SAN MARCO RESOURCES

Management Discussion and Analysis
November 30, 2018

## 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 year ended November 30, 2018. This MD&A contains information up to and including March 29, 2019 and should 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") as issued by the International Accounting Standards Board ("IASB"). All amounts are stated in Canadian dollars unless otherwise indicated.

Additional information relevant to the Company's activities is available on SEDAR at www.sedar.com and the Company's web site at 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.

During and subsequent to the year ended November 30, 2018, the Company issued 2,700,250 common shares for gross proceeds of $262,037 pursuant to the exercise of share purchase warrants, 300,000 common shares for gross proceeds of $30,000 pursuant to the exercise of stock options and 200,000 common shares with a fair value of $32,000 pursuant to the acquisition of drilling data which has been included in the statement of comprehensive loss under exploration and evaluation expense.

The Company's exploration portfolio includes but is not limited to 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

### 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 93,595 hectares. A table outlining these properties is provided below.

| Concession Group (i) | 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 | 2159 | 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 Gold and which is currently awaiting issuance by the Registration Direction de Minas (the Mexican 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 and March 26 2018.

In May 2018 the Company announced the acquisition of two properties through 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 works 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 has advanced US$100,000 for previously incurred expenditures and US$600,000 to the Company as at August 31, 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 will enter into a Joint Venture agreement for further exploration of the Chunibas project.

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%.

**Geology and Mineralization:**

With the exception of certain anomalous targets identified by the Company's exploration alliance with GlobeTrotters Resources Group Inc., 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:

- At Chunibas, 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 300m in width. Further drilling is planned for 2019.
- 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.
- 1068 (Victoria 1 concession), is a Laramide-age porphyry copper and molybdenum prospect which was recently investigated by a geophysical survey. San Marco geological staff proposes to evaluate the various identified induced polarization chargeability targets.

San Marco's geologists made several field visits to the two properties 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

**Aqua 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 works 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 Resources Group Inc. Further work is warranted, however no 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). San Marco is preparing to do a first-pass ground validation and prospecting work.

**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 SE of the Company´s Chunibas and 1068 projects. San Marco is preparing to do a first-pass ground validation and prospecting work.

**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 kilometers southeast of Hermosillo and 6 km northeast of Santana gold project (Minera Alamos Inc.). San Marco is preparing to do a first-pass ground validation and prospecting work.

**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 kilometers northwest of Hermosillo, adjacent to the previously mined, high grade copper-zinc and silver Tecolote deposit.. San Marco is preparing to do a first-pass ground validation and prospecting work

## SELECTED FINANCIAL INFORMATION

The following table sets out selected annual financial information of San Marco Resources Inc. The data should be read in conjunction with the audited financial statements for the respective years.

| | For the Years Ended November 30, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | **$** | **$** | **$** |
| Exploration and evaluation expenses | (534,712) | (931,053) | (499,856) |
| Property investigation costs | - | (41,230) | (289,215) |
| Management fees | (98,929) | (65,088) | (51,700) |
| Share-based payments | (510,496) | (327,759) | (181,121) |
| Net interest | 10,836 | 3,989 | 1,575 |
| Gain on sale of mineral property | - | 300,037 | - |
| Other income | 30,200 | - | - |
| Realized and unrealized loss on marketable securities | (1,318) | (575) | (2,778) |
| Other administrative costs | (468,094) | (353,546) | (226,682) |
| Net loss for the year | (1,572,513) | (1,415,225) | (960,562) |
| Basic & diluted loss per common share | (0.02) | (0.03) | (0.03) |
| Total assets | 1,379,564 | 1,737,837 | 647,460 |
| Shareholders' equity | 960,219 | 1,689,199 | 561,486 |

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.

| Period | Revenue | Net Loss | Basic and Diluted Loss per share |
|---|---|---|---|
| | $ | $ | $ |
| 4th quarter ended November 30, 2018 | Nil | 326,404 | 0.00 |
| 3rd quarter ended August 31, 2018 | Nil | 460,162 | 0.01 |
| 2nd quarter ended May 31, 2018 | Nil | 404,335 | 0.01 |
| 1st quarter ended February 28, 2018 | Nil | 381,612 | 0.01 |
| 4th quarter ended November 30, 2017 | Nil | 551,795 | 0.01 |
| 3rd quarter ended August 31, 2017 | Nil | 239,008 | 0.00 |
| 2nd quarter ended May 31, 2017 | Nil | 334,744 | 0.01 |
| 1st quarter ended February 28, 2017 | Nil | 289,678 | 0.01 |

The Company's quarterly and annual results will vary primarily in accordance with the Company's exploration activities. To finance its operations, the Company also grants incentive stock options to its directors, officers, and consultants, which will also cause variation in the Company's results from period to period.

## 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 YEAR ENDED NOVEMBER 30, 2018 COMPARED TO THE YEAR ENDED NOVEMBER 30, 2017

The Company incurred a total loss of $1,572,513 during the year ended November 30, 2018 (the "Current Year") compared to $1,415,225 during the year ended November 30, 2017 (the "Comparative Year"), resulting in a total increase in loss of $157,288.

Some of the significant changes are as follows:

- Exploration and evaluation: $534,172 (2017 - $931,053) – The decrease in the exploration and evaluation expenses during the current year relate to the Company focusing on strategic targets and negotiating the Earn-In Agreement with Antofagasta for future exploration activities. Furthermore, During the current year, the Company recorded a recovery resulting from the Earn-In Agreement with Antofagasta which provided the Company with a payment of US$100,000 of previously incurred exploration costs.

- Investor relations: $76,405 (2017 - $56,699) – The Company increased investor relation activity during the current year in order to generate interest in the Company and its properties.

- Legal and professional fees: $135,454 (2017 - $59,495) – The increase in legal and professional fees relate to the Company assessing and negotiating several potential agreements, including the Earn-In Agreement with Antofagasta.

- Advertising and promotion: $36,765 (2017 - $Nil) – The increase in advertising and promotion is due to the Company's efforts to increase its visibility during the current fiscal year.

- Share-based payments: $510,496 (2017 - $327,759) – This increase in expense in the current year resulted from the recognition of value of incentive stock options granted to directors, officers, and consultants during the 2017 fiscal year and the current year and their related vesting in the Current Year.

- Gain on sale of mineral property: $Nil (2017 - $300,037) – During the comparative period, the Company recorded a gain on sale of its La Pinta 06 concession located in Zacatecas, Mexico.

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

All other corporate administrative costs remained relatively consistent with the Comparative Year.

## FOR THE THREE-MONTH PERIOD ENDED NOVEMBER 30, 2018 COMPARED TO THE THREE-MONTH PERIOD ENDED NOVEMBER 30, 2017

The three months ended November 30, 2018 (the "Current Quarter") resulted in a loss of $326,404 compared to the three months ended November 30, 2017 (the "Comparative Quarter") which had a loss of $551,795, a decrease in loss of $225,392. The decrease in loss in the Current Quarter was primarily due to decreased exploration and evaluation expenses and share-based payment expense due to the factors described above.

## LIQUIDITY AND CAPITAL RESOURCES

At November 30, 2018 and November 30, 2017 the Company's liquidity and capital resources were as follows:

| | November 30, 2018 | November 30, 2017 |
|---|---|---|
| | $ | $ |
| Cash and receivables (i) | 1,252,504 | 1,601,892 |
| Marketable securities | 1,162 | 2,480 |
| Prepaid expenses | 5,625 | 38,607 |
| Accounts payable | (40,586) | (39,638) |
| Deposits | (378,759) | - |
| Working capital | 839,946 | 1,603,341 |

(i) Cash includes restricted cash of $378,759 which is restricted for exploration activities to be performed on the Chunibas project on behalf of Antofagasta.

As at November 30, 2018, the Company had $792,492 (2017 - $1,579,424) in cash. The Company's plan is to continue to conserve its cash resources while focusing on further evaluating the Chunibas property and staking other claims of merit utilizing its license pursuant to the Exploration Alliance Agreement with GlobeTrotters and through generative work which includes the evaluation of any mineral property that might be available from the Mexican government.

As at November 30, 2018, the Company also had $378,759 (2017 - $Nil) in restricted cash which was being held on behalf of Antofagasta for exploration activities on the Chunibas property to be performed.

During the current year the Company raised net proceeds of $292,037 from the issuance of common shares pursuant to exercises of warrants and options (2017 - $775,075). A total of $665,142 in cash was spent on exploration and evaluation activities and property investigation (2017 - $972,283).

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## 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 years ended November 30, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Management fees (i) | 219,557 | 128,100 |
| Share based payments | 415,151 | 284,091 |
| **Total** | **634,708** | **412,191** |

(i) Management fees includes $79,100 (2017 – $56,700) in management fees, $Nil in property investigation (2017 - $9,800) and $140,457 in exploration and evaluation costs (2017 - $61,600) in fees paid to 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 years ended November 30, 2018 and 2017 with these related parties as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Accounting fees | 57,000 | 76,950 |
| Legal fees | 46,939 | 39,180 |
| Legal fees related to share issuance costs | - | 15,925 |
| **Total** | **103,939** | **132,055** |

At November 30, 2018, there was $14,840 (2017 - $7,750) included in accounts payable that was owing to related parties for accounting and legal fees.

## FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

As at November 30, 2018, 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 and marketable securities are measured at fair value.

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, foreign currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(i) Liquidity risk

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage and is dependent on obtaining regular funding in order to continue its exploration programs. Despite success with previous financings, there is no guarantee of obtaining future funding. The Company's cash is invested in business accounts with qualified institutions in Canada and are available on demand for the Company's programs. The Company is not invested in any asset backed commercial paper or auction rate securities. Liquidity risk has been assessed as low.

(ii) Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets and would arise from the non-performance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash and reclamation deposit with high-credit quality financial institutions. Receivables are mainly due from government agencies in Canada and Mexico. Credit risk has been assessed as low.

(iii) Foreign currency risk

The Company's mineral properties are located in Mexico and, therefore, a portion of work carried out in exploring and developing these properties is paid in Mexican pesos. Certain administrative costs incurred in Mexico are paid in US dollars.

The operating results and the financial position of the Company are reported in Canadian dollars. The Company's cash, receivables, accounts payable are held in different currencies and therefore the fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risk.

At November 30, 2018, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Mexican Pesos:

| | US Dollars | Mexican Peso |
|---|---|---|
| Cash | 509,513 | 63,243 |
| Marketable securities | 1,162 | - |
| Receivables | - | 26.515 |
| Accounts payable and accrued liabilities | - | (32,150) |

Based on the above net exposures as at November 30, 2018, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of approximately $51,000 in the Company's comprehensive loss. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican Peso would result in a decrease/increase of approximately $6,300 in the Company's comprehensive loss.

(iv) Interest risk

The Company invests its excess cash and reclamation deposit in demand deposits that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations. Other interest rate risks arising from the Company's operations are not considered material.

(v) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors its marketable securities, stock market movements and commodity prices to determine appropriate actions.

The Company does not typically invest in equity securities and the maximum exposure to the price risk is represented by the changing fair value of such investments. Assuming all variables remain constant, a 10% increase/decrease in the quoted market price of the Company's investments would result in an increase/decrease in the Company's income of approximately $248.

(vi) Fair value hierarchy

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair values of cash and marketable securities are measured based on level 1 inputs of the fair value hierarchy.

## RISKS AND UNCERTAINTIES

The principal business of the Company is the acquisition and exploration of mineral properties.

An investment in securities of the Company involves a high degree of risk and must be considered highly speculative due to the nature of the Company's business and the present stage of exploration and development of its mineral properties. In addition to information set out or incorporated by reference in this MD&A, prospective investors should carefully consider the risk factors set out below. Readers are encouraged to thoroughly review the risks factors detailed in the Company's annual MD&A for fiscal 2014. Any one of such risk factors could materially affect the Company's financial condition and future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. Risks and uncertainties of importance to San Marco and its operation include (but are not limited to) those related to:

- exploration and mining
- operating in a foreign jurisdiction
- title to its properties
- the requirement for additional and ongoing funding
- global economic conditions
- its reliance on independent contractors
- the market price of the Company's shares and volatility thereof
- dilution of the Company's share capital
- future sales of shares by existing shareholders
- future profits or losses
- currency fluctuations
- competition
- loss of key employees
- conflicts of interest
- labour and employment matters
- acquisitions and integration
- environmental regulations
- factors beyond the Company's control
- litigation and tax
- operating hazards
- infrastructure
- no history of dividends

## 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting judgments, estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are, but are not limited to, the following:

*Critical accounting judgments*

(i) Impairment of mineral properties: The net carrying value of each mineral property and its related concessions is reviewed regularly for conditions that are indicators of impairment. This review requires judgment as the Company does not have proven and probable reserves that enable future cash flows to be compared to the carrying values. Factors considered in assessment of asset impairment include, but are not limited to, accessibility, title, environmental or political factors that could affect the properties' values, whether there has been any accumulation of costs significantly in excess of the amounts originally expected for the properties' acquisition, development, or cost of holding, whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future, and whether the Company has necessary funds to be able to maintain or continue acquiring interests in mineral properties.

(ii) Income taxes: Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. The recognition of deferred tax assets requires management to assess the likelihood that the Company will generate taxable income in future periods to utilize the deferred tax assets. Due to a history of losses, deferred tax assets have not been recognized.

(iii) Going concern: The preparation of these financial statements requires management to make judgements regarding the going concern of the Company as previously discussed in Note 1.

(iv) Functional currencies: The functional currency of an entity is the currency of the primary economic environment in which an entity operates. The determination of an entity's functional currency requires judgment based on analysis of relevant criteria. The Company conducted an analysis of the factors identified in IAS 21, *The Effect of Changes in Foreign Exchange Rates* ("IAS 21") and determined the functional currencies of the Company and its subsidiaries to be the Canadian dollar.

*Critical accounting estimates*

(i) Equity-settled transactions: The cost of equity-settled transactions, such as stock options or warrants, is determined by calculating the fair value at the date when the equity award is granted or issued using the Black-Scholes option pricing model. The inputs to the Black-Scholes pricing model require significant estimation. Expected volatility is estimated based on historical stock price observations of the Company's common shares. The risk-free interest rate for the expected term of the award is based on the yields of government bond. The Company uses historic data to estimate the timing of option exercises and forfeiture rates, which may not be representative of future results. Changes in these assumptions, especially the volatility and the expected life determination, could have a material impact on the Company's statement of comprehensive loss.

**Recent accounting pronouncements**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. During the year ended November 30, 2018, the Company did not adopt any new standards or amendments which had a significant impact on the Company's financial statements.

The following have not yet been adopted by the Company.

- IFRS 9 *Financial Instruments*: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.

- IFRS 15 *Revenue from contracts with customers*: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*, effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 *Leases*: New standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model, effective for annual periods beginning on or after January 1, 2019.

The Company does not expect the impact of such changes on the financial statements to be material.

## 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

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 67,916,082 common shares issued and outstanding and options and warrants outstanding to purchase common shares as follows:

| Number of Shares issuable under Options Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 1,250,000 | $0.10 | June 6, 2021 |
| 400,000 | $0.185 | February 1, 2022 |
| 1,600,000 | $0.19 | June 2, 2022 |
| 200,000 | $0.18 | October 2, 2022 |
| 2,150,000 | $0.185 | June 25, 2023 |
| **5,600,000** | | |

| Number of Shares issuable under Warrants Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 2,500,000 | $0.15 | April 22, 2019 |
| 4,222,000 | $0.35 | April 30, 2019 |
| 6,722,000 | | |

## EFFECTIVNESS 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 significant opportunity for increasing shareholder value.

While the Company does not intend to conduct any significant work at the Angeles or Alwin 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 San Marco's Co-Chairman, 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 than100 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 or on its SEDAR company page accessed through www.sedar.com.

## APPROVAL

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