Discoverymetals

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018
and
the four-months ended December 31, 2017
and
the year ended August 31, 2017
(expressed in Canadian dollars)

Independent auditor's report

To the Shareholders of Discovery Metals Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Discovery Metals Corp. and its subsidiary (together, the Company) as at December 31, 2018, December 31, 2017 and August 31, 2017, and its financial performance and its cash flows for the year ended December 31, 2018, for the four month period ended December 31, 2017 and for the year ended August 31, 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018, December 31, 2017 and August 31, 2017;
- the consolidated statements of loss and total comprehensive loss for the year ended December 31, 2018, for the four month period ended December 31, 2017 and for the year ended August 31, 2017;
- the consolidated statements of cash flows for the year ended December 31, 2018, for the four month period ended December 31, 2017 and for the year ended August 31, 2017;
- the consolidated statements of changes in equity for the year ended December 31, 2018, for the four month period ended December 31, 2017 and for the year ended August 31, 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Craig Moffat.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 26, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	Notes		**December 31, 2018**		December 31, 2017		August 31, 2017
ASSETS							
Current							
Cash and cash equivalents	**6**	**$**	**4,691,676**	$	12,234,811	$	14,643,353
Sales tax and other receivables	**7**		**984,547**		212,894		26,655
Prepaids and deposits			**36,873**		37,787		77,728
			5,713,096		12,485,492		14,747,736
Non-current							
Property and Equipment	**8**		**239,611**		156,517		-
Mineral properties	**9**		**1,264,007**		1,055,393		1,164,406
TOTAL ASSETS		**$**	**7,216,714**	$	13,697,402	$	15,912,142
LIABILITIES							
Current							
Accounts payable and accrued liabilities	**10**	**$**	**230,090**	$	442,391	$	802,667
TOTAL LIABILITIES		**$**	**230,090**	$	442,391	$	802,667
SHAREHOLDERS' EQUITY							
Share capital	**11(b)**	**$**	**23,539,388**	$	23,539,388	$	23,359,388
Contributed surplus			**4,169,144**		3,650,374		3,257,380
Warrants	**11(d)**		**8,010,367**		8,010,367		8,010,367
Accumulated other comprehensive loss			**(102,958)**		(346,429)		-
Accumulated deficit			**(28,629,316)**		(21,598,689)		(19,697,660)
TOTAL EQUITY		**$**	**6,986,625**	$	13,255,011	$	15,109,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**7,216,714**	$	13,697,402	$	15,912,142

Commitments and contractual obligations and Events after the reporting period (notes 20 and 22).

Approved on Behalf of the Board on April 26, 2019:

"Jeff Parr" Jeff Parr – Director

"Murray John" Murray John – Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS
OF LOSS AND TOTAL COMPREHENSIVE LOSS

(Expressed in Canadian dollars, except per share and share information)

	Notes		Year Ended December 31, 2018		Four Months Ended, December 31, 2017		Year Ended August 31, 2017
Expenses (income)							
General office and other expenses	**13**	**$**	**1,289,068**	$	748,075	$	190,948
Interest income			**(113,826)**		(36,100)		(1,980)
Professional fees	**14**		**289,323**		268,048		456,636
Exploration and project evaluation expenses	**12**		**4,876,988**		758,628		949,265
Share-based compensation	**11(c)**		**518,770**		392,994		1,984,871
Foreign exchange loss (gain)			**170,304**		(230,616)		8,871
Net loss		**$**	**7,030,627**	$	1,901,029	$	3,588,611
Other comprehensive (gain) loss			**(243,471)**		346,429		-
Net loss and total comprehensive loss		**$**	**(6,787,156)**	$	(2,247,458)	$	(3,588,611)
Weighted average shares outstanding							
Basic and diluted	**11(b)**		**65,043,998**		65,043,998		35,367,831
Net loss per share							
Basic and diluted		**$**	**(0.10)**	$	(0.03)	$	(0.10)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Notes		Year Ended December 31, 2018		Four Months Ended December 31, 2017		Year Ended August 31, 2017
Operating Activities							
Net loss		**$**	**(7,030,627)**	$	(1,901,029)	$	(3,588,611)
Items not affecting cash:							
Depreciation			**51,531**		6,511		-
Share-based compensation	**11(c)**		**518,770**		392,994		1,984,871
Unrealized foreign exchange gain			**139,543**		(64,607)		-
Changes in non-cash operating working capital:							
Sales tax and other receivables	**7**		**(771,653)**		(186,240)		(104,383)
Prepaids and deposits			**914**		39,941		-
Accounts payable and accrued liabilities	**10**		**(212,301)**		(360,275)		644,937
Net cash used in operating activities		**$**	**(7,303,823)**	$	(2,072,705)	$	(1,063,186)
Investing Activities							
Acquisition of property and equipment	**8**		**(127,665)**		(163,028)		-
Acquisition of mineral properties	**9**		**(113,305)**		(144,751)		(667,359)
Net cash used in investing activities		**$**	**(240,970)**	$	(307,779)	$	(667,359)
Financing Activities							
Issue of shares, net of costs	**11b**		**-**		-		7,303,598
Issue of warrants	**11d**		**-**		-		8,010,367
Net cash provided by financing activities		**$**	**-**	$	-	$	15,313,965
Effect of exchange rates on cash and cash equivalents			**1,658**		(28,058)		-
(Decrease) Increase in cash			**(7,543,135)**		(2,408,542)		13,583,420
Cash and cash equivalents, beginning of period	**6**		**12,234,811**		14,643,353		1,059,933
Cash and cash equivalents, end of period	**6**	**$**	**4,691,676**	$	12,234,811	$	14,643,353
Supplemental Cash Flow Information:							
Income tax expense paid		**$**	**-**	$	**-**	$	-
Interest paid		**$**	**-**	$	**-**	$	-

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share information)

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2018		**65,043,998**	**$ 23,539,388**	**$ 8,010,367**	**$ 3,650,374**	**$ (346,429)**	**$ (21,598,689)**	**$ 13,255,011**
Share-based compensation	11(d)	-	-	-	**518,770**	-	-	**518,770**
Net loss and total comprehensive loss for the period						**243,471**	**(7,030,627)**	**(6,787,156)**
At December 31, 2018		**65,043,998**	**$ 23,539,388**	**$ 8,010,367**	**$ 4,169,144**	**$ (102,958)**	**$ (28,629,316)**	**$ 6,986,625**

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At September 1, 2016		32,669,998	$ 15,881,039	$ -	$ 1,272,509	$ -	$ (16,109,049)	$ 1,044,499
Shares issued under non-brokered private placement	11(c)	31,237,000	15,618,500	-	-	-	-	15,618,500
Shares issued as finders' fees under private placement	11(c)	427,500	213,750	-	-	-	-	213,750
Finders' fees for private placement	11(c)	-	(518,284)	-	-	-	-	(518,284)
Shares issued on acquisition of mineral properties	11(c)	709,500	354,750	-	-	-	-	354,750
Warrants issued under non-brokered private placement	11(e)	-	(8,010,367)	8,010,367	-	-	-	-
Share-based compensation	11(d)	-	-	-	1,984,871	-	-	1,984,871
Net loss and total comprehensive loss		-	-	-	-	-	(3,588,611)	(3,588,611)
At August 31, 2017		65,043,998	$ 23,539,388	$ 8,010,367	$ 3,257,380	$ -	$ (19,697,660)	$ 15,109,475
Share-based compensation	11(d)	-	-	-	392,994	-	-	392,994
Net loss and total comprehensive loss		-	-	-	-	(346,429)	(1,901,029)	(2,247,458)
At December 31, 2017		65,043,998	$ 23,539,388	$ 8,010,367	$ 3,650,374	$ (346,429)	$ (21,598,689)	$ 13,255,011

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Discovery Metals Corp. ("Discovery Metals" or the "Company") is a mineral exploration company whose main objective is to identify and successfully define and develop mineral deposits, primarily in Mexico.

The Company was incorporated on October 10, 1986 under the laws of British Columbia as Ayubowan Capital Ltd. On June 13, 2017, the Company's name was changed to Discovery Metals Corp. The Company is listed on the TSX Venture Exchange (the "Exchange" or "TSXV") under the symbol "DSV". The Company's head office is located at Suite 701 - 55 University Avenue, Toronto, Ontario, M5J 2H7.

The Company's Board of Directors authorized the issuance of the consolidated financial statements on April 26, 2019.

2. BASIS OF PREPARATION

During the four months ended December 31, 2017, the Company changed its fiscal year-end to December 31 from August 31. The Company's transition period was the four months ended December 31, 2017 and the comparative period was the twelve months ended August 31, 2017. The new financial year aligns the Company with its peer group in the mineral resources sector and facilitates marketplace assessment of the Company's business performance. Certain of the comparative figures have been reclassified to conform with the current period presentation.

Under National Instrument 51-102 Continuous Disclosure Obligations, as a result of the change in year-end, a company must present comparative annual information for the two previous year-end periods. Under these guidelines, the Company is presenting audited consolidated financial statements for the year ended December 31, 2018, the four months ended December 31, 2017 and the year ended August 31, 2017 (the "consolidated financial statements").

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). IFRS includes IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs").

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2018, the Company had working capital (defined as current assets less current liabilities) of $5,483,006 (December 31, 2017 – $12,043,100 and August 31, 2017 – $13,945,069), shareholders' equity of $6,986,625 (December 31, 2017 – $13,255,011 and August 31, 2017 – $15,109,475) and an accumulated deficit of $28,629,316 (December 31, 2017 – $21,598,689 and August 31, 2017 – $19,697,660).

The Company has not yet determined whether the properties on which it has options contain mineral reserves that are economically recoverable. The continued operations of the Company are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of the properties.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company in the preparation of its consolidated financial statements are set out below.

a) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value through profit or loss ("FVTPL"), as explained in the accounting policies described herein. Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. Certain of the comparative figures for the year ended August 31, 2017 have been reclassified to conform with current year's presentation.

b) Basis of Consolidation

The consolidated financial statements are presented in Canadian dollars ("CAD") unless otherwise noted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Subsidiaries are entities over which the Company has the power to, directly or indirectly, govern the financial and operating policies of the entity to obtain benefits from its activities. In assessing whether control exists, potential voting rights that are presently exercisable or convertible, are taken into consideration. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

The Company's principal subsidiary and its geographic locations at December 31, 2018 were as follows:

Direct Parent Company	Location	Ownership Percentage	Properties under Option Agreements
Discovery México S.A. de C.V.	Mexico	100%	Puerto Rico, La Kika, Minerva, Monclova, Jemi Rare, Renata, Santa Rosa

All intercompany assets, liabilities, equity, income, expenses and cash flows arising from intercompany transactions have been eliminated on consolidation.

c) Currency of Presentation

The consolidated financial statements are presented in Canadian dollars ("CAD") which is the functional and presentation currency of the Company. The functional currency for the entities through which the Company conducts its operations is determined depending upon the primary economic environment in which they operate. The functional currency of the Mexican subsidiary is Mexican pesos ("MXP").

d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in foreign currencies are not re-translated. Total foreign exchange gains and losses are recognized in the income statement and the unrealized portion is reported separately in the consolidated statement of cash flows. The foreign exchange differences arising from the translation of the subsidiary with functional currency different than the consolidated functional currency are recognized as currency translation adjustments in other comprehensive income (loss) in the consolidated statement of loss and total comprehensive income (loss).

e) Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash and highly liquid investments with original maturities of twelve months or less. The Company invests excess cash in high yield savings accounts maintained in high credit-rated institutions. Restricted cash comprises cash balances which are restricted from being immediately exchanged or used to settle a transaction and can be classified as either a current or non-current asset depending on the terms of the restriction(s).

f) Mineral properties and equipment

On initial acquisition, mineral properties and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition. The Company capitalizes cash and share-based payments made to acquire mineral properties (note 8). Land is stated at cost less any impairment in value and is not depreciated. Exploration and development costs are capitalized if a pre-feasibility study demonstrates that future economic benefits are probable. Upon disposal or abandonment, the carrying amount of mineral properties are derecognized and any associated gains or losses are recognized in profit and loss.

i. *Depreciation*

Depreciation is recognized in earnings or loss on a straight-line basis over the estimated useful lives of each part of an item (component), since this most closely reflects the expected pattern of consumption of economic benefits embodied in the asset. The estimated useful lives for assets and components that are depreciated on a straight-line basis range from three to 10 years.

Depreciated assets	**Useful Life**
Computer equipment and software	3 years
Vehicles	4 years
Office equipment and furniture	5 to 10 years

ii. *Impairment*

At the end of each reporting period, the Company reviews whether there is any indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing its value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in earnings or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in earnings or loss.

Where an item of mineral properties and equipment is disposed of, it is derecognized and the difference between it's carrying value and net sales proceeds is disclosed as earnings or loss on disposal in the consolidated financial statements of operations and total comprehensive income (loss). Any items of mineral properties and equipment that cease to have future economic benefits are derecognized with any gain or loss included in the financial year in which the item is derecognized.

g) Exploration and evaluation assets

The Company expenses all exploration and evaluation expenditures. Such costs are capitalized once technical feasibility and commercial viability are reached, demonstrating future economic benefits are probable and will flow to the Company.

h) Leases

In addition to contracts which take the legal form of a lease, other significant contracts are assessed to determine whether, in substance, they are or contain a lease, if the contractual arrangement contains the use of a specific asset and the right to use that asset. Where the Company receives substantially all the risks and rewards of ownership of the asset, these assets are capitalized at the lower of the fair value of the leased asset or the estimated present value of the minimum lease payments. The corresponding lease obligation is included within lease obligations and accretion expense is recognized over the term of the lease.

Operating leases are not capitalized, and payments are included in the consolidated statements of operations and total comprehensive income (loss) on a straight-line basis over the term of the lease.

Effective January 1, 2019, the Company has adopted IFRS 16 – *Leases*. Refer to note 4b for a discussion of changes and management's assessment of the implication of adoption on the consolidated financial statements.

i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present liability for statutory, contractual, or legal obligations that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

j) Financial instruments

The Company classifies and measures its financial instruments at fair value, with changes in fair value recognized in profit or loss as they arise. Unless restrictive criteria regarding the objective and contractual cash flows of the instrument are met then classification and measurement are at either amortized cost or fair value through other comprehensive income.

Subsequent to initial measurement at fair value, all recognized financial assets are required to be subsequently measured at amortized cost or fair value. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost in subsequent periods. Financial assets that have a business model whose objective is achieved by both collecting the contractual cash flows and selling financial assets are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at fair value through profit and loss (“FVTPL”) in subsequent accounting periods. In addition, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s FVTOCI, with only dividend income generally recognized in profit or loss. Transaction costs for financial assets held at FVTPL are expensed, for all other financial assets, they are recognized at fair value at initial measurement less any directly attributable transaction costs.

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded.

For the impairment of financial assets an ‘expected credit loss’ model is applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model is updated at each reporting date to reflect changes in initial recognition.

k) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

l) Share-based payments

The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserve.

In situations where equity instruments are issued to non-employees and some or all the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

m) Income taxes

Income tax on the earnings or loss for the years presented comprises current and deferred tax. Income tax is recognized in earnings or loss in the statements of operation except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Total comprehensive income (loss)

Total comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Company has other comprehensive income (loss) components as a result of currency translation adjustments from the functional currency of MXP in Discovery Mexico to the presentation currency of CAD in the consolidated financial statements.

o) Earnings (loss) per share

Basic earnings or loss per share ("EPS") represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted EPS represents the profit for the period, divided by the weighted average number of common shares in issue during the period plus the weighted average number of dilutive shares that could result from the exercise of stock options, warrants and other similar instruments where the inclusion of these items would not be anti-dilutive. When a loss per share calculation based on the fully diluted number of shares would be less than the loss per share calculated on the basic number of shares, diluted losses per share is anti-dilutive and accordingly, the diluted loss per share would be the same as the basic loss per share.

4. CHANGES IN ACCOUNTING POLICIES

a) Application of new or amended standards effective January 1, 2018

The Company has adopted the following new IFRS standards, amendments to standards and interpretations for the year ended December 31, 2018. The Company determined there to be no material impact on the consolidated financial statements.

i. *IFRS 9 – Financial Instruments ("IFRS 9")*

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments ("IFRS 9"), which replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 provides a revised model for classification and measurement of financial assets, including a new "expected credit loss" impairment model. The revised model for classifying financial assets results in classification according to their contractual cash flow characteristics and the business models under which they are held. IFRS 9 introduces a reformed approach to hedge accounting. IFRS 9 also largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The accounting policy on financial instruments summarized in note 3 (j) was adopted as at January 1, 2018 retrospectively without restatement of the comparative period and replaces the Company's previously existing accounting policy on financial instruments included in note 3 (j) of the consolidated financial statements for the four months ended December 31, 2017.

IFRS 9 transition adjustments

The adoption of IFRS 9 during the year ended December 31, 2018 did not impact the carrying value of any financial asset or financial liability on the transition date. None of the Company's financial instrument classification has changed significantly as a result of the adoption of the new standard.

The Company has assessed the impairment of its receivables using the expected credit loss model, and no material difference was noted, and no impairment has been recognized upon transition or at December 31, 2018.

The table below outlines the change in classification of the Company's financial assets and liabilities from IAS 9 to IFRS 9.

(Expressed in Canadian dollars, except where otherwise noted)

	IFRS 9	IAS 39	
	New Classification	**Original Classification**	**Measurement Model**
Cash and cash equivalents	FVTPL	FVTPL	FVTPL
Sales tax and other receivables	FVTPL	FVTPL	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Loans and receivables	Amortized cost

ii. *IFRIC 22 – Foreign Currency Transactions and Advanced Consideration ("IFRIC 22")*

On December 8, 2016, the IASB issued IFRIC 22 which clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt. The Company determined there to be no impact on its consolidated financial statements.

b) Future accounting standards and interpretations effective January 1, 2019 and thereafter

Certain new IFRS standards, and amendments to standards and interpretations, are not yet effective for the three months and year ended December 31, 2018 and have not been applied in preparing these consolidated financial statements.

i. *IFRS 16 – Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16, replacing *IAS 17 – Leases*. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company will adopt IFRS 16 for the annual period beginning January 1, 2019. The Company has completed its analysis and determined the impact to be as follows:

- A right-of-use asset and lease liability will be created in the amount of $176,073, respectively;
- There will be no adjustment to opening retained earning based on the adoption of IFRS 16.
- The Company has applied certain exemptions for leases determined to be of low-dollar value (under USD$5,000) and/or short-term in nature (contracts of less than 12-months). These will remain as operating leases with the associated cost being expensed as incurred.

ii. *IFRIC 23 – Uncertainty over income tax treatments ("IFRIC 23")*

In June 2017, the IASB interpretations committee issued IFRIC 23 which addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under *IAS 12 – Income taxes*. IFRIC 23 specifically considers the following:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;

- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company has completed its analysis and determine there to be no impact on the consolidated financial statements upon adoption.

5. CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of interim financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, contingent liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and applied prospectively.

a) Critical accounting judgments

The significant areas of judgment considered by management in preparing the consolidated financial statements include, but are not limited to:

i. *Functional currency*

The functional currency for each of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that for each of the Canadian entities, the functional currency is CAD and for the Mexican subsidiary the functional currency is MXP. Foreign exchange differences arising from the translation from functional to presentation currency are recognized each period in other comprehensive income and may or may not be subsequently reclassified to profit or loss depending on future events.

ii. *Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs*

The Company makes determinations whether development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgical information, economic assessments and existing permits for land access and drilling. The estimates contained within these criteria could change over tie which could affect the economic recoverability of capitalized costs.

b) Critical accounting estimates

The information about significant areas of estimation uncertainty considered by management in preparing the financial statements is as follows:

i. *Determination of useful lives*

Equipment is depreciated using the straight-line method based on the specific asset's useful life. Should the actual useful life vary from the initial estimation, future depreciation charges may change. Should the componentization of these like assets change, depreciation charges may vary materially.

ii. *Impairment charges*

The Company assesses its CGUs at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate of the recoverable amount is made, which is the higher of the fair value less costs to sell and value in use. The determination of the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and future operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The estimates are subject to risk and uncertainty and therefor there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the individual assets or CGUs.

iii. *Sales tax recoverability*

The Company incurs significant expenditures on which sales tax is paid ("GST/HST" in Canada and "IVA" in Mexico). The Company can claim a 100% refund of sales taxes paid on allowable expenditures.

As a result of the Company's limited operating history, management currently estimates 100% collectability of the sales tax receivable balance and anticipates the collection within 12 months of incurring the associated expenditure. It is possible however, that the refund requests may be delayed, reduced or denied by the respective taxation authorities. Management assesses collectability and classification of the asset at each reporting period.

The sales tax receivable balance was $950,053 at December 31, 2018 (December 31, 2017 - $212,894 and August 31, 2017 - $26,655).

iv. *Share-based payments*

The fair value of the estimated number of stock options that will eventually vest is recognized as share-based compensation expense over the vesting period of the stock options with the corresponding increase in equity.

Determining the fair value of options and warrants requires the exercise of judgment related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Option and warrant pricing models require the input of highly subjective assumptions including the expected price volatility and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options or warrants at the date of grant. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

(Expressed in Canadian dollars, except where otherwise noted)

6. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017	August 31, 2017
Cash	**$ 4,601,676**	$ 12,144,811	14,583,353
Cash equivalents [(1)]	**90,000**	90,000	60,000
	$ 4,691,676	$ 12,234,811	$ 14,643,353

[(1)] Marketable securities with short-term maturities and no restrictions on redemption.

7. SALES TAX AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017	August 31, 2017
Sales tax receivable	**$ 950,053**	$ 212,894	26,654
Other receivables	**34,494**	-	-
	$ 984,547	$ 212,894	$ 26,654

8. PROPERTY AND EQUIPMENT

	Equipment	**Vehicles**	**Furniture**	**Computer**	**Total**
Cost					
Balance at January 1, 2018	**$ 47,806**	**$ 44,001**	**$ 19,500**	**$ 51,721**	**$ 163,028**
Additions	**15,685**	**35,865**	**18,184**	**57,931**	**127,665**
Disposals	**-**	**-**	**-**	**(3,811)**	**(3,811)**
Currency translation adjustment	**4,660**	**3,961**	**245**	**1,829**	**10,695**
Balance at December 31, 2018	**$ 68,151**	**$ 83,827**	**$ 37,929**	**$ 107,670**	**$ 297,577**
Accumulated depreciation					
Balance at January 1, 2018	**$ -**	**$ (2,062)**	**$ (556)**	**$ (3,893)**	**$ (6,511)**
Additions	**(6,257)**	**(17,993)**	**(4,743)**	**(22,538)**	**(51,531)**
Disposals	**-**	**-**	**-**	**1,058**	**1,058**
Currency translation adjustment	**(184)**	**(586)**	**(25)**	**(187)**	**(982)**
Balance at December 31, 2018	**$ (6,441)**	**$ (20,641)**	**$ (5,324)**	**$ (25,560)**	**$ (57,966)**
Carrying amount at January 1, 2018	**$ 47,806**	**$ 41,939**	**$ 18,944**	**$ 47,828**	**$ 156,517**
Carrying amount at December 31, 2018	**$ 61,710**	**$ 63,186**	**$ 32,605**	**$ 82,110**	**$ 239,611**

(Expressed in Canadian dollars, except where otherwise noted)

	Equipment	Vehicles	Furniture	Computer	Total
Cost					
Balance at September 1, 2017	$ -	$ -	$ -	$ -	$ -
Additions	47,806	44,001	19,500	51,721	163,028
Balance at December 31, 2017	$ 47,806	$ 44,001	$ 19,500	$ 51,721	$ 163,028
Accumulated depreciation					
Balance at September 1, 2017	$ -	$ -	$ -	$ -	$ -
Additions	-	(2,062)	(556)	(3,893)	(6,511)
Balance at December 31, 2017	$ -	$ (2,062)	$ (556)	$ (3,893)	$ (6,511)
Carrying amount at September 1, 2017	$ -	$ -	$ -	$ -	$ -
Carrying amount at December 31, 2017	$ 47,806	$ 41,939	$ 18,944	$ 47,828	$ 156,517

9. MINERAL PROPERTIES

	Amount
Balance at September 1, 2016	-
Puerto Rico Property	842,863
Renata Property	153,313
Minerva Property	102,401
La Kika Property	65,829
Balance at September 1, 2017	$ 1,164,406
Currency translation adjustment	(109,013)
Balance at December 31, 2017	$ 1,055,393
Acquisition of mineral properties	**113,305**
Currency translation adjustment	**95,309**
Balance at December 31, 2018	**$ 1,264,007**

(1) Option Agreements for Jemi Rare, Santa Rosa and Monclova Properties did not require cash or share payments.

(2) During the year ended December 31, 2018, the Company purchased mineral concessions adjacent to the Minerva Project ($72,179), La Kika Project ($27,302) and Puerto Rico ($13,824).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 208	December 31, 2017	August 31, 2017
Trade and other payables	**$ 228,536**	$ 146,201	40,393
Sales tax payable	**-**	16,811	-
Accrued liabilities	**1,554**	279,379	762,274
	$ 230,090	$ 442,391	$ 802,667

11. SHARE CAPITAL AND WARRANTS

a) Authorized

i. Unlimited common shares with no par value; and
ii. Unlimited preferred voting shares with no par value.

(Expressed in Canadian dollars, except where otherwise noted)

b) Shares issued and outstanding

	Common Shares		Amount
As at September 1, 2016	32,669,998	$	15,881,039
Shares issued on acquisition of mineral properties	709,500		354,750
Shares issued under non-brokered private placement	31,237,000		15,618,500
Shares issued as finders' fees under private placement	427,500		213,750
Finders' fees for private placement	-		(518,284)
Warrants issued under non-brokered private placement	-		(8,010,367)
As at August 31, 2017	65,043,998	$	23,539,388
As at December 31, 2017	65,043,998	$	23,539,388
As at December 31, 2018	**65,043,998**	**$**	**23,539,388**

c) Stock Options

The Company has adopted a rolling 10% stock option plan (the "Plan") which provides that the directors of the Company may grant options to purchase common shares of the Company to directors, officers, employees and service providers, with the number of options being limited to 10% of the issued common shares at the time of granting of options. The Board in its sole discretion may determine any vesting provisions for options. The exercise price shall be determined by the directors of the Company at the time of grant in accordance with the provisions of the Plan. The expiry date for an option shall not be more than ten years from the grant date.

Option transactions and the number of options outstanding are summarized as follows:

	Outstanding		Weighted Average Exercise Price
As at September 1, 2016	-	$	-
Options granted	6,600,000		0.53
Options forfeited or cancelled	(1,800,000)		0.45
As at August 31, 2017	4,800,000	$	0.56
Options granted	900,000		0.68
Options forfeited or cancelled	(266,667)		0.81
As at December 31, 2017	5,433,333	$	0.57
Options granted	**700,000**		**0.51**
Options expired	**(550,000)**		**0.45**
Options forfeited or cancelled	**(483,333)**		**0.81**
As at December 31, 2018	**5,100,000**	**$**	**0.56**

The share-based compensation expense for the year ended December 31, 2018 was $518,770 (four months ended December 31, 2017 – $392,994 and year ended August 31, 2017 – $1,984,871, respectively).

(Expressed in Canadian dollars, except where otherwise noted)

As at December 31, 2018, the options outstanding and exercisable are as follows:

	Options Outstanding			Options Exercisable		
Exercise Price	**Number**	**Weighted average remaining life**	**Weighted average exercise price**	**Number**	**Weighted average remaining life**	**Weighted average exercise price**
$0.45	650,000	2.76 years	$0.45	650,000	2.76 years	$0.45
$0.60	3,400,000	3.63 years	$0.60	2,866,667	3.63 years	$0.60
$0.48	350,000	3.88 years	$0.48	233,333	3.88 years	$0.48
$0.53	300,000	4.02 years	$0.53	100,000	4.02 years	$0.53
$0.50	400,000	4.52 years	$0.35	133,333	4.52 years	$0.35
	5,100,000	**3.63 years**	**$0.56**	**3,983,333**	**3.63 years**	**$0.56**

The fair value of each option grant has been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

		Year Ended December 31, 2018		Four Months Ended December 31, 2017		Year Ended August 31, 2017
Exercise price	**$**	**0.51**	$	0.68	$	0.53
Share price	**$**	**0.43**	$	0.68	$	0.53
Expected life (years)		**5.00**		5.00		5.00
Risk free interest rate		**2.03%**		1.73%		1.12%
Expected volatility		**100%**		100%		100%
Dividend yield		**0%**		0%		0%
Fair Value	**$**	**0.31**	$	0.51	$	0.40

d) Warrants

There were no warrant transactions during year ended December 31, 2018 or the four months ended December 31, 2017. During the year ended August 31, 2017, a total of 32,908,960 warrants valued at $8,010,367 were issued under a non-brokered private placement.

Warrants outstanding as at December 31, 2018 and December 31, 2017 are summarized as follows:

	Term	**Expiry Date**	**Exercise Price**	**Number**	**Value**		**Amount**
As at September 1, 2016	-	-	-	-	-	$	-
Issued under non-brokered private placement	2 years	8/17/2019	$1.00	31,237,000	$0.24	$	7,559,911
Issued as finders' fees under private placement	2 years	8/17/2019	$1.00	427,500	$0.24	$	103,463
Issued as finders' fees under private placement	1.5 years	2/17/2019	$0.60	1,244,460	$0.28	$	346,993
As at August 31, 2017				32,908,960		$	8,010,367
As at December 31, 2017				32,908,960		$	8,010,367
As at December 31, 2018				**32,908,960**		**$**	**8,010,367**

(Expressed in Canadian dollars, except where otherwise noted)

The remaining contractual lives of Warrants outstanding as at December 31, 2018 are as follows:

Number of Warrants	Weighted average remaining life	Weighted average exercise price
31,664,500	0.63 years	$1.00
1,244,460(1)	0.13 years	$0.60
32,908,960	**0.61 years**	**$0.98**

(1) The 1,244,460 private placement warrants expired unexercised on February 17, 2019.

12. EXPLORATION AND PROJECT EVALUATION

	Year Ended December 31, 2018							
	Puerto Rico	**La Kika**	**Minerva**	**Monclova**	**Jemi Rare**	**Renata**	**Santa Rosa**	**Total**
Permitting	**$ 1,572,637**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,572,637**
Mining duties	**47,931**	**5,467**	**13,723**	**45,072**	**3,763**	**138**	**366**	**116,460**
Surface access	**188,562**	**2,419**	**142,023**	**68,864**	**1,073**	**1,073**	**1,073**	**405,087**
Site access	**-**	**-**	**-**	**55,725**	**-**	**-**	**-**	**55,725**
Drilling	**-**	**149,862**	**-**	**-**	**-**	**-**	**-**	**149,862**
Mapping, Sampling & Assays	**392,834**	**597**	**424,102**	**412,895**	**-**	**-**	**-**	**1,230,428**
Geophysics	**25,410**	**-**	**53,364**	**9,201**	**-**	**-**	**-**	**87,975**
Salaries and benefits	**427,952**	**17,064**	**152,693**	**120,363**	**-**	**-**	**-**	**718,072**
Travel	**100,401**	**5,136**	**53,980**	**57,405**	**-**	**-**	**-**	**216,922**
Administrative and other	**137,384**	**20,518**	**93,079**	**72,839**	**-**	**-**	**-**	**323,820**
Total	**$ 2,893,111**	**$ 201,063**	**$ 932,964**	**$ 842,364**	**$ 4,836**	**$ 1,211**	**$ 1,439**	**$ 4,876,988**

	Four Months Ended December 31, 2017								
	Puerto Rico	La Kika	Minerva	Monclova	Jemi Rare	Renata	Santa Rosa	Project Evaluation	Total
Permitting	$ 130,583	$ 19,656	$ 19,656	$ 67,432	$ 19,656	$ 19,656	$ 19,656	$ -	296,295
Mining duties	-	-	-	-	-	-	-	-	-
Surface access	-	154,777	-	-	-	-	-	-	154,777
Site access	-	75,182	-	-	-	-	-	-	75,182
Drilling	-	69,816	-	-	-	-	-	-	69,816
Assays	3,404	1,135	-	-	-	-	-	6,259	10,798
Salaries and benefits	-	64,679	-	-	-	-	-	62,172	126,851
Travel	-	8,167	-	-	-	-	-	8,557	16,724
Administrative and other	-	-	-	-	-	-	-	8,185	8,185
Total	$ 133,987	$ 393,412	$ 19,656	$ 67,432	$ 19,656	$ 19,656	$ 19,656	$ 85,173	758,628

	Year Ended August 31, 2017								
	Puerto Rico	La Kika	Minerva	Monclova	Jemi Rare	Renata	Santa Rosa	Project Evaluation	Total
Permitting	$ -	$ 55,847	$ 55,847	$ -	$ 55,848	$ 55,848	$ 55,848	$ -	$ 279,238
Mining duties	9,789	-	28,256	78,625	5,392	243	306	-	122,611
Site access	-	175,441	-	-	-	-	-	-	175,441
Project evaluation	-	-	-	-	-	-	-	371,975	371,975
Total	$ 9,789	$ 231,288	$ 84,103	$ 78,625	$ 61,240	$ 56,091	$ 56,154	$ 371,975	$ 949,265

(Expressed in Canadian dollars, except where otherwise noted)

13. GENERAL OFFICE AND OTHER EXPENSES

	Year Ended December 31, 2018	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Travel	**$ 73,433**	$ 85,873	$ 60,181
Salaries and benefits	**789,209**	419,065	23,138
Shareholder communication and investor relations	**45,817**	35,686	21,821
Filing and transfer agent fees	**32,600**	10,383	60,789
Business development	**40,734**	61,623	4,176
Rent	**105,512**	22,660	-
Depreciation	**51,532**	6,511	-
General office and other	**150,231**	106,274	20,843
	$ 1,289,068	$ 748,075	$ 190,948

14. PROFESSIONAL FEES

	Year Ended December 31, 2018	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Legal	**$ 147,108**	$ 95,608	$ 343,930
Management fees	**-**	5,000	60,000
Audit and accounting	**136,888**	52,780	26,610
Consulting fees	**5,327**	114,660	26,096
	$ 289,323	$ 268,048	$ 456,636

15. INCOME TAXES

	Year Ended December 31, 2018	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Loss before tax at statutory rate of 27% (2017 – 26%)	**$ 1,898,269**	$ 494,268	$ 933,039
Effect on taxes of:			
Non-deductible expenses	**(144,232)**	(104,984)	(547,158)
Change in deductible temporary differences	**(1,754,037)**	(389,284)	(385,881)
Income tax expense	**$ -**	$ -	$ -

a) Unrecognized Deductible Temporary Differences

Deferred tax assets have not been recognized in respect of the following deductible temporary differences. The tax loss carry-forwards will expire in 2026.

	Year Ended December 31, 2018	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Non-capital loss carry-forwards	**$ 6,240,000**	$ 4,957,000	$ 4,334,000
Capital loss carry-forwards	**12,640,000**	12,640,000	12,640,000
Share issue costs	**276,000**	380,000	415,000
Resource properties	**6,419,000**	1,486,000	577,000
	$ 25,575,000	$ 19,463,000	$ 17,966,000

16. CAPITAL MANAGEMENT

The Company defines capital as its shareholder's equity (comprised of issued share capital, contributed surplus and deficit). The Company's objectives when managing capital are to support the Company's main activities of identifying, defining and developing mineral deposits, thus creating shareholder value, as well ensuring that the Company will be able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility to enable the Company to respond to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at December 31, 2018, the Company does not have any long-term debt outstanding and is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended December 31, 2018.

17. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable and deposits, and accounts payable and accrued liabilities.

Accounts receivable and deposits are classified as receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These financial instruments approximate their fair value due to their short-term nature.

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial instruments are classified into one of three levels in the fair value hierarchy according to the degree to which the inputs used in the fair value measurement are observable.

- **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.

As at December 31, 2018 the Company had no financial instruments classified as Level 2 or 3.

(Expressed in Canadian dollars, except where otherwise noted)

18. FINANCIAL RISK MANAGEMENT

The Company's has exposure to certain risks resulting from its use of financial instruments.

a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company had a cash balance of $4,691,676 (December 31, 2017 – $12,234,811; August 31, 2017 – $14,643,353) to settle current liabilities of $230,090 (December 31, 2017 – $442,391; August 31, 2017 – $802,667). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

As at December 31, 2018, the Company has no sources of revenue to fund its operating expenditures. During the year-ended August 31, 2017, the Company closed a non-brokered private placement of 31 million common shares at a price of $0.50 per share for gross proceeds of $15,618,500. Management believes these financings will fund the Company's initial exploration work on the properties in Coahuila, Mexico as well as the existing administrative needs for the near term. However, the Company will require additional financing to accomplish the Company's long-term strategic objectives. Future funding may be obtained by means of issuing share capital, or debt financing. If the Company is unable to continue to finance itself through these means, it is possible that the Company will be unable to continue as a going concern. Consequently, the Company is currently exposed to a moderate level of liquidity risk.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company's cash and cash equivalents, accounts receivable and prepaids and deposits are exposed to credit risk. The Company has assessed the credit risk on its cash and cash equivalents as low as its funds are held in highly rated Canadian financial institutions. Management deems the credit risk associated with sales tax receivable and prepaids and deposits to be at an acceptable level.

The Company's maximum exposure to credit risk related to certain financial instruments as identified below, approximates the carrying value of these assets on the Company's consolidated statements of financial position.

	December 31, 2018	December 31, 2017	August 31, 2017
Cash and cash equivalents	**$ 4,691,676**	$ 12,234,811	$ 14,643,353
Sales tax and other receivables	**984,547**	212,894	26,655
Prepaids and deposits	**36,873**	37,787	77,728
	$ 5,713,096	$ 12,485,492	**$** 14,747,736

c) Market Risks

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices.

i. *Interest rate risk*

The Company has significant cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in high-yield savings accounts The Company regularly monitors its cash management policy. Management has determined interest rate risk to be low.

ii. *Foreign currency risk*

The Company's functional currency is the Canadian dollar. At December 31, 2018, cash balances were held primarily in Canadian dollars. Foreign currency risk is the risk that the value of the Company's financial instruments denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. Changes in the exchange rate between foreign currencies and the Canadian Dollar could have a significant impact on the Company's financial position, results of operations, and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and MXP. As at December 31, 2018, December 31, 2017, and August 31, 2017, the Company had the following foreign currency denominated trade payables

		December 31, 2018		December 31, 2017		August 31, 2017
United States dollar	**$**	**38,077**	$	33,970	$	181,791
Mexican Peso		**108,625**		20,584		430,023
	$	**146,702**	$	54,554	**$**	611,814

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss at December 31, 2018 by approximately $19,035 (December 31, 2017 – $8,231; August 31, 2017 – $61,181).

As at December 31, 2018, Management has determined the Company's exposure to foreign currency risk to be at an acceptable level.

iii. *Price risk*

The Company is exposed to price risk with respect to commodity prices and prices of equity securities. Equity security price risk is defined as the potential adverse impact on the Company's net income or loss due to movements in individual prices of equity securities or price movements in the stock market generally. Commodity price risk is defined as the potential adverse impact on net income or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to base metals, and movement in the price of individual equity securities movements and the stock market generally, to determine the appropriate course of action to be taken by the Company. As at December 31, 2018 Management has determined the Company's exposure to price risk to be at an acceptable level.

19. SEGMENTED INFORMATION

Operating segments are components of an entity whose operating results are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance and for which separate financial information is available.

The Company has one operating segment, which involves the exploration of polymetallic deposits. All mineral properties are located in Mexico. The Company currently has no revenues.

Segment performance is evaluated based on several operating and financial measures, including net income (loss) and total comprehensive income (loss), which is measured consistently with net income (loss) and total comprehensive income (loss) in the consolidated financial statements.

The net loss and total comprehensive loss is distributed by geographic region as follows:

		Year Ended December 31, 2018		Four Months Ended December 31, 2017		Year Ended August 31, 2017
Canada	**$**	**(1,835,159)**	$	(1,338,684)	$	(3,011,321)
Mexico		**(4,951,997)**		(908,774)		(577,290)
Net loss and total comprehensive loss	**$**	**(6,787,156)**	$	(2,247,458)	$	(3,588,611)

20. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

a) Puerto Rico project

On completion of the permitting for the Puerto Rico project, the Company will have to pay USD$300,000 over 15 months, beginning 30 calendar days after the receipt of the permit (refer to note 22).

During the year ended December 31, 2017, the Company contracted an environmental engineering consultancy firm to assist in the preparation and filing of all environmental and technical reports required by various governmental agencies with respect to the permitting process at Puerto Rico. The contract totalled USD$1.2 million of which the remaining USD$100 thousand will be paid upon receipt of all permits.

b) Monclova project

During the year ended December 31, 2018, the Company contracted an environmental engineering consultancy firm to assist in the preparation and filing of all environmental and technical reports required by various governmental agencies with respect to the permitting process at Monclova. The contract totalled USD$90 thousand which will be paid upon receipt of all permits.

(Expressed in Canadian dollars, except where otherwise noted)

Please refer to Note 9 of the consolidated financial statements for the four months ended December 31, 2017 for a full description of the terms necessary to exercise the options on the exploration properties and note 22 herein for details on the amendments to the Puerto Rico Option Agreement.

c) Other commitments

The Company has a five-year operating lease for premises and other short-term operating leases for certain office equipment. Total payments made during the year ended December 31, 2018 were $93,785 (four-months ended December 31, 2017 – $16,153; year-ended August 31, 2017 – $nil). Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2017 are as follows:

Year		December 31, 2018		December 31, 2017		August 31, 2017
2019	**$**	**95,798**	$	93,785	$	93,400
2020		**94,877**		92,864		93,400
2021		**93,037**		91,024		90,640
2022		**77,531**		75,854		90,640
2023		**-**		-		-
	$	**361,243**	$	353,527	$	368,080

(1) Effective January 1, 2019, the Company adopted IFRS 16 – Leases which brings operating leases onto the statement of financial position while allowing for certain exemptions based on duration of the lease and total dollar value of the contract. Refer to Note 5b.

21. RELATED PARTY TRANSACTIONS

a) Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

A company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the year ended December 31, 2018 totalled $75,841 (four months ended December 31, 2017 – $30,230; year ended August 31, 2017 – $118,156). The Company had $5,772 in expenses payable to this company as at December 31, 2018 (December 31, 2017 – $34,431; August 31, 2017 – $nil). These expenses are not included in the table below.

Under a similar arrangement, during the year ended December 31, 2018 the Company reimbursed expenses of $27,619 (four months ended December 31, 2017 – USD$3,289; year ended August 31, 2017 – $nil) to another company which has a Director in common. There was $707 in expenses payable at December 31, 2018 (December 31, 2017 – of USD$4,958; August 31, 2017 – $nil).

(Expressed in Canadian dollars, except where otherwise noted)

These expenses are not included in the tables below.

Transaction Type	Nature of Relationship	Year Ended December 31, 2018	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Professional fees	A company with a former director/officer in common	**$ -**	$ 80,000	$ 60,000
Consulting Fees	Officers	**-**	41,667	-
Share-based payments	Directors and officers	**287,516**	251,660	1,760,296
Shares to purchase mineral properties	Director	**-**	-	125,000
Payment to purchase mineral properties	Director	**-**	-	325,592
Salaries and benefits	Officers	**585,005**	305,083	18,827
Directors fees	Directors	**175,000**	63,890	6,848
		$ 1,047,521	$ 742,300	$ 2,296,563

Summary of amounts due to related parties:

Transaction Type	Nature of Relationship	December 31, 2018	December 31, 2017	August 31, 2017
Accounts payable and accrued liabilities	A director and a company with a director/officer in common with the Company	**$ 1,554**	$ 76,554	$ 6,848
		$ 1,554	$ 76,554	$ 6,848

22. EVENTS AFTER THE REPORTING PERIOD

a) Warrants

On February 17, 2019, 1,244,460 warrants with a weighted average exercise price of $0.60 expired unexercised.

b) Puerto Rico

During April 2019, the Company announced advances to the final stages in the land re-designation process at Puerto Rico. The Company is now awaiting the preparation of the Land Management Plan (the “Plan”) by the National Commission for Nature Protected Areas (“CONANP”) and the subsequent submission and approval at the federal level. Once complete, the Company can apply for the standard drill permits for the Project.

In addition to these advancements in the re-designation process, Discovery was granted membership and voting rights on the Board of the Maderas del Carmen Reserve (the “MDC Board”). The Board also approved the creation of a mining sub-committee which will work alongside CONANP in the review of the necessary changes to the Plan. The MDC Board will review and approve the final Plan prior to submission to the federal government.

(Expressed in Canadian dollars, except where otherwise noted)

The Company also announced amendments to the terms of the Puerto Rico option agreement. A comparison of the key terms in the original and amendment agreements is shown in the table below:

PAYMENT TYPE	ORIGINAL TERM	AMENDED TERM
Drill Permit milestone	- 500,000 common shares - US$300,000 cash in lump sum payment	- US$300,000 cash in 15 equal monthly instalments
Drill Permit milestone	- Four tranches of 500,000 common shares issued annually beginning August 17, 2019	- Four tranches of 500,000 common shares issued annually beginning the latter of August 17, 2019 or receipt of Drill Permit
Purchase Option work required	- US$12,500,000 minimum spend over five (5) years	- 12,000 meters of drilling over three (3) years
Purchase Option consideration	- Higher of 30% of fair market value of the Project or US$10,000,000. - Payment in common shares and cash	- Higher of 20% of fair market value of the Project or 18,000,000 common shares. - Payment all in common shares

In addition to the amendment of the Agreement, the Company signed a 30-year agreement with the Boquillas del Carmen Ejido which grants full access for all exploration and mining activities both surface and underground. Consideration of 200,000MXP (approximately $13,500) was paid on signing with additional annual payments of 200,00MXP over the term of the agreement.