

SAN MARCO RESOURCES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2010

(Unaudited – Prepared by Management)

BALANCE SHEETS

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

STATEMENTS OF CASH FLOWS

SCHEDULE OF DEFERRED EXPLORATION COSTS

NOTES TO FINANCIAL STATEMENTS



SAN MARCO RESOURCES CORP.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim 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 the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SAN MARCO RESOURCES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

	February 28 <u>2010</u>	November 30 <u>2009</u>
ASSETS		
Current Assets		
Cash	\$ 1,111,514	\$ 1,493,655
Receivables	31,750	8,261
Prepaid expenses	<u>32,053</u>	<u>3,857</u>
	1,175,317	1,505,773
Reclamation Deposit (Note 4)	2,000	2,000
Equipment (Note 6)	25,445	30,008
Mineral property (Note 5)	717,876	81,250
Deferred exploration costs (Schedule)	<u>465,205</u>	<u>425,405</u>
	<u>\$ 2,385,843</u>	<u>\$ 2,044,436</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	<u>\$ 157,173</u>	<u>\$ 55,911</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	2,766,543	2,432,543
Contributed surplus (Note 7)	492,396	223,556
Deficit	<u>(1,030,269)</u>	<u>(667,574)</u>
	<u>2,228,670</u>	<u>1,988,525</u>
	<u>\$ 2,385,843</u>	<u>\$ 2,044,436</u>

Nature and continuance of operations (Note 1)

APPROVED BY THE DIRECTORS:

 "R. WILLIS"

 "G. THODY"

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

SAN MARCO RESOURCES INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS
AND DEFICIT
(Unaudited – Prepared by Management)

THREE-MONTH PERIOD ENDED FEBRUARY 28	<u>2010</u>	<u>2009</u>
EXPENSES		
Management and administration fees	\$ 58,895	\$ 12,000
Property investigation	16,520	-
Salary and benefits	16,062	-
Rent	6,000	-
Office and miscellaneous	16,216	5,272
Travel	5,811	0
Professional fees	38,377	5,786
Stock-based compensation (Note 7)	184,709	28,201
Foreign exchange loss	3,391	-
Amortization	5,113	-
Transfer agent and filing fees	<u>13,336</u>	<u>5,785</u>
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(364,430)	(57,044)
OTHER ITEM		
Interest income	<u>1,735</u>	<u>799</u>
LOSS BEFORE INCOME TAXES	(362,695)	(56,245)
Future income tax recovery (Note 13)	<u>-</u>	<u>-</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(362,695)	(56,245)
Deficit, beginning of the period	<u>(667,574)</u>	<u>(236,415)</u>
DEFICIT, END OF THE PERIOD	<u><u>\$(1,030,269)</u></u>	<u><u>\$ (292,660)</u></u>
Basic and diluted loss per share	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.01)</u></u>
Weighted average number of common shares outstanding	<u><u>14,743,675</u></u>	<u><u>7,682,229</u></u>

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

SAN MARCO RESOURCES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

THREE-MONTH PERIOD ENDED FEBRUARY 28	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Loss for the period	\$ (362,695)	\$ (56,245)
Items not effecting cash:		
Amortization	5,113	-
Stock-based compensation	184,709	28,201
Changes in non-cash working capital items:		
Receivables	(23,490)	(180)
Accrued interest receivable	-	(799)
Prepaid expenses	(28,196)	(4,151)
Accounts payable and accrued liabilities	101,262	13,044
	<u>-</u>	<u>-</u>
Net cash used in operating activities	<u>(123,297)</u>	<u>(20,130)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	125
Share issuance costs	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>-</u>	<u>125</u>
INVESTING ACTIVITIES		
Deferred exploration costs	(39,800)	-
Acquisition of mineral property	(218,494)	-
Acquisition of equipment	<u>(550)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(258,844)</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	(382,141)	(20,005)
CASH, BEGINNING OF THE PERIOD	<u>1,493,655</u>	<u>110,413</u>
CASH, END OF THE PERIOD	<u><u>\$1,111,514</u></u>	<u><u>\$ 90,408</u></u>

Supplemental disclosures with respect to cash flows (Note 11)

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

SAN MARCO RESOURCES INC.
INTERIM CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS
(Unaudited – Prepared by Management)

THREE-MONTH PERIOD ENDED FEBRUARY 28	<u>2010</u>	<u>2009</u>
 <u>ALWIN PROPERTY</u>		
DEFERRED EXPLORATION, BEGINNING OF PERIOD	425,405	435,364
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 425,405</u>	<u>\$ 435,364</u>
 <u>EL TECOMATE PROJECT</u>		
Sampling, prospecting	\$ 1,229	\$ -
Staking fees	2,936	-
Travel, supplies and field expenses	22,168	-
Mineral rights	191	-
Geological surveys, consulting and reports	8,334	-
	<u>34,858</u>	-
Deferred exploration costs (recoveries) for the period	34,858	-
DEFERRED EXPLORATION, BEGINNING OF PERIOD	-	-
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 34,858</u>	<u>\$ -</u>
 <u>LA BUENA PROJECT</u>		
Mineral rights	4,942	-
Deferred exploration costs (recoveries) for the period	4,942	-
DEFERRED EXPLORATION, BEGINNING OF PERIOD	-	-
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 4,942</u>	<u>\$ -</u>

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

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral property and related deferred costs is dependent upon the discovery and exploitation of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries located in Canada and Central America, and have been prepared using Canadian generally accepted accounting principles on the basis of a going concern, which contemplates the realization of assets and the satisfaction in the normal course of business. The Company reported a net loss of \$362,695 (2009 - \$56,245) for the three months ended February 28, 2010 and has a working capital of \$1,018,144 (2009 - \$1,449,862).

The continuation of the Company as a going concern is dependant on its ability to obtain additional equity capital to finance existing operations, attaining commercial production from its mineral property, and attaining future profitable operations or positive cash flows. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") on the basis of a going concern, and follow the same accounting policies and methods of application as the Company's most recent annual audited consolidated financial statements. Accordingly, these financial statements should be read in conjunction with the Company's November 30, 2009 audited consolidated financial statements.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 841432 B.C. Limited and San Marco Resources Mexico S.A. de C.V. All inter-company transactions and balances have been eliminated upon consolidation.

b) Estimates, Assumptions and Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to the estimated useful lives of equipment, the impairment of mineral property interests, the determination of reclamation obligations, stock-based compensation, future income taxes and the valuation allowance against future tax estimates. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

c) Mineral Properties and Deferred Exploration Costs

The Company records its interests in mineral properties at cost. All direct costs relating to the acquisition of these interests are capitalized until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit of production basis over the proven reserves of the related property following commencement of production. Proceeds received, as a result of the sale of a mineral property, will be applied first against the book value of the property, and any excess will be set off against deferred exploration costs.

Exploration costs relating to mineral properties are deferred until the properties are brought into production, at which time the deferred exploration costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred costs are written off.

The mineral properties and exploration costs are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When there is evidence of impairment, the net carrying amount of the asset will be written down to its net recoverable amount.

The amounts shown as mineral properties and deferred exploration costs represent unamortized costs to date and do not necessarily reflect present or future values.

d) Equipment

Equipment is recorded at cost and amortized using the straight line method over the estimated useful lives of the individual assets at the following annual rates:

Computer	20%
Furniture and equipment	20%
Software	100%

e) Financial Instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification.

The Company classifies its cash as held-for-trading, reclamation deposit as held to maturity, receivables as loans and receivables and its accounts payable and accrued liabilities as other financial liabilities.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

e) Financial Instruments (cont'd...)

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance, and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and the balance sheet date, and how the entity manages those risks.

f) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, there is no difference in the amount presented for basic and diluted loss per share

g) Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

h) Asset Retirement Obligation

Asset retirement obligations consider the recognition and measurement of liabilities related to legal obligations associated with the retirement of mineral properties and equipment. The present value of future closure obligations is recorded as a liability when that liability is incurred with a corresponding increase in carrying value of the related Mining Properties. The increased carrying value of the mining property asset will be amortized over the life of the related mining assets on a unit of production basis when the property comes into production. The liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. As at February 28, 2010, the Company has no asset retirement obligations.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

i) Impairment of Long-lived Assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its estimated fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its specific use and eventual disposition.

j) Stock-Based Compensation

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.

k) Flow-through Common Shares

Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced.

If the Company has sufficient unused tax loss carry forwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry forwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

l) Investment Tax Credits

Investment tax credits are recorded as either a reduction of the cost of the applicable assets or credited in the statement of operations depending on the nature of the expenditures which give rise to the credits. Claims for the credits are accrued upon the Company attaining reasonable assurance of collecting from the Canada Revenue Agency.

m) Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

n) Comprehensive Income

Comprehensive income is the change in the Company's shareholders' equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains and losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings.

This standard requires the presentation of comprehensive income and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. The presentation of "accumulated other comprehensive loss" in the shareholders' equity section of the balance sheet is not required because the closing balance is \$Nil.

3. CHANGES 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.

See note 10 for relevant disclosures.

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.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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3. CHANGES IN ACCOUNTING POLICIES (cont'd...)

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.

b) **International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that January 1, 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 December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011.

In reporting the stock-based compensation expense in these 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. The graded method is permitted under current Canadian GAAP.

While the Company has begun assessing the adoption of IFRS in 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time

SAN MARCO RESOURCES INC.
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(Unaudited – Prepared by Management)

4. RECLAMATION DEPOSIT

On July 17, 2007 the Company posted a \$2,000 reclamation deposit with respect to the Alwin Copper Property (Note 6). This deposit bears interest at 3% per annum and matures on July 17, 2010.

5. MINERAL PROPERTIES

	<u>2010</u>	<u>2009</u>
<u>Alwin Property</u>		
Balance, beginning of period	\$ 81,250	\$ 81,250
Payments	-	-
Shares issued	-	-
Balance, end of period	<u>\$ 81,250</u>	<u>\$ 81,250</u>
 <u>El Tecomate Project</u>		
Balance, beginning of period	\$ -	\$ -
Payments	89,244	-
Shares issued	224,000	-
Balance, end of period	<u>\$ 313,244</u>	<u>\$ -</u>
 <u>La Buena Project</u>		
Balance, beginning of period	\$ -	\$ -
Payments	129,250	-
Shares issued	110,000	-
Warrants issued	84,132	-
Balance, end of period	<u>\$ 323,382</u>	<u>\$ -</u>

Alwin

Pursuant to an option agreement dated December 7, 2005, the Company acquired an undivided 100% interest in certain mineral claims situated in the Kamloops B.C. area. The claims are subject to a 2% net smelter return (“NSR”) royalty. Under the terms of the agreement the Company has the option to purchase 75% of the net smelter return royalty for \$1.5 million during a five year period commencing from the day of commercial production. As consideration for the property, the Company paid \$50,000 and issued 125,000 common shares with a value of \$31,250.

El Tecomate

The Company has acquired, subject to final closing, the El Tecomate gold/silver project in Mexico. The purchase price of these properties is US \$75,000 plus 400,000 shares of the Company (valued at \$0.56 per share) which have been issued and not released. The US \$75,000 plus the 400,000 shares are to be delivered to the vendor at the final closing. The Company has granted the Vendor a 1% net smelter return royalty on the El Tecomate project and all concessions within five kilometers of its perimeter. The Company also has an option to purchase a 100% interest in the El Tecomate Core Concession for US \$200,000 over 4 years, of which US \$10,000 has been paid.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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5. MINERAL PROPERTIES (cont'd...)

La Buena

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 per share) and 300,000 warrants exercisable at a price of CDN \$0.70 per share for three years.

The warrants were valued using the Black-Scholes option pricing model using the following assumptions:

	<u>February 28, 2010</u>
Risk free interest rate	1.36%
Expected life	3 years
Annualized volatility	85.86%
Dividend rate	0.00%

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.

6. EQUIPMENT

	<u>2010</u>		<u>2009</u>	
	Cost	Accumulated Amortization	Net	Net
Computers	\$ 9,424	\$ 1,276	\$8,148	\$8,619
Furniture and equipment	14,688	1,691	12,997	13,164
Software	15,704	11,404	4,300	8,225
	<u>\$ 39,816</u>	<u>\$ 14,371</u>	<u>\$25,445</u>	<u>\$30,008</u>

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

100,000,000 common shares without par value.

SAN MARCO RESOURCES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

b) Issued	Number of Shares	Amount	Contributed Surplus
Balance, November 30, 2008	7,681,829	718,435	188,960
Warrants exercised	500	318	(193)
Stock options exercised	271,346	111,290	(35,953)
Issued for cash	6,410,000	1,602,500	-
Stock-based compensation	-	-	70,742
Balance, November 30, 2009	<u>14,363,675</u>	<u>\$ 2,432,543</u>	<u>\$ 223,556</u>
Shares issued – El Tecomate	400,000	224,000	-
Shares issued – La Buena	200,000	110,000	-
Warrants issued – present value			84,131
Stock-based compensation	-	-	184,709
Balance, February 28, 2010	<u>14,963,675</u>	<u>\$ 2,766,543</u>	<u>\$ 492,396</u>

During the quarter ended February 28, 2010, the Company issued 600,000 common shares and warrants to purchase a further 300,000 common shares for a period of three years at \$0.70 per share (see note 5 - El Tecomate).

During the year ended November 30, 2009:

The Company issued 6,410,000 Units at a price of \$0.25 per Unit for gross proceeds of \$1,602,500. Each Unit consisted of one common share and one-half of a non-transferable common share purchase warrant, each whole warrant being exercisable to purchase a further share for a period of two years at a price of \$0.45 in the first year and \$0.65 in the second year.

The 3,205,000 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 of such notice or the warrants will terminate.

The Company issued 271,346 common shares for gross proceeds of \$75,335 pursuant to the exercise of stock options. Accordingly, \$35,953 was transferred from contributed surplus to share capital.

The Company issued 500 common shares for gross proceeds of \$125 pursuant to the exercise of agent warrants. Accordingly, \$193 was transferred from contributed surplus to share capital.

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

c) Escrow Shares

Under the terms of an Escrow Agreement dated August 31, 2007, 3,230,003 shares were placed in escrow with 10% to be released on the Company's being listed for trading, (December 18, 2007), and an additional 15% to be released every six months thereafter. As at February 28, 2010, a total of 2,261,003 shares have been released leaving 969,000 remaining in escrow.

d) Stock options

The Company has adopted a stock option plan whereby the Company may from time to time in accordance with the TSX Venture Exchange ("Exchange") requirements grant to directors, officers, employees and consultants options to purchase common shares of the Company provided that the number of options granted, including all options granted by the Company. The Company has implemented a fixed plan, whereby it may not exceed a total 2,828,465 common shares under tax plan. Under the plan, the exercise price of each option shall not be less than the market price of the Company's stock as calculated immediately preceding the day of the grant. The options can be granted for a maximum of 10 years and are subject to vesting provisions determined by the Board of Directors.

The Company's stock option transactions are as follows:

	February 28, 2010		November 30, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,530,000	\$ 0.49	1,244,991	\$ 0.35
Granted	-	-	1,250,000	0.51
Exercised	-	-	(271,346)	0.28
Cancelled	-	-	(693,645)	0.35
Outstanding, end of period	<u>1,530,000</u>	<u>\$ 0.49</u>	<u>1,530,000</u>	<u>\$ 0.49</u>
Options exercisable	<u>510,000</u>	<u>\$ 0.46</u>		

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

d) Stock options (cont'd...)

As February 28, 2010, the following stock options were outstanding:

	Number of Options	Exercise Price	Expiry Date
	280,000	\$ 0.40	June 10, 2010
	1,200,000	0.51	October 5, 2012
	50,000	0.51	October 5, 2012
Outstanding, end of period	<u>1,530,000</u>	<u>\$ 0.49</u>	

The total fair value of options granted during the period ended February 28, 2010 is \$Nil since no options were granted (2009 - \$Nil), using the Black-Scholes option pricing model. The Company has expensed \$184,709 (2009 - \$28,201), cancelled previous options that were granted and not vested of \$Nil (2009 – \$Nil) leaving an unamortized balance of \$177,720 (2009 - \$98,616) to be amortized to operations. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted.

	2010	2009
Risk free interest rate	0%	1.22%
Expected life of options	-	3 years
Expected dividend yield	0%	0.0%
Expected stock price volatility	0%	146.62%

e) Warrants and Agents' warrants

The Company's warrant transactions are as follows:

	Number of Warrants	Weight Average Exercise Price
Balance, November 30, 2008	233,174	0.25
Granted	3,205,000	0.55
Exercised	(500)	0.25
Expired	(232,674)	0.25
Balance, November 30, 2009	<u>3,205,000</u>	<u>\$ 0.55</u>
Granted	300,000	0.70
Balance, February 28, 2010	<u>3,505,000</u>	<u>\$ 0.56</u>

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)

- e) Warrants and Agents' warrants (cont'd...)

As at February 28, 2010, the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
3,205,000	\$ 0.45 If not then at 0.65	August 19, 2010 August 19, 2011
300,000	\$ 0.70	January 8, 2013

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$Nil (2009 - \$7,500) for management fees to a company controlled by the former president.
- b) Paid or accrued \$15,000 (2009 – \$Nil) for management fees to the current president
- c) Paid or accrued legal fees of \$Nil (2009 – \$9,426) to a firm in which a former director is a partner.
- d) Paid or accrued management fees of \$4,500 (2009 - \$18,000) to a company controlled by an officer of the Company.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

9. CAPITAL RISK 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. As of February 28, 2010, the Company is not subject to externally imposed capital requirements.

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10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

As at February 28, 2010, the carrying values of cash, reclamation deposit, receivables and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these instruments. The Company does not have any debt other than short term.

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 due from a government agency.

(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 Tecomate property is denominated in US Dollars, providing vendor fulfills its obligations 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.

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10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)

(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.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2010	2009
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	-	-

The significant non-cash transactions for the period ended February 28, 2010 were the issuance of 600,000 shares and additional share purchase warrants (see note 5) as part of the consideration for the two properties located in Mexico. There were not any significant non-cash transactions for the period ended February 28, 2009.

12. 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 resource properties.

13. FUTURE INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes (recovery) is as follows:

	2010	2009
Loss before income tax recovery	\$ 362,695	431,159
Expected income tax (recovery) at statutory rates	\$ (107,370)	\$ (129,529)
Net non-deductible items	56,362	24,558
Deductible items	(1,717)	(10,745)
(Recognized) unrecognized benefit of non-capital losses	52,725	115,716
Total income tax (recovery)	\$ -	\$ -

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13. FUTURE INCOME TAXES (cont'd...)

The significant components of the Company's future income tax assets (liabilities) are as follows:

	February 28 2010	November 30 2009
Future income tax assets:		
Non-capital losses available for future years	\$ 216,000	\$ 161,000
Mineral properties	(62,000)	(62,000)
Equipment	2,000	2,000
Investment tax credit (federal)	25,000	25,000
Share issue costs	<u>25,000</u>	<u>27,000</u>
	206,000	153,000
Less: valuation allowance	<u>(206,000)</u>	<u>(153,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$757,000, which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2029. In addition the Company has non-capital losses for Mexican income tax purposes of approximately \$68,500 which can be carried forward to reduce Mexican taxable income in future years. Future tax benefits, which may arise as a result of these losses have not been recognized in these financial statements and have been offset by a valuation allowance.

Prior to the year ended November 30, 2009, the Company had issued 1,863,334 common shares on a flow-through basis for gross proceeds of \$244,750. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The result is that \$244,750 of Canadian exploration expenses are not available to the Company as a tax deduction.