

SAN MARCO RESOURCES INC.

Management Discussion and Analysis
For the Quarter ended February 28, 2010

GENERAL

The purpose of this Management Discussion and Analysis (“MD&A”) is to explain management’s point of view on San Marco Resources Inc.’s (the “Company”) past performance and future outlook. This report also provides information to improve the reader’s understanding of the interim consolidated financial statements and related notes, and should therefore be read in conjunction with the interim consolidated financial statements of the Company and notes thereto for the period ended February 28, 2010 and the Company’s annual audited financial statements and notes to the financial statements for the year ended November 30, 2009. Additional information on the Company is available on SEDAR and the Company’s web site at www.sanmarcocorp.com. The effective date of this MD&A is April 21, 2010.

FORWARD LOOKING STATEMENTS

Certain sections of this MD&A may contain forward-looking statements. 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.

MANAGEMENT

At the Annual General Meeting held on July 15, 2009 and subsequent appointments by the Board of Directors, the Board now consists of the following directors: Robert Willis P. Eng. CEO, Graham Thody CA Chairman of the Audit Committee, William Myckatyn P. Eng., R. Stuart (Tookie) Angus LLB and Christopher Dyakowski P. Geo., Leslie Fowler CA remains as CFO and Michael Mallard is Secretary and Vice-President of corporate communications. During this quarter, the Board of Directors appointed Brent Hendrickson as Vice-President Exploration based in Mexico.

OVERVIEW

The Company was incorporated on September 27, 2005 under the Company Act of British Columbia and commenced business on November 29, 2005. The Company is a natural resource company engaged in the acquisition and exploration of mining properties.

The Company’s current holdings in Canada are the Alwin claims in the Kamloops Mining Division, British Columbia where the Company has held a 100% undivided interest since December 2007.

On December 31, 2009, the Company acquired a 100% interest in El Tecomate gold/silver project in Mexico subject to final closing.

On January 11, 2010, the Company acquired a 100% interest in La Buena gold/silver project in Mexico.

The nature of these two new properties is described in the Mineral Projects - Exploration Activities Section of this report.

RESULTS OF OPERATIONS

The Company's net loss for the period ended February 28, 2010 was \$362,695 compared to the net loss of \$56,245 for the period ended February 28, 2009. This loss resulted in a net loss of \$0.02 per share for the period ended February 28, 2010 compared to a net loss of \$0.01 per share for the period ended February 28, 2009.

The general and administration expenses for the period ended February 28, 2010 were \$364,430 compared to \$57,044 for the period ended February 28, 2009. The increase in the expenses for the period ended February 28, 2010 reflect the Company's increased expenditures incurred in developing the Company's exploration program and the provision of a stock based compensation expense which results from the fair valuation of the stock options granted. The stock based compensation expense was \$184,709 for the period ended February 28, 2010 compared with \$28,201 for the period ended February 28, 2009. This increase also reflects the compensation expense being amortized over the vesting period using the graded vesting method. In reporting the stock-based compensation expense in these interim consolidated financial statements, the Company has adopted the IFRS Standard 2 which states that graded vesting method must be used in calculating the compensation expense of share options. This method is permitted under Canadian GAAP.

All expenses directly related to the exploration of the mineral properties have been capitalized as deferred exploration costs.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly financial information from the Company's financial statements for each of the eight quarters completed during the last two fiscal years.

	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter
	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>	<u>2008</u>
Three Months Ended	Feb 28 2010	Nov 30 2009	Aug 31 2009	May 31 2009	Feb 28 2009	Nov 30 2008	Aug 31 2008	May 31 2008
Total Revenue	nil	nil	nil	nil	nil	nil	nil	nil
Net Loss	(362,695)	(158,843)	(156,623)	(59,448)	(56,245)	(24,595)	(75,357)	(13,266)
Loss per share Basic & Diluted	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.00)	(0.01)	(0.00)
Total Assets	2,361,843	2,044,436	2,158,169	631,697	668,414	683,312	697,862	717,542

DISCUSSION OF FIRST QUARTER

The results of the first quarter ended February 28, 2010 resulted in a loss of \$362,695 compared to a loss of \$56,245 for the first quarter ended February 28, 2009. The increase in the first quarter ended February 28, 2010 compared to 2009 resulted mainly from the following:

- Stock-based compensation: \$184,709 (2009 – \$28,201) – The Company granted no stock options during the quarter. The stock based-compensation expense results from the vesting that occurred during this quarter being determined using the graded vesting method.
- Management and administration fees: \$58,895 (2009 - \$12,000) – This increase reflects new management personnel appointed in exploration and accounting.
- Professional and audit fees: \$38,377 (2009 - \$5,786) – Current expenses for the period reflect costs for the Company’s annual external audit and additional legal costs for the acquisition of mineral properties.
- Property investigation: \$16,520 (2009 – Nil) - The Company continues to pursue exploration activities to acquire properties hosting resources of economic interest and have the potential for discovery of additional resources.

MINERAL PROJECTS – EXPLORATION ACTIVITIES

El Tecomate Project, Mexico

The Company has acquired the El Tecomate gold/silver project in Mexico subject to final closing. The purchase price of these properties is US \$75,000, plus 400,000 shares of the Company valued at \$0.56. The US \$75,000 plus 400,000 shares will be released on final closing. The Company has granted the Vendor a 1% net smelter return royalty on the El Tecomate project and all concessions within five kilometres of its perimeter. The Company also has an option to purchase the Tecomate “core concession” for US \$200,000 over 4 years, of which US \$10,000 has been paid.

At the El Tecomate project located in western Mexico, high-grade gold plus silver of economic interest occur in caldera-related precious metals systems within the Western Sierra Madre range in the state of Durango near the border with Sinaloa. The El Tecomate project is comprised of 3 contiguous concessions totaling 5,930 hectares that are 100% San Marco Resources owned plus one 20 hectare internal concession that San Marco controls through a lease/option agreement.

At El Tecomate, exploration will focus on advancing to the first-pass drilling stage, which will be in the Main zone and the Southeast zone and will likely be accomplished in 2010, using a man-portable core drilling rig capable of HQ diameter. The Company incurred expenses on access trails, pad construction and residence for the local campesino workforce. Property wide geological exploration occurred during the period ended February 28, 2010 and will continue in search of additional drill targets.

Deferred Exploration Costs - El Tecomate Property

	<u>2010</u>	<u>2009</u>
Sampling, prospecting	\$ 1,229	\$ -
Staking fees	2,936	-
Travel, supplies and field expenses	22,168	-
Mineral rights	191	-
Geological surveys, consulting and reports	<u>8,334</u>	<u>-</u>
Deferred exploration costs (recoveries) for the period	<u>34,858</u>	<u>-</u>
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 34,858</u>	<u>\$ -</u>

La Buena Project, Mexico

The Company has a 100% interest in La Buena gold/silver project in Mexico. The purchase price of this property was US \$125,000, 200,000 shares of the Company valued at \$0.55 and 300,000 warrants exercisable at a price of CDN \$0.70 per share for three years. The Company shall also pay US \$1,000,000 if a minimum of 1.25 million gold equivalent ounces (measured and indicated) are discovered. At the Company's option, this payment may be in cash or shares of the Company. The Company has granted the Vendor a sliding scale net smelter return of 1.5% to 2.5% depending on gold price between \$800 and \$950 per ounce. The Company has the option to purchase 50% of the net smelter return for US \$2,000,000.

La Buena property is located in the basin and range province of the Eastern Sierra Madre of Mexico in the state of Zacatecas a few kilometers north of GoldCorp's reported 940,000 ounce gold discovery at Noche Buena, and roughly 8 km north of the world class Peñasquito mine. The La Buena property is comprised of a single 7,875 hectare concession that extends easterly along the north edge of the Noche Buena mining district and then northerly some 8km to the Zuloaga mining district. Both districts have been dormant since the early 1990's but during their heyday over fifty years ago they supported several long-lived underground mining operations that produced base and precious metals from mantos and chimneys developed in Jurassic and Cretaceous reef limestones. The Providencia underground mine, a 3,000 tonne per day operation located some 6 km east of La Buena property, is currently producing base metals from chimneys and mantos in the same reef limestones.

No exploration work was carried out on La Buena property during the period ended February 28, 2010.

Deferred Exploration Costs - La Buena Property

	<u>2010</u>	<u>2009</u>
Mineral rights	<u>4,942</u>	<u>-</u>
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 4,942</u>	<u>\$ -</u>

Alwin Property, British Columbia

By an Agreement dated December 7, 2005 as amended on March 14, 2007, the Company acquired a 100% undivided interest (subject to a 2% Net Smelter Return) in the Alwin Property situated near Logan Lake, British Columbia for a total consideration of \$50,000 and issuing 125,000 shares all of which has been completed. The Alwin Property covers four mineral claims (totalling 575.136 hectares). Of these claims, two claims overtake three crown granted claims whose under surface rights are included in a mining lease which is included in the mineral interests optioned by the Company. The Company has an option to purchase $\frac{3}{4}$ of the Net Smelter Return Royalty for \$1.5 million within five years from the date the Property is put into commercial production.

The previously announced drill and associated exploration program has been completed and assay results have been published. The program consisted of seven diamond drill holes aggregating 1,224.9 meters. Five holes were drilled in the vicinity of the former mine workings and three holes tested coincident alteration and IP chargeability anomalies extending away from the workings.. The host rock in the entire drill core is quartz monzonite of the Bethsaida phases of the Late Triassic-age Guichon Creek batholith. Five hundred and seventy eight samples were submitted to Acme Labs Ltd. The analytical results were published in a press release dated September 8, 2008

No exploration work was carried out on the Alwin property during the period ended February 28, 2010.

Deferred Exploration Costs - Alwin Property

	<u>2010</u>	<u>2009</u>
DEFERRED EXPLORATION END OF PERIOD	\$ <u>425,405</u>	\$ <u>435,364</u>

LIQUIDITY AND CAPITAL RESOURCES

The Company has no known mineral resources and is not in commercial production on any of its properties and accordingly, the Company does not generate cash from operations. The Company finances exploration activities by raising capital from equity markets from time to time.

As at February 28, 2010 compared to November 30, 2009 the Company's liquidity and capital resources are as follows:

	February 28, 2010	November 30, 2009
	\$	\$
Cash and receivables	1,143,264	1,501,916
Prepaid expenses	32,053	3,857
Payables and accrued liabilities	(157,173)	(55,911)
Working capital	1,018,144	1,449,862

The Company's operations consist of acquisition, maintenance and exploration of mining properties. The Company's financial success will be dependent in the extent to which it can discover new mineral deposits.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the period ended February 28, 2010, the Company paid \$15,000 to the current CEO, and \$4,500 to a company controlled by an officer of the Company.

These transactions are in the normal course of operations and are measured at the exchange amounts established and agreed to by the related parties.

RISKS AND UNCERTAINTIES

The principal business of the Company is the exploration and development of mineral properties. Given the nature of the mining business, the limited extent of the Company's assets and the present stage of exploration, the following risks factors, among others, should be considered.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves and, therefore, does not generate any revenues from production. The recovery of expenditures on mineral properties and the related deferred exploration expenditures are dependent on the existence of economically recoverable mineralization, the ability of the Company to obtain financing necessary to complete the exploration and development of the mineral properties, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that the exploration efforts will be successful.

Since the Company does not generate any revenues from production, it may not have sufficient financial resources to undertake by itself all of its planned mineral acquisition and exploration activities. Operations will continue to be financed primarily through the sale of securities, such as common shares. The Company will need to continue its reliance on sale of such securities for future financing, which may result in dilution to existing shareholders. In addition, the amount of additional funds required may not be available under favourable terms, if at all, and will depend largely on the market conditions.

CHANGE IN ACCOUNTING POLICIES

The Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Amendment to Financial Instruments – Disclosures (Section 3862)

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosures about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- 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.

Assessing going concern (Section 1400)

The Accounting Standards Board (“AcSB”) amended CICA Handbook Section 1400, to include requirements for management to assess an entity’s ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity’s ability to continue as a going concern.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, “Goodwill and intangible assets”, replacing Section 3062, “Goodwill and other intangible assets”, and Section 3450, “Research and development costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

Recent Accounting Pronouncements

The Company will adopt the following accounting pronouncements:

- a) **Business Combinations, Non-Controlling Interest and Consolidated Financial Statements**

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Both sections are applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning December 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2010. The conversion to IFRS will impact the Company’s accounting policies, internal control over financial reporting and disclosure controls and procedures. The Company is currently assessing the financial reporting impact of the transition to IFRS and will ensure a timely conversion.

A changeover plan is being established to convert to the new standards within the allotted timeline and is expected to consist of the following three key phases:

1. Phase 1 - Raise awareness and assess;
2. Phase 2 - Design; and
3. Phase 3 - Implementation

There will be two stages in phase one. The first stage will focus on raising awareness within the Company and provide an initial assessment of the impact of the IFRS conversion. The second stage will carry out a detailed assessment of the impact of the conversion to IFRS.

Phase two will build the tools required for the conversion based on management’s decisions about accounting options and the related disclosures.

Phase three will roll-out the designed changes. The changes will include the development of the new accounting policies and consolidation templates, preparing the IFRS financial statements and related note disclosure.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of stock based compensation, impairment of mineral properties, deferred exploration costs and Provincial tax credit. Actual results could differ from those reported. By their nature, these estimates are subject to measurement uncertainty and impact on the financial statements of future periods could be material.

STOCK-BASED COMPENSATION

The Company follows the recommendation of CICA handbook Section 3870 “Stock-based Compensation and Other Stock-based Payments”. Under this section the compensation expense for stock options grants to employees and non-employees is recorded at the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option Pricing Model.

Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period using the graded vesting method. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

FINANCIAL INSTRUMENTS

Effective November 1, 2006, the Company adopted CICA Section 3855, “Financial Instruments – Recognition and Measurement”. The section establishes standards for determining when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and whether it will be measured using a cost-based or fair value method.

As at February 28, 2010, the carrying values of cash, reclamation deposit, receivables and accounts payable and accrued liabilities approximate their fair values.

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, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the board.

(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 in acquiring previous funding, 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.

(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 not considered a material credit risk.

(iii) Foreign currency risk

The Company’s two new properties are located in Mexico therefore the majority of work carried out in exploring and developing these properties will be paid in Mexican pesos. Certain administrative costs incurred in Mexico will be paid in US dollars.

The current liability of \$75,000 for the final payment on the El Tecamate property is denominated in US Dollars, providing the vendor fulfills its obligation to deliver clear title to the concessions under the underlying agreement for the “core concession”.

While the Company is exposed to foreign currency risk on fluctuations related to cash, receivables, accounts payable, accrued liabilities and current operating costs that are denominated in US Dollars and Mexican pesos, the Company does not consider these risks significant and has not entered into any foreign currency hedging contracts.

(iv) Interest risk

The Company invests its cash and reclamation deposit in guaranteed investment certificates 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 commodity prices to determine appropriate actions to be undertaken.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at the date of this report the Company had 14,963,675 common shares issued and outstanding. The Company has issued 280,000 stock options at \$0.40 to directors, officers and employees, and 1,250,000 stock options to its directors, officer, employees and consultants exercisable for a period of 3 years at \$0.51 per share. The total number of options is 1,530,000 as at February 28, 2010.

There are one-half non-transferable common share purchase warrants outstanding allowing for the purchase of 3,205,000 common shares. Each whole warrant can be exercisable to purchase a share during the two year period ending August 19, 2011 at a price of \$0.45 in the first year and \$0.65 in the second year.

The warrants provide that if the closing price of the Company's shares equals or exceeds \$0.90 per share for 20 consecutive trading days after December 19, 2009, the Company may give, within five trading days thereof, notice to the warrant holders that the warrants must be exercised within 30 days (including non-trading days) of such notice or the warrants will terminate.

During the quarter ended February 28, 2010, the Company issued 600,000 common shares as well as warrants allowing for the purchase of a further 300,000 common shares for a period of three years at \$0.70 per share valued at \$84,132.25.

EFFECTIVENESS OF DISCLOSURE CONTROLS

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

FUTURE OF THE COMPANY

The Company intends to further explore and develop its two properties in Mexico. The Company will also continue to look for additional mineral properties to complement the current projects.