

**SAN MARCO RESOURCES INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009 AND 2008**

**AUDITORS' REPORT**

**BALANCE SHEETS**

**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

**STATEMENTS OF CASH FLOWS**

**SCHEDULE OF DEFERRED EXPLORATION COSTS**

**NOTES TO FINANCIAL STATEMENTS**

## AUDITORS' REPORT

To the Shareholders of  
San Marco Resources Inc.

We have audited the consolidated balance sheet of San Marco Resources Inc. as at November 30, 2009 and the consolidated statements of operations, comprehensive loss and deficit, cash flows and schedule of deferred exploration costs for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at November 30, 2008 and for the year then ended, prior to the restatement of the statement of cash flows as described in Note 4, were examined by other auditors who expressed an opinion without reservation on those statements in their report dated March 9, 2009. We have audited the adjustments to the 2008 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

February 16, 2010



**SAN MARCO RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT NOVEMBER 30**

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ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT		
Cash	\$ 1,493,655	\$ 110,413
Receivables	8,261	54,285
Prepaid expenses	<u>3,857</u>	<u>-</u>
	1,505,773	164,698
RECLAMATION DEPOSIT (Note 5)	2,000	2,000
EQUIPMENT (Note 7)	30,008	-
MINERAL PROPERTY (Note 6)	81,250	81,250
DEFERRED EXPLORATION COSTS (Schedule)	<u>425,405</u>	<u>435,364</u>
	<u>\$ 2,044,436</u>	<u>\$ 683,312</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	<u>\$ 55,911</u>	<u>\$ 12,332</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 8)	2,432,543	718,435
CONTRIBUTED SURPLUS (Note 8)	223,556	188,960
DEFICIT	<u>(667,574)</u>	<u>(236,415)</u>
	<u>1,988,525</u>	<u>670,980</u>
	<u>\$ 2,044,436</u>	<u>\$ 683,312</u>

**Nature and continuance of operations (Note 1)**  
**Subsequent events (Note 15)**

APPROVED BY THE DIRECTORS:

\_\_\_\_\_  
 "R. WILLIS"

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 "C. DYAKOWSKI"

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

**SAN MARCO RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**COMPREHENSIVE LOSS AND DEFICIT**  
**FOR THE YEARS ENDED NOVEMBER 30**

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	<u>2009</u>	<u>2008</u>
EXPENSES		
Management and administration fees	\$ 71,172	\$ 43,500
Property investigation	89,616	-
Salary and benefits	21,696	-
Rent	14,253	-
Office and miscellaneous	23,088	8,285
Travel	17,538	-
Professional fees	90,684	37,230
Stock-based compensation (Note 8)	70,742	98,793
Amortization	9,258	-
Transfer agent and filing fees	<u>27,215</u>	<u>10,231</u>
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(435,262)	(198,039)
OTHER ITEM		
Interest income	<u>4,103</u>	<u>8,390</u>
LOSS BEFORE INCOME TAXES	(431,159)	(189,649)
FUTURE INCOME TAX RECOVERY (Note 13)	<u>-</u>	<u>43,125</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(431,159)	(146,524)
DEFICIT, BEGINNING OF YEAR	<u>(236,415)</u>	<u>(89,891)</u>
DEFICIT, END OF YEAR	<u>\$ (667,574)</u>	<u>\$ (236,415)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>9,517,044</u>	<u>7,596,896</u>

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

**SAN MARCO RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED NOVEMBER 30**

	<u>2009</u>	<u>2008</u> (Restated Note 4)
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (431,159)	\$ (146,524)
Items not effecting cash:		
Future income tax recovery	-	(43,125)
Amortization	9,258	-
Stock-based compensation	70,742	98,793
Changes in non-cash working capital items:		
Receivables	16,483	(22,672)
Prepaid expenses	(3,857)	-
Accounts payable and accrued liabilities	43,579	695
Due to related parties	<u>-</u>	<u>(22,022)</u>
Net cash used in operating activities	<u>(294,954)</u>	<u>(134,855)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	1,677,962	629,207
Share issuance costs	<u>-</u>	<u>(56,657)</u>
Net cash provided by financing activities	<u>1,677,962</u>	<u>572,550</u>
<b>INVESTING ACTIVITIES</b>		
Deferred exploration costs	-	(314,710)
Acquisition of mineral property	-	(25,000)
Mining tax credit	39,500	-
Acquisition of equipment	<u>(39,266)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>234</u>	<u>(339,710)</u>
INCREASE IN CASH	1,383,242	97,985
CASH, BEGINNING OF YEAR	<u>110,413</u>	<u>12,428</u>
CASH, END OF YEAR	<u>\$1,493,655</u>	<u>\$ 110,413</u>

**Supplemental disclosures with respect to cash flows (Note 12)**

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

**SAN MARCO RESOURCES INC.**  
**CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS**  
**FOR THE YEARS ENDED NOVEMBER 30**

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	<u>2009</u>	<u>2008</u>
ALWIN PROPERTY		
Sampling, prospecting and line cutting	\$ -	\$ 45,023
Drilling	-	183,274
Travel, supplies and field expenses	-	52,550
Project management fees	-	21,507
Geological surveys, consulting and reports	-	12,356
	<u>-</u>	<u>314,710</u>
LESS: MINING TAX CREDIT	<u>(9,959)</u>	<u>(25,840)</u>
DEFERRED EXPLORATION COSTS (RECOVERIES) FOR THE YEAR	(9,959)	288,870
DEFERRED EXPLORATION, BEGINNING OF YEAR	<u>435,364</u>	<u>146,494</u>
DEFERRED EXPLORATION, END OF YEAR	<u>\$ 425,405</u>	<u>\$ 435,364</u>

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is in the process of exploring its mineral property and has not yet determined whether the property contains 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries located in Canada and South America and have been prepared using Canadian generally accepted accounting principals on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced losses to November 30, 2009 and has working capital of \$1,449,862 (2008 - \$152,366). Management is actively targeting sources of additional financing through agencies with financial, exploration and mining equities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs.

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**

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.

**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 CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009 AND 2008**

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**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 year 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. 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 liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. As at November 30, 2009 the Company has no asset retirement obligations.

**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. 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 a future income tax recovery 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 year's presentation.

**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**

Effective December 1, 2008, 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.

*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.

**3. CHANGES IN ACCOUNTING POLICIES (cont'd...)**

**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 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. 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.

**4. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

The statement of cash flows for the year ended November 30, 2008 has been restated for changes in presentation. There is no effect on the balance sheet as at November 30, 2008 and statement of operations for the year ended November 30, 2008.

**SAN MARCO RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009 AND 2008**

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**4. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (cont'd...)**

The impact of the changes to the statement of cash flows as at November 30, 2008 have been quantified below:

	As previously reported 2008	Adjustments	As restated 2008
Consolidated Statement of Cash Flows			
<b>OPERATING ACTIVITIES</b>			
Stock-based compensation	\$ 188,960	\$ (90,167)	\$ 98,793
Receivables	(48,512)	25,840	(22,672)
Net cash used in operating activities	(70,528)	(64,327)	(134,855)
<b>FINANCING ACTIVITIES</b>			
Issuance of shares, net of share issue costs	471,874	(471,874)	-
Deferred finance costs	10,509	(10,509)	-
Proceeds from issuance of shares	-	629,207	629,207
Share issue costs	-	(56,657)	(56,657)
Net cash provided by financing activities	482,383	90,167	572,550
<b>INVESTING ACTIVITIES</b>			
Deferred exploration costs	(288,870)	(25,840)	(314,710)
Net cash used in investing activities	\$ (313,870)	\$ (25,840)	\$ (339,710)

**5. 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.

**6. MINERAL PROPERTY**

Alwin Property	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 81,250	\$ 25,000
Payments	-	25,000
Shares issued	-	31,250
Balance, end of year	<u>\$ 81,250</u>	<u>\$ 81,250</u>

**SAN MARCO RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009 AND 2008**

**6. MINERAL PROPERTY (cont'd...)**

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.

**7. EQUIPMENT**

	<b>2009</b>		<b>2008</b>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Net</b>
Computers	\$ 9,424	\$ 805	\$ 8,619	\$ -
Furniture and equipment	14,138	974	13,164	-
Software	15,704	7,479	8,225	-
	<b>\$ 39,266</b>	<b>\$ 9,258</b>	<b>\$ 30,008</b>	<b>\$ -</b>

**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

a) Authorized

100,000,000 common shares without par value.

b) Issued

	<b>Number of Shares</b>	<b>Amount</b>	<b>Contributed Surplus</b>
Balance, November 30, 2007	4,980,003	\$ 258,436	\$ -
Issued for cash	2,000,000	500,000	-
Issued for cash for flow through shares	500,000	125,000	-
Issued for mineral property	125,000	31,250	-
Issued as broker’s commission	60,000	15,000	-
Share issue costs	-	(82,166)	-
Agents warrants exercised	16,826	4,207	-

- Continued -

**SAN MARCO RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009 AND 2008**

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

b) Issued (cont'd...)

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Future income taxes exploration expenditures renounced to shareholders (Note 13)	-	(43,125)	-
Agents warrants	-	(96,673)	96,673
Stock-based compensation	-	-	98,793
Agents warrants exercised	<u>-</u>	<u>6,506</u>	<u>(6,506)</u>
Balance, November, 2008	<u>7,681,829</u>	<u>718,435</u>	<u>188,960</u>
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	<u>-</u>	<u>-</u>	<u>70,742</u>
Balance, November, 2009	<u>14,363,675</u>	<u>\$ 2,432,543</u>	<u>\$ 223,556</u>

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.

**SAN MARCO RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

b) Issued (cont'd...)

During the year ended November 30, 2008:

The Company completed its initial public offering of 2,000,000 common shares at \$0.25 per share and 500,000 flow-through common shares at \$0.25 per share for gross proceeds of \$625,000. The Company paid commissions of \$43,750, issued 60,000 common shares at \$0.25 per share and issued 250,000 agent warrants which entitles the agent to purchase an additional common share at \$0.25 per share up to December 18, 2008. The fair value of the agent warrants of \$96,673 was allocated to share issue costs and contributed surplus. The Company incurred additional share issuance costs of \$23,416.

The Company issued 125,000 common shares with a value of \$31,250 pursuant to the Alwin Property Agreement (Note 6).

The Company issued 16,826 common shares for gross proceeds of 44,207 pursuant to the exercise of agent warrants. Accordingly, \$6,506 was transferred from contributed surplus to share capital.

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 there after. As at November 30, 2009, a total of 1,776,503 shares have been released leaving 1,453,500 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.

**SAN MARCO RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

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

The Company's stock option transactions are as follows:

	November 30, 2009		November 30, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,244,991	\$ 0.35	-	\$ -
Granted	1,250,000	0.51	1,281,886	0.35
Exercised	(271,346)	0.28	-	-
Cancelled	(693,645)	0.35	(36,895)	0.25
Outstanding, end of year	<u>1,530,000</u>	<u>\$ 0.49</u>	<u>1,244,991</u>	<u>\$ 0.35</u>
Options exercisable	<u>210,000</u>	<u>\$ 0.40</u>		

As at November 30, 2009, 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
	<u>50,000</u>	<u>0.51</u>	<u>October 5, 2012</u>
Outstanding, end of year	<u>1,530,000</u>	<u>\$ 0.49</u>	

The total fair value of options granted in 2009 was \$347,407 (2008 - \$225,611) or \$0.28 (2008 - \$0.18) per option, using the Black-Scholes option pricing model. The Company expensed \$70,742 (2008 - \$98,793), cancelled previous options that were granted and not vested of \$41,051 (2008 - \$Nil) leaving an unamortized balance of \$362,432 (2008 - \$126,818) to be amortized to operations. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted.

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

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

	2009	2008
Risk free interest rate	1.22%	3.27%
Expected life of options	3 years	2 years
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	146.62%	100.00%

e) Warrants and Agents' warrants

The Company's warrant transactions are as follows:

	Number of Warrants	Weight Average Exercise Price
Balance November 30, 2007	-	\$ -
Granted	250,000	0.25
Exercised	(16,826)	0.25
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	3,205,000	\$ 0.55

As at November 30, 2009, the following share purchase warrants were outstanding:

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

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes valuation of Agents warrants issued:

	2009	2008
Risk free interest rate	-	1.58%
Expected life	-	1 year
Annualized volatility	-	100.03%
Dividend rate	-	0.00%

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$20,000 (2008 - \$42,000) for management fees to a company controlled by the former president.
- b) Paid or accrued \$25,000 (2008 - nil) for management fees to the current president
- c) Paid or accrued exploration expenses of \$Nil (2008 - \$293,981) to a company controlled by the former president, for which the Company was charged a project management fee of 15% on such payments.
- d) Paid or accrued legal fees of \$9,426 (2008 - \$22,189) to a firm in which a former director is a partner.
- e) Paid or accrued management fees of \$18,000 (2008 - \$Nil) 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.

**10. 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.

**10. CAPITAL RISK MANAGEMENT (cont'd...)**

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 November 30, 2009, the Company is not subject to externally imposed capital requirements.

**11. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT**

As at November 30, 2009, 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) Currency risk

The Company's funds are held in Canadian dollars and has operated in Canada during the past year. There is no currency and no significant foreign exchange currency risk to the Company.

(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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**11. 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.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2009	2008
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	-	-

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The significant non-cash transaction for the year ended November 30, 2009 was the allocation of \$36,146 in contributed surplus to share capital on exercise of stock options and warrants.

The significant non-cash transactions for the year ended November 30, 2008 (restated – Note 4) were as follows:

- a) Included in deferred exploration costs is a recovery of a mining tax credit of \$25,840.
- b) The Company issued 125,000 common shares with a total value of \$31,250 pursuant to the Alwin mineral property option agreement.
- c) The Company reclassified deferred finance costs of \$10,509 to share issuance costs in share capital.
- d) The Company issued 250,000 agent warrants which entitle the holders to purchase an additional 250,000 common shares. The fair value of the agent warrants of \$96,673 was allocated to share issuance costs and contributed surplus.

**13. SEGMENTED INFORMATION**

The Company currently conducts substantially all of its operations in Canada in one business segment being the exploration and development of resource properties.

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**14. FUTURE INCOME TAXES**

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

	2009	2008
Loss before income tax recovery	\$ 431,159	\$ 189,649
Expected income tax (recovery) at statutory rates	\$ (129,529)	\$ (59,364)
Net non-deductible items	24,558	30,924
Deductible items	(10,745)	(11,196)
(Recognized) unrecognized benefit of non-capital losses	<u>115,716</u>	<u>(3,489)</u>
Total income tax (recovery)	\$ -	\$ (43,125)

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

	2009	2008
Future income tax assets:		
Non-capital losses available for future years	\$ 161,000	\$ 68,000
Mineral properties	(62,000)	(67,000)
Equipment	2,000	-
Investment tax credit (federal)	25,000	24,000
Share issue costs	<u>27,000</u>	<u>37,000</u>
	153,000	62,000
Less: valuation allowance	<u>(153,000)</u>	<u>(62,000)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses for Canadian income tax purposes of approximately \$645,000, which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2029. 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.

During the year ended November 30, 2009, the Company issued Nil (2008 – 500,000) common shares on a flow-through basis for gross proceeds of \$Nil (2008 - \$125,000). 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. During the year ended November 30, 2008, the Company renounced exploration expenditures of \$125,000 resulting in a charge to capital stock of \$43,125 with a related future income tax recovery.

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**15. SUBSEQUENT EVENTS**

Subsequent to November 30, 2009, the Company:

- a) acquired a mineral property in Mexico known as the “El Tecomate Property” plus an additional mineral concession known as the “El Tecomate Core”. The Company will pay US\$75,000 and has issued 400,000 common shares of the Company. The Company has granted the vendor a 1% NSR on the property plus any additional property acquired by the Company within five kilometers of the outer edge of the property.
- b) acquired a mineral property in central Mexico known as the La Buena. The Company paid US\$125,000; issued 200,000 shares of the Company and granted a 3 year share purchase warrant for an additional 300,000 shares of the Company exercisable at \$0.70 per common share. The Company shall also pay US\$1,000,000 if a total of 1.25 million ounces of gold equivalent ounces is defined in the measured and indicated reserve or resource category, as defined in an independent 43-101 report. At the Company’s option this payment may be paid in cash or shares of the Company. The Company has granted the vendor a 1.5% NSR when the price of gold is below \$800 per ounce, a 2.0% NSR when the price of gold is between US\$800 and US\$950 per ounce and a 2.5% NSR when the price of gold is above US\$950 per ounce. The Company has the option to purchase 50% of the NSR for US\$2,000,000.