets is as follows:

August 31, 2019	Canada	Mexico
	\$	\$
Reclamation deposit	2,000	-
Equipment	1,187	29,060
Exploration advances	-	2,191
Mineral properties	-	79,165
	3,187	110,416
November 30, 2018	Canada	Mexico
	\$	\$
Reclamation deposit	2,000	-
Equipment	1,396	35,554
Exploration advances	-	2,159
Mineral properties	-	79,165
	3,396	116,878

8. SUBSEQUENT EVENTS

Subsequent to August 31, 2019:

- i. The Company made a cash payment of \$25,000 and issued 250,000 common shares pursuant to the Buck Property Agreement described in Note 4.
- ii. The Company modified the expiry dates of 100,000 stock options to June 20, 2020. The stock options were issued to a former director of the Company who resigned from the Board of Directors during the nine months ended August 31, 2019.