



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

AUGUST 31, 2020 AND 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS



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

The accompanying unaudited condensed interim 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.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	August 31, 2020 (Unaudited)	November 30, 2019 (Audited)
	\$	\$
ASSETS		
Current assets		
Cash	4,282,283	411,091
Marketable securities	1,490	1,162
Receivables	35,168	23,715
Prepaid expenses	32,530	47,847
	4,351,471	483,815
Non-current assets		
Reclamation deposit	2,000	2,000
Equipment	8,045	26,768
Exploration advances	41,965	2,241
Mineral properties (Note 4)	75,178	141,665
	4,478,659	656,489
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	137,525	28,166
Flow-through premium (Note 6)	121,602	-
	259,127	28,166
Shareholders' equity		
Share capital (Note 7)	18,841,866	13,896,908
Equity reserves (Note 7)	3,190,761	2,675,388
Deficit	(17,813,095)	(15,943,973)
	4,219,532	628,323
	4,478,659	656,489

Nature of operations and going concern (Note 1)
Subsequent events (Note 10)

Commitments (Note 9)

APPROVED AND AUTHORIZED BY THE DIRECTORS ON OCTOBER 29, 2020:

“ C. B. PRENTER ” , Director

“ R. S. ANGUS ” , Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

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

	For the three months ended		For the nine months ended	
	2020	August 31, 2019	2020	August 31, 2019
	\$	\$	\$	\$
EXPENSES				
Accounting and audit fees	24,039	28,327	84,574	94,629
Advertising and promotion	39,688	-	90,936	-
Depreciation	1,972	1,378	5,648	6,605
Exploration and evaluation (Note 4)	348,017	106,905	828,627	214,866
Insurance	4,755	13,074	8,591	38,117
Investor relations	65,421	6,288	169,531	15,397
Legal and professional fees	26,671	57,910	83,918	106,473
Management fees (Note 5)	35,350	13,800	67,550	81,900
Office and administration expenses	8,419	4,189	22,878	18,555
Wages and benefits (Note 5)	150,733	-	390,935	48,339
Transfer agent and filing fees	15,432	8,579	28,776	15,812
Travel	(0)	853	11,172	17,797
Total Expenses	720,496	241,303	1,793,135	658,490
OTHER ITEMS				
Foreign exchange gain (loss)	(10,560)	(5,918)	(12,964)	21,285
Gain on disposition of equipment	-	-	5,657	-
Interest income	310	145	1,799	2,275
Impairment of mineral property (Note 4)	-	-	(79,165)	-
Recovery of flow-through premium (Note 6)	8,358	-	8,358	-
Unrealized gain on marketable securities	68	-	328	-
Total Other Items	(1,824)	(5,773)	(75,987)	23,560
NET AND COMPREHENSIVE LOSS FOR THE PERIOD				
	(722,320)	(247,076)	(1,869,122)	(634,930)
Basic and diluted loss per common share	(0.02)	(0.01)	(0.06)	(0.03)
Weighted average number of common shares outstanding – basic and diluted	41,592,847	22,638,694	33,979,553	22,638,694

SAN MARCO RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

	For the nine months ended August 31,	
	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(1,869,122)	(634,930)
Items not affecting cash:		
Depreciation	5,648	6,605
Share-based payments	314,754	48,339
Recovery of flow-through premium (Note 6)	(8,358)	-
Loss on disposition of property and equipment	(5,657)	-
Unrealized gain on marketable securities	(328)	-
Impairment of mineral property	79,165	-
Foreign exchange	(1,036)	60
Changes in non-cash working capital items:		
Receivables	(11,453)	73,770
Prepaid expenses	15,317	(6,289)
Accounts payable and accrued liabilities	109,359	(16,328)
Net cash used in operating activities	(1,371,710)	(528,773)
INVESTING ACTIVITIES		
Exploration advances	(40,000)	-
Purchase of property and equipment	(9,138)	-
Purchase of mineral properties	(12,678)	-
Sale of property and equipment	29,181	-
Deposits	-	(378,759)
Net cash used in investing activities	(32,635)	(378,759)
FINANCING ACTIVITIES		
Proceeds from issuance of shares, net	5,255,397	-
Proceeds from exercise of warrants and options	20,140	-
Net cash provided by financing activities	5,275,537	-
CHANGE IN CASH	3,871,192	(907,532)
CASH, BEGINNING OF THE PERIOD	411,091	1,171,251
CASH, END OF THE PERIOD	4,282,283	263,719

SAN MARCO RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital Common Shares		Equity Reserves	Deficit	Total Shareholders' Equity
	#	\$	\$	\$	\$
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	-	-	-	(634,930)	(634,930)
Balance at August 31, 2019	22,638,694	13,556,719	2,558,912	(15,742,003)	373,628
Balance at November 30, 2019	26,651,028	13,896,908	2,675,388	(15,943,973)	628,323
Shares issued for cash	22,835,694	5,611,073	-	-	5,611,073
Flow-through premium	-	(129,960)	-	-	(129,960)
Share issuance costs	-	(573,421)	217,745	-	(355,676)
Exercise of warrants	152,052	37,266	(17,126)	-	20,140
Share-based payments	-	-	314,754	-	314,754
Net and comprehensive loss	-	-	-	(1,869,122)	(1,869,122)
Balance at August 31, 2020	49,638,774	18,841,866	3,190,761	(17,813,095)	4,219,532

SAN MARCO RESOURCES INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Expressed in Canadian Dollars)
(Unaudited)

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 and its shares trade on the TSX Venture Exchange (the “Exchange”) under the symbol SMN. The Company’s mailing address is 1700 – 1030 W. 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 British Columbia, Canada and Mexico.

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 condensed interim 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, 2020, the Company had not yet achieved profitable operations and has an accumulated deficit of \$17,813,095 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 condensed interim 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.

In March 2020 the World Health Organization declared the CoViD-19 illness, caused by the novel coronavirus, to be a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. Currently the global pandemic has not had a significant effect on the Company’s operations other than certain delays and ensuring new protocols are being implemented in order to reduce the risk of further spread.

2. BASIS OF PRESENTATION

The condensed interim 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 condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended November 30, 2019, 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 condensed interim consolidated financial statements on October 29, 2020.

3. RECENT ACCOUNTING PRONOUNCEMENTS

During the period ended August 31, 2020, the Company adopted IFRS 16 *Leases*. This standard sets out a new model for lease accounting. The adoption of this standard did not have a material impact on the Company’s financial statements.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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4. MINERAL PROPERTIES

A summary of capitalized acquisition costs is as follows:

	BUCK PROPERTY	OTHER PROJECTS	TOTAL
	\$	\$	\$
Balance at November 30, 2018	-	79,165	79,165
Additions:			
Cash payments	25,000	-	25,000
Common shares issued (Note 7)	37,500	-	37,500
Balance, November 30, 2019	62,500	79,165	141,665
Additions:			
Cash payments	12,678	-	12,678
Write-down	-	(79,165)	(79,165)
Balance, August 31, 2020	75,178	-	75,178

Exploration and evaluation costs incurred during the nine months ended August 31, 2020 and 2019 are as follows:

	BUCK PROPERTY	OTHER PROJECTS	TOTAL
	\$	\$	\$
Field supplies and on-site expenses	179,270	236	179,506
Geological consulting	78,109	14,013	92,122
Geophysics, topographic and mapping	63,032	-	63,032
Mineral rights	-	8,809	8,809
Sampling, prospecting and study	409,252	-	409,252
Travel and accommodation expenses	69,575	6,331	75,906
Expenses for the nine months ended August 31, 2020	799,238	29,389	828,627
Field supplies and on-site expenses	14,484	24,327	38,811
Geological consulting	9,800	165,478	175,278
Geophysics, topographic and mapping	14,400	3,742	18,142
Mineral rights	-	61,967	61,967
Sampling, prospecting and study	14,030	855	14,885
Travel and accommodation expenses	4,479	7,834	12,313
	57,193	264,203	321,396
Less: recovery of exploration costs	-	(106,530)	(106,530)
Expenses for the nine months ended August 31, 2019	57,193	157,673	214,866

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4. MINERAL PROPERTIES (continued)

Buck Property

As of July 5, 2019, the Company entered into an option agreement (the “Buck Agreement”) to acquire a 100% interest in a mineral property in north-central British Columbia (the “Buck Property”). To exercise the option and obtain a 100% interest in the Buck Property, the Company must incur \$112,000 in exploration expenditures by December 31, 2019 (incurred), and make cash payments totalling \$300,000 and issue 4,000,000 common shares of the Company on or before the fifth anniversary of Exchange approval of the Buck Agreement, on October 9, 2019, as follows:

	Cash	Common shares
	\$	#
On October 9, 2019 (paid and issued)	25,000	250,000
On or before October 9, 2020 (paid and issued subsequent to August 31, 2020)	25,000	400,000
On or before October 9, 2021	25,000	500,000
On or before October 9, 2022	25,000	750,000
On or before October 9, 2023	50,000	1,000,000
On or before October 9, 2024	150,000	1,100,000
Total	300,000	4,000,000

On the exercise of the option, the optionors will be granted a 2.5% net smelter return (“NSR”) 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’s approval of the Buck Agreement on October 9, 2019.

During the nine months ended August 31, 2020, the Company made cash payments totalling \$12,678 to stake additional claims adjacent to the existing claims comprising the Buck Property.

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% 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.

During the nine months ended August 31, 2020, the Company recorded a write-down of \$79,165 (2019 - \$Nil), pertaining to the capitalized acquisition costs of the Cuatro de Mayo project in Mexico. Currently the Company does not have any future plans to continue exploration work on the property.

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5. RELATED PARTY TRANSACTIONS

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, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Management fees ⁽ⁱ⁾	114,200	265,976
Share based payments – included in wages and benefits	230,167	48,339
Total	344,367	314,315

(i) Management fees includes \$67,300 (2019 – \$81,900) in management fees and \$46,900 (2019 - \$184,076) in exploration and evaluation costs paid to related parties.

Transactions with other related parties

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

The Company incurred the following fees and expenses during the nine months ended August 31, 2020 and 2019 with these related parties as follows:

	2020	2019
	\$	\$
Accounting fees	55,300	45,000
Legal fees	40,378	38,173
Legal fees related to share issuance costs	58,100	-
Total	153,778	83,173

At August 31, 2020, there was \$Nil (November 30, 2019 - \$17,102) included in accounts payable and accrued liabilities that was owing to related parties for accounting and legal fees.

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6. FLOW-THROUGH PREMIUM

During the nine months ended August 31, 2020, the Company issued flow-through units and recognized a non-cash deferred flow-through premium of \$129,960 as the difference between the fair value of the amounts recognized as equity and the amounts paid by investors. During the nine months ended August 31, 2020, the Company recognized \$8,358 as recovery of the deferred flow-through premium liability as other income based on the amount of eligible expenditures incurred. As at August 31, 2020, the remaining unrealized flow-through premium was \$121,602.

7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized

Unlimited number of common shares without par value

b) Issued

During the nine months ended August 31, 2020:

- i. The Company issued 266,667 flow-through common shares pursuant to a private placement for gross proceeds of \$40,000.
- ii. The Company issued 5,813,703 units at a price of \$0.135 per unit for gross proceeds of \$784,850. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant entitling the purchase of one common share for three years at a price of \$0.20.

In connection with the private placement, the Company paid cash finders' fees of \$37,100 and issued 274,820 finders' warrants, with each warrant exercisable to purchase one common share for one year at a price of \$0.135. The Company also incurred other share issuance costs of \$9,750 in connection with the private placement.

- iii. The Company issued 3,000,039 units at a price of \$0.23 per unit for gross proceeds of \$690,009. Each unit consisted of one common share and one share purchase warrant to purchase one common share for three years at a price of \$0.30. The Company incurred share issuance costs of \$11,639 in connection with the private placement.
- iv. The Company issued 13,755,285 flow-through units for gross proceeds of \$4,096,214. Each unit consisted of one flow-through common share and one-half share purchase warrant, with each whole warrant entitling the purchase of one (non flow-through) common share for two years at a price of \$0.34.

In connection with the private placement, the Company paid cash finders' fees of \$259,602 and issued a total of 858,513 finders' warrants, with each warrant exercisable to purchase one common share for two years at prices ranging from \$0.26 to \$0.34. The Company also incurred other share issuance costs of \$36,350 in connection with the private placement.

- v. The Company issued 152,052 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$20,140. In connection with the exercise of the share purchase warrants, the Company reallocated \$17,126 from equity reserves to share capital.

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7. SHARE CAPITAL AND EQUITY RESERVES (continued)

b) Issued (continued)

During the nine months ended August 31, 2019:

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

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, 2018	1,993,334	0.57
Expired	(126,667)	1.50
Cancelled	(116,667)	0.48
Shares issuable under Options outstanding at November 30, 2019	1,750,000	0.50
Granted	1,775,000	0.18
Expired	(100,000)	0.48
Shares issuable under Options outstanding at August 31, 2020	3,425,000	0.36
Shares issuable under Options exercisable at August 31, 2020	2,987,500	0.31

As at August 31, 2020, the following stock options were outstanding:

Number of Shares issuable under Options Outstanding	Exercise Price	Expiry Date
	\$	
50,000	0.18	March 7, 2021
350,000	0.30	June 6, 2021
133,333	0.56	February 1, 2022
500,000	0.57	June 2, 2022
66,667	0.54	October 2, 2022
600,000	0.56	June 25, 2023
1,125,000	0.18	February 6, 2025
300,000	0.30	June 1, 2025
150,000	0.30	June 15, 2025
150,000	0.31	August 4, 2025
3,425,000		

As at August 31, 2020 the stock options outstanding have a weighted average outstanding life of 3.23 years.

The Company has a 10% rolling stock option plan whereby the Company may from time to time, in accordance with the Exchange's 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.

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7. SHARE CAPITAL AND EQUITY RESERVES (continued)

c) Stock options (continued)

During the nine months ended August 31, 2020, the Company granted stock options to various directors, officers and consultants of the Company to purchase 1,775,000 common shares. Each stock option is exercisable at prices ranging from \$0.18 to \$0.31 per common share for a period ranging from thirteen months to five years.

During the nine months ended August 31, 2020, the Company recorded share-based payments of \$314,574 (2019 - \$48,339) in connection with the stock options granted and vested during the period. 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:

	2020	2019
Risk free interest rate	1.02%	-
Expected life of options	4.90 years	-
Expected dividend yield	0%	-
Expected stock price volatility	153%	-
Exercise price	\$0.22	-
Stock price	\$0.23	-
Weighted average fair value per option	\$0.21	\$ -

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, 2018	2,240,667	0.84
Expired	(2,240,667)	
Issued	3,887,134	
Shares issuable under Warrants outstanding at November 30, 2019	3,887,134	0.20
Exercised	(152,052)	
Issued	13,917,867	
Shares issuable under Warrants outstanding at August 31, 2020	17,652,949	0.28

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7. SHARE CAPITAL AND EQUITY RESERVES (continued)

d) Warrants (continued)

As at August 31, 2020, the following share purchase warrants were outstanding:

Number of Shares issuable under Warrants	Exercise Price	Expiry Date
	\$	
99,000	0.12	November 21, 2020
148,568	0.135	February 19, 2021
3,762,334	0.20*	November 21, 2022
2,906,852	0.20	February 19, 2023
3,000,039	0.30	May 29, 2020
7,332,503	0.34	July 23, 2020
403,653	0.26	July 23, 2020
17,652,949		

* The exercise price of these warrants will increase to \$0.25 on November 22, 2021.

As at August 31, 2020, the warrants outstanding have a weighted average outstanding life of 2.18 years.

During the nine months ended August 31, 2020, the Company issued 1,133,313 finders' warrants in connection with a private placement completed during the period. The Company recorded share issuance costs of \$217,745 in connection with the finders' warrants. The fair value of the finders' warrants 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	0.58%	-
Expected life of warrants	1.76 years	-
Expected dividend yield	0%	-
Expected stock price volatility	140%	-
Exercise price	\$0.26	-
Stock price	\$0.29	-
Weighted average fair value per warrants	\$0.19	\$ -

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8. 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, 2020	Canada	Mexico	Total
	\$	\$	\$
Reclamation deposit	2,000	-	2,000
Equipment	8,045	-	8,045
Exploration advances	40,000	1,965	41,965
Mineral properties	75,178	-	75,178
	125,223	1,965	127,188

November 30, 2019	Canada	Mexico	Total
	\$	\$	\$
Reclamation deposit	2,000	-	2,000
Equipment	4,557	22,211	26,768
Exploration advances	-	2,241	2,241
Mineral properties	62,500	79,165	141,665
	69,057	103,617	172,674

9. COMMITMENTS

During the nine months ended August 31, 2020, the Company issued flow-through common shares for gross proceeds of \$4,136,214. Expenditures related to the use of flow-through share proceeds are not available as a tax deduction to the Company as the tax benefits of these expenditures are renounced to the investors. As at August 31, 2020, the Company had \$3,954,133 in unspent flow-through funds. The Company is required to incur these expenditures before December 31, 2020 under the general rule and before December 31, 2021 under the look-back rule. The Government of Canada has announced that it may extend the look-back rule by one year which would mean the Company has until December 31, 2022 to incur these expenditures.

10. SUBSEQUENT EVENTS

Subsequent to August 31, 2020:

- The Company issued 156,650 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$30,067.
- The Company made a cash payment of \$25,000 and issued 400,000 common shares pursuant to the Buck Agreement.