

DISCOVERY METALS CORP.
(formerly, Ayubowan Capital Ltd.)

FILING STATEMENT

IN RESPECT OF A CHANGE OF BUSINESS

DATED: JULY 31, 2017

Neither the TSX Venture Exchange Inc. (the "Exchange") nor any securities regulatory authority has in any way passed upon the merits of the Change of Business described in this filing statement.

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GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Filing Statement, including the summary hereof and in the appendices attached thereto.

“Additional Consideration Shares” means the issuance of additional Discovery Metals Shares, representing the Thirty Percent Interest;

“Additional Mineral Concessions” means certain mineral concessions pursuant to the terms of the Additional Option Agreements;

“Additional Option Agreements” means the Renata Option Agreement, Monclova Option Agreement, La Minerva Option Agreement, Santa Rosa Option Agreement, Jemi/Rare Option Agreement, and the La Kika Option Agreement;

“Additional Properties” means the Renata Property, Monclova Property, La Minerva Property, Santa Rosa Property, Jemi/Rare Earth Property, and the La Kika Property;

“Affiliate” means a company that is affiliated with another company as described below.

A company is an “Affiliate” of another company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person.

A company is “controlled” by a Person if:

- (a) voting shares of the company are held, other than by way of security only, by or for the benefit of that Person, and
- (b) the voting shares, if voted, entitle the Person to elect a majority of the directors of the company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a company controlled by that Person, or
- (b) an Affiliate of that Person or an Affiliate of any company controlled by that Person;

“Associate” when used to indicate a relationship with a Person, means:

- (a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding voting securities of the issuer,
- (b) any partner of the Person,
- (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity,
- (d) in the case of a Person, who is an individual:
 - (i) that Person’s spouse or child, or
 - (ii) any relative of the Person or of his spouse who has the same residence as that Person; but
- (e) where the Exchange determines that two Persons will, or will not, be deemed to be Associates with respect to a Member firm, Member corporation or holding company of a member

corporation, then such determination will be determinative of their relationships in the application of Rule D, 1.00 of the TSXV Rule Book and Policies with respect to that Member firm, Member corporation or holding company;

“**AST**” or the “**Transfer Agent**” means AST Trust Company (Canada);

“**Authorization**” means any authorization, order, permit, approval, grant, licence, registration, consent, right, notification, condition, franchise, privilege, certificate, judgment, writ, injunction, award, determination, direction, decision, decree, bylaw, rule or regulation, whether or not having the force of law;

“**BCBCA**” means the *Business Corporations Act* (British Columbia) including the regulations promulgated thereunder, as now in effect and as it may be amended from time to time;

“**Change of Business** or “**COB**” means the proposed transaction whereby Discovery Metals’ wholly owned subsidiary, Discovery Metals, S.A. de C.V. has optioned certain mineral concessions held by the Vendors pursuant to the Puerto Rico Option;

“**company**” means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

“**Concurrent Financing**” or “**Offering**” means the non-brokered private placement of 31,237,000 Discovery Metals Subscription Receipts at a price of \$0.50 for aggregate gross proceeds of \$15,618,500;

“**Control Person**” means any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

“**Discovery Metals**” or the “**Company**” means Discovery Metals Corp. (formerly, Ayubowan Capital Ltd.), and where the circumstances warrant, includes its wholly owned subsidiary, Discovery Metals, S.A. de C.V.;

“**Discovery Metals Board**” or the “**Board**” means the board of directors of Discovery Metals;

“**Discovery Metals Director**” means a director of the Board;

“**Discovery Metals Shareholder**” means a holder of Discovery Metals Shares;

“**Discovery Metals Shares**” means the common shares in the capital of Discovery Metals;

“**Discovery Metals Warrants**” means the Discovery Metals common share purchase warrants;

“**Drilling Approvals**” means all necessary permits and approvals to conduct drilling activities on the mineral concessions from the applicable authorities in connection with the Puerto Rico Property;

“**Escrow Agreement**” means the escrow agreement among AST, Discovery Metals and the holders of the Escrow Shares;

“**Escrowed Shares**” means the Discovery Metals Shares subject to escrow pursuant to the policies of the TSXV;

“**Escrow Release Conditions**” means the escrow release conditions in connection with the Concurrent Financing;

“**Exchange**” or “**TSXV**” means the TSX Venture Exchange;

“**Final Exchange Bulletin**”; means the Exchange Bulletin evidencing the final Exchange acceptance of the Change of Business transaction, which is to be issued following the closing of the Proposed Transaction and the submission to the Exchange of all required documentation;

“**Filing Statement**” means this filing statement, together with all appendices hereto and including the summary hereof;

“Governmental Entity” means any: (a) multi-national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, ministry, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign; (b) subdivision, agent, commission, board or authority of any of the foregoing; or (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, including the TSXV;

“holders” means, when used with reference to securities of a company, the holders of such securities, shown from time to time in the registers maintained by or on behalf of such company, in respect of such securities;

“IFRS” means International Financial Reporting Standards;

“Insider” if used in relation to an issuer, means:

- (a) a director or senior officer of the issuer;
- (b) a director or senior officer of a company that is an Insider or subsidiary of the issuer;
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or
- (d) the issuer itself if it holds any of its own securities;

“Jemi/ Rare Earth Option Agreement” means a certain mineral exploration and option agreement dated May 15, 2017, with the Vendors, providing an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico comprising the Jemi Rare Earth Property;

“Jemi/ Rare Earth Property” means certain mineral concessions located in Ocampo, Coahuila, Mexico, pursuant to the terms of the Jemi/ Rare Earth Option Agreement;

“La Kika Option Agreement” means a certain mineral exploration and option agreement dated June 7, 2017, with the Vendors, providing an option to acquire a certain mineral concession located in Ocampo, Coahuila, Mexico comprising the La Kika Property;

“La Kika Property” means a certain mineral concession located in Ocampo, Coahuila, Mexico, pursuant to the terms of the La Kika Option Agreement;

“La Minerva Option Agreement” means a certain mineral exploration and option agreement dated May 15, 2017, with the Vendors, providing an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico comprising the La Minerva Property;

“La Minerva Property” means certain mineral concessions located in Ocampo, Coahuila, Mexico, pursuant to the terms of the La Minerva Option Agreement;

“Loans” means the loans advanced by the Company to the Vendors in the aggregate amount of US\$200,000 pursuant to the terms of the Puerto Rico Option Agreement and the Renata Option Agreement;

“Member” has the meaning given to it in Rule A.100 of the TSXV Rule Book and Policies;

“Monclova Option Agreement” means a certain mineral exploration and option agreement dated May 15, 2017, with the Vendors, providing an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico comprising the Monclova Property;

“Monclova Property” means certain mineral concessions located in Ocampo, Coahuila, Mexico, pursuant to the terms of the Monclova Option Agreement;

“Puerto Rico Option” or the **“Option”** means the mineral exploration and option agreement dated effective April 7, 2017 among Discovery Metals and the Vendors, whereby Discovery Metals acquired an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico, forming part of the Puerto Rico exploration project;

“Puerto Rico Option Agreement” means a mineral exploration and option agreement entered into between the Company and the Vendors in connection with the Puerto Rico Option;

“Puerto Rico Property” means certain mineral concessions located in Ocampo, Coahuila, Mexico, forming part of the Puerto Rico exploration project;

“Puerto Rico Technical Report” or the **“Technical Report”** means the independent technical report for the Puerto Rico Carbonate Hosted Polymetallic Project, Coahuila, Mexico, dated effective June 12, 2017, prepared by SRK Consulting (Canada) Inc. and written by Anna Fonseca, PGeo and Dominic Chartier, PGeo;

“Person” or **“person”** means a company or individual;

“Principal” means in respect of an issuer (a) a Person who acted as a promoter of the issuer within the preceding two years; (b) a director or senior officer of the issuer or any of its material operating subsidiaries; (c) a Person that holds securities carrying more than 20% of the voting rights attached to the issuer’s outstanding securities; and (d) a Person that holds securities carrying more than 10% of the voting rights attached to the issuer’s outstanding securities and has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of the issuer or any of its material operating subsidiaries;

“Proposed Transaction” means the Change of Business transaction by Discovery Metals;

“Release Deadline” means the completion of the Concurrent Financing, which is to occur on or before August 18, 2017;

“Renata Concession” means a certain mineral concession located in Ocampo, Coahuila, Mexico comprising the Renata Property and pursuant to the terms of the Renata Option Agreement;

“Renata Option Agreement” means a certain mineral exploration and option agreement dated April 20, 2017, with the Vendors, providing an option to acquire a certain mineral concession located in Ocampo, Coahuila, Mexico comprising the Renata exploration project;

“Renata Property” means a certain Renata exploration project comprising of the Renata Concession and pursuant to the terms of the Renata Option Agreement;

“Resulting Issuer” means the Company upon completion of the Proposed Transaction;

“Santa Rosa Option Agreement” means a certain mineral exploration and option agreement dated May 15, 2017, with the Vendors, providing an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico comprising the Santa Rosa Property;

“Santa Rosa” means certain mineral concessions located in Ocampo, Coahuila, Mexico, pursuant to the terms of the Santa Rosa Option Agreement;

“Subscription Receipts” means the 31,237,000 subscription receipts in Discovery Metals, issued pursuant to the Concurrent Financing, with each Subscription Receipt automatically converting into one unit (**“Unit”**) of the Company, on satisfaction of the Escrow Release Conditions on or before the Release Deadline. Each Unit will consist of one Discovery Metals Share and one Discovery Metals Warrant, with each Discovery Metals Warrant entitling the holder to acquire one additional Discovery Metals Share at a price of \$1.00 per share for a period of 24 months from the date the Discovery Metals Warrants are issued;

“Thirty Percent Interest” means the interest to be held by the Vendors on exercise of the Option, following issuance of the Additional Consideration Shares, representing 30% of the Company’s then issued and outstanding share capital, taking into account any Discovery Metals Shares already issued to the Vendors, pursuant to the terms of the Puerto Rico Option Agreement, subject to certain adjustments;

“U.S.” or **“United States”** means the United States of America, any state thereof, and the District of Columbia.

“Vendors” means Jesus Miguel Hernandez Garza and Juan Reynaldo Elizondo Falcon.

INTRODUCTION

All capitalized terms used in this Filing Statement but not otherwise defined herein have the meanings set forth under “Glossary of Terms.” Information contained in this Filing Statement is given as of July 31, 2017 unless otherwise specifically stated.

No person is authorized to give any information or to make any representation not contained in this Filing Statement and, if given or made, such information or representation should not be relied upon as having been authorized by Discovery Metals or the directors and officers of Discovery Metals. This Filing Statement does not constitute an offer to sell, or a solicitation of an offer to acquire, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or proxy solicitation.

Neither delivery of this Filing Statement nor any distribution of the securities referred to in this Filing Statement will, under any circumstances, create an implication that there has been no change in the information set forth herein since the date of this Filing Statement.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Filing Statement to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Filing Statement.

The Exchange has not in any way passed upon the merits of the transactions described herein and any representation to the contrary is an offence.

FINANCIAL INFORMATION AND ACCOUNTING PRINCIPLES

The financial statements and summaries of financial information contained in this Filing Statement are reported in Canadian dollars, except where otherwise noted. The financial statements of Discovery Metals have been prepared in accordance with IFRS.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Filing Statement contains “forward-looking statements” (also referred to as “forward-looking information”) within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included in this Filing Statement that address activities, events or developments that Discovery Metals expect or anticipate will or may occur in the future, including statements about the anticipated impact of the Change of Business on the operations of Discovery Metals, as well as the benefits expected to result from the Change of Business, future financings, results of exploration activities, capital expenditures, the price of precious and base metals, and other such matters are forward-looking statements. When used in this Filing Statement, the words “estimate”, “plan”, “anticipate”, “expect”, “intend”, “believe” and similar expressions are intended to identify forward-looking statements.

These statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Discovery Metals to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risks as more particularly described in Part V: “*Risk Factors*”. Although Discovery Metals has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Discovery Metals does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable securities laws.

SUMMARY OF FILING STATEMENT

The following is a summary of information relating to Discovery Metals and the Resulting Issuer (assuming completion of the Change of Business transaction) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement. Reference is made to the Glossary of Terms for the definitions of certain abbreviations and terms used in this Filing Statement and in this summary.

This Filing Statement is being prepared in accordance with Exchange Policy 5.2 and Exchange Form 3D2 - "Information Required in a Filing Statement for a Reverse Takeover or Change of Business" in connection with the Change of Business transaction.

Corporate Structure

The Company was incorporated under the name "R B Technologies Inc." pursuant to the BCBCA on October 10, 1986.

Discovery Metals' head office is located at Suite 1600 – 609 Granville Street, Vancouver, British Columbia, V7Y 1C3 and its registered office is located at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

Discovery Metals Shares are listed on the NEX Board under the symbol "DSV.H" Discovery Metals is a reporting issuer in the Provinces of British Columbia and Alberta.

See Part II: "Information Concerning the Company" for additional information.

Change of Business

The Company entered into the Puerto Rico Option Agreement with the Vendors to acquire an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico, forming part of the Puerto Rico Property. The acquisition by the Company of the Option will constitute a Change of Business, as defined under the policies of the Exchange.

Upon completion of the Proposed Transaction and meeting all the conditions of the Exchange, the Company will have its listing transferred from NEX to the Exchange. The Puerto Rico Property will be the Company's Qualifying Property under Exchange policies, and upon completion of the Proposed Transaction, the Company will operate as a junior mining / exploration company.

Puerto Rico Option Agreement

Pursuant to the terms of the Puerto Rico Option Agreement, the Company may exercise the Option and acquire the Puerto Rico Property from the Vendors, on the following payments to the Vendors:

- (a) a cash payment of US\$300,000, payable by the Company on the latter of final Exchange approval of the Proposed Transaction and the Company entering into certain land occupation agreements with and/or receiving consent from the local Ejido, duly registered at the National Agrarian Registry of Mexico;
- (b) the issuance on closing of the Proposed Transaction, of an aggregate of 500,000 Discovery Metals Shares;
- (c) an additional cash payment of US\$300,000 and the issuance of a further 500,000 Discovery Metals Shares upon the receipt of all necessary permits and Drilling Approvals from the applicable authorities;
- (d) the issuance of four tranches of 500,000 Discovery Metals Shares on each anniversary of the closing of the Proposed Transaction, with the first issuance occurring on the second anniversary of the closing; and

- (e) the issuance of the Additional Consideration Shares, representing the Thirty Percent Interest.

Expenditures

In order to exercise the Option, the Company is required to complete exploration expenditures of not less than US\$12,500,000 on the Puerto Rico Property within five years of receipt of the Drilling Approvals. The Company must complete not less than US\$2,000,000 of these Expenditures within the first twelve (12) months.

All cash consideration paid by the Company to the Vendors shall be credited towards the expenditures.

The Company will be the operator of the Puerto Rico Property during the term of the Option.

Loans

On the execution of the Puerto Rico Option Agreement, the Company advanced loans to the Vendors in the aggregate amount of US\$150,000.

On June 29, 2017 the Company advanced a further loan to the Vendors in the amount of US\$50,000.

US\$150,000 of the loans will be credited towards the first cash payments required under the Puerto Rico Option Agreement, while the remaining US\$50,000 will be credited towards the first cash payment required under the Renata Option Agreement (as defined herein).

Finder's Fees

The Company entered into a finder's fee agreement with David Caldwell, John (Daniel) Harmening and Humberto Rafael Pacheco in connection with their efforts in introducing the Company to the Vendors, the project forming the Proposed Transaction and the other mineral exploration and option agreements that have been entered into between the Company with the Vendors. The finders are at arm's length to the Company. The Company has agreed to pay the following finder's fees:

- a) on closing, a fee of 209,500 Discovery Metals Shares;
- b) an additional 25,000 Discovery Metals Shares on each of the four tranches of share issuances to the Vendors, on the second through fifth anniversaries of the closing of the Proposed Transaction; and
- c) a number of Discovery Metals Shares equal to 5% of any Discovery Metals Shares issued in connection with the acquisition of the Additional Mineral Concessions on exercise of any of the Additional Option Agreements.

Concurrent Financing

As a condition to completing the Proposed Transaction, the Company has completed a non-brokered private placement which raised \$15,618,500 through the issuance of 31,237,000 Subscription Receipts at a price of \$0.50 per Subscription Receipt.

The proceeds of the offering are being held in escrow, pending the Company receiving all applicable regulatory approvals and completing its proposed Change of Business transaction.

Upon satisfaction of the Escrow Release Conditions, each Subscription Receipt will automatically convert into one unit of the Company for no additional consideration. Each Unit will consist of one Discovery Metals Share and one Discovery Metals Warrant, with each warrant entitling the holder to acquire one additional Discovery Metals Share at a price of \$1.00 per share for a period of 24 months from the date the Discovery Metals Warrants are issued.

The Company has agreed to pay a cash commission of 5% on certain private placement proceeds and issue 366,200 Units. In addition, the Company will issue an aggregate 1,244,460 broker warrants. The broker warrants will be exercisable at \$0.60 for a period of 18 months from the closing of the Proposed Transaction.

Board Changes

On completion of the Proposed Transaction, management and the Board will be re-constituted and an advisory committee will be formed.

For more information, please see Part 1: “*Change of Business*”.

Available Funds and Principal Uses

Following completion of the Proposed Transaction and the Concurrent Financing, Discovery Metals expects to have the following funds available to it on a consolidated basis:

Estimated working capital of Discovery Metals as at June 30, 2017	\$438,095 ⁽¹⁾
Net Proceeds from Concurrent Financing	\$15,283,075
Total	\$15,721,170

Discovery Metals intends to use these funds as set out in the following table:

Anticipated Use of Funds	Amount
Transaction Costs ⁽²⁾	\$125,000
Proposed work program (Phase 1) on Puerto Rico Property ⁽³⁾⁽⁴⁾	\$926,250
Proposed work programs (Phase 1) on the Additional Properties ⁽³⁾⁽⁵⁾	\$1,198,750
Cash payments in connection with the Puerto Rico Option Agreement ⁽³⁾	\$750,000
Cash payments in connection with the Additional Option Agreements ⁽³⁾⁽⁶⁾	\$328,750
Reserved for Phase 2 Budget – Puerto Rico	\$2,600,000
General and Administrative Expenses ⁽⁷⁾	\$2,100,627
Working Capital	\$7,691,793
Total	\$15,721,170

(1) Includes the Loans which will be offset on closing against certain cash payments that are due.

(2) Consisting of legal fees, filing fees, accounting fees and other professional advisory fees related to the Proposed Transaction.

(3) Based on an exchange rate of US\$1.25 for Cdn\$1.00.

(4) In addition to the budgeted work program, this figure includes personnel costs of \$60,000.

(5) Comprised of: \$36,020 (Renata Property); \$289,873 (La Minerva Property); \$242,325 (Monclova Property); \$88,738 (Jemi/ Rare Earth Property); \$36,020 (Santa Rosa Property) and \$505,775 (La Kika Property).

(6) The Company has budgeted the following cash payments, upon the Company exercising its option under each applicable option agreement: \$60,000 (Monclova Property); \$87,500 (La Minerva Property); \$125,000 (Renata Property); and \$56,250 (La Minerva Property).

(7) Comprised of: \$774,550 (management and employee wages and benefits); \$300,000 (director and advisory board fees); \$384,000 (investor relations and communication costs); \$406,463 (general office, rent and insurance costs); \$113,000 (accounting, audit and legal fees); \$49,614 (transfer agent, listing and filing fees); and \$73,000 (travel and entertainment).

Listing and Share Price on the Exchange

The Discovery Metals Shares are listed and posted for trading on the NEX Board under the trading symbol “DSV.H”. The price of the Discovery Metals Shares on April 10, 2017, being the last day the Discovery Metals Shares traded prior to the announcement of the Proposed Transaction, was \$0.60 per common share. See Part II: *“Information Concerning the Company - Trading History”*.

Conflicts of Interest

As certain directors of Discovery are directors, officers or shareholders of other companies, there are potential conflicts of interest to which the directors of Discovery may be subject to from time to time, in connection with the operations of Discovery. Conflicts, if any, will be subject to the procedures and remedies under the BCBCA. See Part IV: *“Information Concerning the Resulting Issuer — Directors and Officers”*.

Sponsorship Waiver

Discovery Metals has requested a waiver from the sponsorship requirements of Exchange Policy 2.2 – *Sponsorship and Sponsorship Requirements* on the basis that a waiver would not be contrary to public interest.

Interests of Experts

There is no interest, direct or indirect, in any securities or property of Discovery Metals, or of an associate or affiliate of Discovery Metals, received or to be received by an expert.

For the purposes hereof, “expert” means any person or company whose profession or business gives authority to a statement made by that person or company and who is named as having prepared or certified a part of this Filing Statement, or prepared or certified a report or valuation described or included in this Filing Statement. See Part VI: *“General Matters”*.

Risk Factors

Discovery Metals, and thus the securities of Discovery Metals, should be considered highly speculative investments and the transactions contemplated herein should be considered to be of a high-risk nature. See Part V: *“Risk Factors”*.

PART I: CHANGE OF BUSINESS

Details regarding the Change of Business, including the background to, reasons for, details of, conditions to and effect of the Proposed Transaction are set forth in this Filing Statement and the Appendices hereto. Readers are urged to carefully read the information in this Filing Statement and the Appendices.

Change of Business

The Company entered into the Puerto Rico Option Agreement with the Vendors to acquire an option to acquire certain mineral concessions located in Ocampo, Coahuila, Mexico, forming part of the Puerto Rico Property. The acquisition by the Company of the Option will constitute a Change of Business, as defined under the policies of the Exchange.

The Company has been inactive for several years, since it ceased its operations as a business involved in the servicing of mortgages. The Proposed Transaction requires the Company to satisfy applicable Exchange requirements and the filing of this Filing Statement.

Upon completion of the Proposed Transaction and meeting all the conditions of the Exchange, the Company will have its listing transferred from NEX to the Exchange. The Puerto Rico Property will be the Company's Qualifying Property under Exchange policies, and upon completion of the Proposed Transaction, the Company will operate as a junior mining / exploration company.

Puerto Rico Option Agreement

Pursuant to the terms of the Puerto Rico Option Agreement, the Company may exercise the Option and acquire the Puerto Rico Property from the Vendors, on the following payments to the Vendors:

- (a) a cash payment of US\$300,000, payable by the Company on the latter of final Exchange approval of the Proposed Transaction and the Company entering into certain land occupation agreements with and/or receiving consent from the local Ejido, duly registered at the National Agrarian Registry of Mexico;
- (b) the issuance on closing of the Proposed Transaction, of an aggregate of 500,000 Discovery Metals Shares;
- (c) an additional cash payment of US\$300,000 and the issuance of a further 500,000 Discovery Metals Shares upon the receipt of all necessary permits and Drilling Approvals from the applicable authorities;
- (d) the issuance of four tranches of 500,000 Discovery Metals Shares on each anniversary of the closing of the Proposed Transaction, with the first issuance occurring on the second anniversary of the closing; and
- (e) the issuance of the Additional Consideration Shares, representing the Thirty Percent Interest.

In the event that the market value of the Thirty Percent Interest is less than US\$10,000,000 at the time of issuance, the Company will issue further Discovery Metals Shares to the Vendors such that the shares of the Company issued to the Vendors, in aggregate, have a market value of US\$10,000,000, subject to a maximum aggregate ownership interest by the Vendors of 35%. Any amount in excess of the 35% share threshold will be paid to the Vendors in cash, to an aggregate value of US\$10,000,000.

In the event the Company has any material assets in addition to the Puerto Rico Property, at the time of the issuance of the Additional Consideration Shares, the number of the Additional Consideration Shares issuable to the Vendors will be reduced to represent 30% of the market value of only the Puerto Rico Property, as determined by an independent third party valuation.

The parties have agreed that the La Kika Property, if acquired by the Company, will not be considered an acquisition of another material asset for the purposes of valuation. Depending on the number of Additional Consideration Shares that are proposed to be issued by the Company, additional Exchange approvals may be required.

Expenditures

In order to exercise the Option, the Company is required to complete exploration expenditures of not less than US\$12,500,000 on the Puerto Rico Property within five years of receipt of the Drilling Approvals. The Company must complete not less than US\$2,000,000 of these Expenditures within the first twelve (12) months after receiving the Drilling Approvals.

All cash consideration paid by the Company to the Vendors shall be credited towards the Expenditures. At any time, the Company may pay any remaining amount of the Expenditures directly to the Vendors, and issue any remaining consideration as outlined above, in order to accelerate the acquisition of the Puerto Rico Property pursuant to the Option.

The Company will be the operator of the Puerto Rico Property during the term of the Option and is required to pay all mining duties to maintain the mining concessions in good standing.

Loans

On the execution of the Puerto Rico Option Agreement and the Renata Option Agreement (as defined in Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”), the Company advanced loans to the Vendors in the aggregate amount of US\$150,000.

On June 29, 2017 the Company advanced a further loan to the Vendors in the amount of US\$50,000 (together with the US\$150,000 loan mentioned above, the “**Loans**”).

US\$150,000 of the Loans will be credited towards the first cash payments required under the Puerto Rico Option Agreement, while the remaining US\$50,000 will be credited towards the first cash payment required under the Renata Option Agreement.

In the event that the underlying option agreements are terminated prior to closing of the Proposed Transaction, the Vendors shall repay the Loans within 30 days of demand by the Company. If not repaid within 30 days any unpaid amount shall accrue interest at the rate of 12% per annum, calculated and compounded monthly. The Vendors have executed promissory notes in favour of the Company as security for the Loans.

Finder's Fees

The Company entered into a finder's fee agreement with David Caldwell, John (Daniel) Harmening and Humberto Rafael Pacheco in connection with their efforts in introducing the Company to the Vendors, the project forming the Proposed Transaction and the other mineral exploration and option agreements (Please see Part IV: “*Information Concerning the Puerto Rico Property and Additional Properties*”) that have been entered into between the Company with the Vendors. The finders are at arm's length to the Company. The Company has agreed to pay the following finder's fees:

- a) on closing, a fee of 209,500 Discovery Metals Shares;
- b) an additional 25,000 Discovery Metals Shares on each of the four tranches of share issuances to the Vendors, on the second through fifth anniversaries of the closing of the Proposed Transaction; and
- c) a number of Discovery Metals Shares equal to 5% of any Discovery Metals Shares issued in connection with the acquisition of any Additional Mineral Concessions on exercise of any of the Additional Option Agreements.

On issuance, all securities issued in connection with the finder's fee will be subject to a hold period of four months plus one day.

Concurrent Financing

As a condition to completing the Proposed Transaction, the Company has completed a non-brokered private placement which raised \$15,618,500 through the issuance of 31,237,000 Subscription Receipts at a price of \$0.50 per Subscription Receipt.

The proceeds of the offering are being held in escrow, pending the Company receiving all applicable regulatory approvals and completing its proposed Change of Business transaction.

Upon satisfaction of the Escrow Release Conditions, each Subscription Receipt will automatically convert into one unit of the Company for no additional consideration. Each Unit will consist of one Discovery Metals Share and one Discovery Metals Warrant, with each warrant entitling the holder to acquire one additional Discovery Metals Share at a price of \$1.00 per share for a period of 24 months from the date the Discovery Metals Warrants are issued.

The Company has agreed to pay a cash commission of 5% and issue 366,200 Units on certain private placement proceeds. In addition, the Company will issue an aggregate 1,244,460 broker warrants. The broker warrants will be exercisable at \$0.60 for a period of 18 months from the closing of the Proposed Transaction.

The proceeds of the Concurrent Financing will be used to fund the Company's proposed phase one exploration program on the Puerto Rico Property. The balance of the proceeds will be used to fund preliminary exploration work on the Additional Mineral Concessions and for general working capital purposes.

Board Changes

On completion of the Proposed Transaction, management and the Board will be constituted as follows:

Position	Name
Director, President & Chief Executive Officer	Taj Singh
Chief Financial Officer & Corporate Secretary	Orest Zajcew
Director & Chairman	Murray John
Director	Mark O'Dea
Director	Jesus Miguel Hernandez Garza
Director	Jose Alberto Vizquerra-Benavides

On completion of the Proposed Transaction, Arturo Bonillas, Cal Everett, Craig Roberts, Moira Smith and Sean Tetzlaff will be appointed to the Company's advisory committee. Mr. Bonillas will serve as Chairman of the advisory committee. See Part IV: "*Information Concerning the Resulting Issuer — Directors and Officers*".

Interests of Insiders

Except as disclosed herein, no existing Insider, promoter or Control Person of Discovery Metals and no Associate or Affiliate of the same, has any interest in the Change of Business transaction and no existing Insider, promoter or Control Person of Discovery Metals and no Associate or Affiliate of the same will receive any compensation upon completion of the Proposed Transaction that is different from the compensation to be received by other Discovery Metals Shareholders.

PART II: INFORMATION CONCERNING THE COMPANY

Name and Incorporation

The Company was incorporated under the name “R B Technologies Inc.” pursuant to the Business Corporations Act (*British Columbia*) (the “**BCBCA**”) on October 10, 1986. The following name changes have occurred since the Company’s incorporation:

- (i) on November 18, 1986 the Company changed its name to “Vertech Systems Corporation”;
- (ii) on June 26, 1989 the Company changed its name to “Vercan Investments Inc.”;
- (iii) on January 26, 1998 the Company changed its name to “Watersave Logic Corporation”;
- (iv) on July 27, 2006 the Company changed its name to “Abode Mortgage Holdings Corp.”;
- (v) on August 19, 2013 the Company changed its name to “Ayubowan Capital Ltd.”; and
- (vi) on June 13, 2017 the Company changed its name to “Discovery Metals Corp.”

Discovery Metals’ head office is located at Suite 1600 – 609 Granville Street, Vancouver, British Columbia, V7Y 1C3 and its registered office is located at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

Discovery Metals Shares are listed on the NEX Board under the symbol “DSV.H” Discovery Metals is a reporting issuer in the Provinces of British Columbia and Alberta.

General Development of the Business

History

Discovery Metals’ former business was through its wholly owned operating company, Abode Mortgage Corporation (“**AMC**”), an entity focused primarily on the origination and servicing of mortgages from various distribution channels. AMC permanently closed its mortgage operation on March 4, 2010. Discovery Metals has not had an operating business since that date.

On August 19, 2016, the Company completed a reorganization whereby \$1,500,000 was raised through a non-brokered private placement and \$5,234,945 in debt was eliminated through debt forgiveness.

On March 21, 2017, Discovery Metals, SA DE C.V., a wholly owned subsidiary of the Company, was incorporated under the laws of Mexico.

Concurrent Financing

Please see Part I: “*Change of Business - Concurrent Financing*”

Loans

Please see Part I: “*Change of Business - Loans*”

Selected Consolidated Financial Information and Management’s Discussion and Analysis

Selected Information

The following table sets forth certain selected financial information of Discovery Metals for the years ended August 31, 2016, 2015, and 2014 and for the nine-month unaudited interim period ended May 31, 2017 (the “**Financial Statements**”). This information should be read in conjunction with Discovery Metals’ financial statements attached hereto as Appendix “A”. The financial results are not necessarily indicative of the results that may be expected for any other interim period or full year. These financial statements are presented in Canadian dollars and are prepared in accordance with IFRS:

	As at May 31, 2017 (unaudited)	As at August 31, 2016 (audited)	As at August 31, 2015 (audited)	As at August 31, 2014 (audited)
Balance Sheet Data				
Cash	\$451,522	\$1,059,933	\$387	\$3,608
Total Assets	\$668,756	\$1,059,933	\$387	\$3,608
Total Liabilities	\$112,059	\$15,434	\$5,220,197	\$4,692,930
Shareholders' Equity	\$556,697	\$1,044,499	\$(5,219,810)	\$(4,689,322)
Income Statement Data				
Total Revenue	Nil	Nil	Nil	Nil
Total Expenses (Recovery)	\$1,487,752	(\$4,689,309)	\$530,487	\$556,513
Net Loss (Income)	\$1,487,752	(\$4,689,309)	\$530,487	(\$127,040)
Amounts deferred in connection with the Proposed Transaction	Nil	Nil	Nil	Nil

Management's Discussion and Analysis

Discovery Metals' management's discussion and analysis for the year ended August 31, 2016 and for the nine-month interim period ended May 31, 2017 (the "MD&A") are attached as Appendix "A" hereto.

Description of Securities

Securities

Discovery Metals' authorized capital consists of an unlimited number of Discovery Metals Shares without par value and an unlimited number of preferred shares ("**Preferred Shares**") without par value. As at the date of this Filing Statement, Discovery Metals has 32,669,999 Discovery Metals Shares issued and outstanding, each Discovery Metals Share carrying the right to one vote, and no Discovery Preferred Shares outstanding.

The Discovery Metals Shares rank equally as to dividends, voting power and participation in assets and in all other respects, on liquidation, dissolution or winding-up of Discovery Metals, whether voluntary or involuntary, or any other distribution of the assets of Discovery Metals among its shareholders for the purpose of winding up its affairs after Discovery Metals has paid out its liabilities. The Discovery Metals Shareholders are entitled to one vote for each Discovery Metals Share on all matters to be voted on at any meeting of Discovery Metals Shareholders.

For information about the securities being distributed in connection with the Proposed Transaction, please see the Part I: "*Change of Business - Concurrent Financing*".

Stock Option Plan

On June 27, 2017, the Company's shareholders ratified and approved a stock option plan (the "**Option Plan**") pursuant to which the Board may grant options (the "**Options**") to purchase Discovery Metals Shares to NEOs, directors and employees of the Company or affiliated corporations and to consultants retained by the Company.

The purpose of the Option Plan is to attract, retain, and motivate NEOs, directors, employees and other service providers by providing them with the opportunity, through options, to acquire an interest in the Company and benefit from the Company's growth. Under the Option Plan, the maximum number of Discovery Metals Shares reserved for issuance, including Options currently outstanding, is equal to ten (10%) percent of the Shares outstanding from time to time (the "**10% Maximum**"). The 10% Maximum is an "evergreen" provision, meaning that, following the exercise, termination, cancellation or expiration of any Options, a number of Discovery Metals Shares equivalent to the number of options so exercised, terminated, cancelled or expired would automatically become reserved and available for issuance in respect of future Option grants.

The number of Discovery Metals Shares which may be the subject of Options on a yearly basis to any one person cannot exceed five (5%) percent of the number of issued and outstanding Shares at the time of the grant. Options may be granted to any employee, officer, director, consultant, affiliate or subsidiary of the Company exercisable at a price which is not less than the market price of common shares of the Company on the date of the grant. The

directors of the Company may, by resolution, determine the time period during which any option may be exercised (the “**Exercise Period**”), provided that the Exercise Period does not contravene any rule or regulation of such exchange on which Discovery Metals Shares may be listed. All Options will terminate on the earliest to occur of (a) the expiry of their term; (b) the date of termination of an optionee’s employment, office or position as director, if terminated for just cause; (c) ninety (90) days (or such other period of time as permitted by any rule or regulation of such exchange on which the Discovery Metals Shares may be listed) following the date of termination of an optionee’s position as a director or NEO, if terminated for any reason other than the optionee’s disability or death; (d) thirty (30) days following the date of termination of an optionee’s position as a consultant engaged in investor relations activities, if terminated for any reason other than the optionee’s disability, death, or just cause; and (e) the date of any sale, transfer or assignment of the Option.

Options are non-assignable and are subject to early termination in the event of the death of a participant or in the event a participant ceases to be a NEO, director, employee, consultant, affiliate, or subsidiary of the Company, as the case may be. Subject to the foregoing restrictions, and certain other restrictions set out in the Option Plan, the Board is authorized to provide for the granting of Options and the exercise and method of exercise of options granted under the Option Plan.

Prior Sales

The following table sets out the dates and prices at which securities of Discovery Metals were sold within the 12 months preceding this Filing Statement.

Date	Type of Security	Price per Security (\$)	Number of Securities
July 19, 2017 ⁽¹⁾	Subscription Receipts	\$0.50 per subscription receipt	5,450,000
July 17, 2017 ⁽¹⁾	Subscription Receipts	\$0.50 per subscription receipt	25,787,000
August 19, 2016 ⁽²⁾	Common Shares	\$0.05 per common share	30,000,000
July 28, 2016 ⁽³⁾	Common Shares	\$0.05 per common share	1,500,000

(1) 31,237,000 subscription receipts issued pursuant to a non-brokered private placement at \$0.50 per subscription receipt. For more information, please see Part I: “Change of Business – Concurrent Financing”.

(2) 30,000,000 common shares issued pursuant to a non-brokered private placement at \$0.05 per share.

(3) 1,500,000 common shares issued pursuant to a certain debt settlement agreement with creditors.

Stock Exchange Price - Trading History

The following table sets forth the monthly high and low closing prices and the volume of the trading of Discovery Metals Shares: (i) on a monthly basis for each month of the current quarter and the preceding quarter; and (ii) on a quarterly basis for the next preceding seven quarterly periods.

Period	High (\$)	Low (\$)	Volume
July 1 - 31, 2017	Nil	Nil	Nil
June, 2017	Nil	Nil	Nil
May, 2017	Nil	Nil	Nil
April, 2017 ⁽¹⁾	\$0.60	\$0.60	Nil
March, 2017	\$0.60	\$0.60	7,274

Period	High (\$)	Low (\$)	Volume
Quarter ended February 28, 2017	\$0.65	\$0.50	14,348
Quarter ended November 31, 2016	\$0.51	\$0.40	16,337
Quarter ended August 31, 2016	\$0.40	\$0.01	212,647
Quarter ended May 31, 2016	\$0.05	\$0.01	2,067
Quarter ended February 28, 2016	\$0.05	\$0.05	680
Quarter ended November 31, 2015	\$0.05	\$0.05	3,900
Quarter ended August 31, 2015	\$0.05	\$0.05	19,000

(1) The Company's shares were halted from trading on April 10, 2017 pending the announcement of the Proposed Transaction.

Executive Compensation

The following information regarding executive compensation is presented in accordance with National Instrument Form 51-102F6V – *Statement of Executive Compensation*, and sets forth compensation of Mr. Scott Ackerman, the Chief Executive Officer (“**CEO**”) and a director of the Company and Mr. Doug McFaul, the Chief Financial Officer (“**CFO**”) and a director of the Company (together, with Mr. Scott Ackerman, the “**NEOs**”) and Mr. David G. Nelson a director of the Company (together, the “**Directors**”), and Gordon Herdman, former CFO and a director of the Company, and Douglas Brazier, a former director of the Company.

Director and NEO Compensation, Excluding Options and Compensation Securities

The following table sets out all compensation paid, payable, awarded, granted, given, or otherwise provided, directly or indirectly, by the Company to each NEO, in any capacity, and each director, for the two most recently completed financial years.

Table of Compensation Excluding Compensation Securities								
Name and position	Year⁽¹⁾	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites	Pension value (\$)	Value of all other compensation (\$)	Total compensation (\$)
Scott Ackerman ⁽²⁾ Director, President, Corporate Secretary and CEO	2016 2015	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Doug McFaul ⁽³⁾ Director and CFO	2016 2015	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
David G. Nelson ⁽⁴⁾ Director and former Chairman and CEO	2016 2015	Nil \$12,000 ⁽⁵⁾	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Gordon J. Herdman ⁽⁶⁾ Former Director and CFO	2016 2015	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Douglas Brazier ⁽⁷⁾ Former Director	2016 2015	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil

(1) Financial year ended August 31.

(2) Scott Ackerman was appointed as a director of the Company on August 19, 2016, and as President and CEO on October 3, 2016. Mr. Ackerman is employed by Emprise Capital Corp. ("ECC"), which provides accounting and administrative services to the Company. Mr. Ackerman is compensated for his services to the Company through periodic grants of stock options by the Company.

(3) Doug McFaul was appointed as a director of the Company on August 19, 2016, and as CFO on October 3, 2016. Mr. McFaul is employed by ECC, which provides accounting and administrative services to the Company. Mr. McFaul is compensated for his services to the Company through periodic grants of stock options by the Company.

(4) David G. Nelson was appointed as a director of the Company on April 18, 1997, as Chairman on August 15, 2016, and as CEO on January 21, 2010. Mr. Nelson resigned as Chairman and CEO and on October 3, 2016.

(5) Accrued to a company controlled by Mr. Nelson.

(6) Gordon J. Herdman was appointed as a director of the Company on January 8, 2001, and as CFO on January 21, 2010, and resigned as a director on August 19, 2016, and as CFO on October 3, 2016.

(7) Doug Brazier was appointed as director of the Company on December 9, 2010 and resigned on August 19, 2016.

Stock Options and Other Compensation Securities and Instruments

No NEO or director of the Company received or exercised any incentive stock options or compensation securities during the financial years ended August 31, 2015 or 2016.

Executive Compensation as at May 31, 2017

The compensation paid to each of the Company's most highly compensated executive officers, in addition to the Chief Executive Officer and Chief Financial Officer as at the nine month period ended May 31, 2017 is as follows:

Name and position	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites	Pension value (\$)	Value of all other compensation (\$)	Total compensation (\$)
Scott Ackerman Director, President, Corporate Secretary and CEO	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Doug McFaul Director and CFO	Nil	Nil	Nil	Nil	Nil	Nil	Nil
David G. Nelson Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Stock Options and Other Compensation Securities and Instruments as at May 31, 2017

Messrs. Ackerman and McFaul were each granted 1,750,000 options exercisable at \$0.45 on or before October 3, 2021.

Management Contracts

In August 2016, the Company entered into an accounting and administration services agreement with Emprise Capital Corp. (“**Emprise**”), whereby Emprise is paid a monthly fee of \$5,000. Scott Ackerman, President, CEO and a director of the Company is also a director and senior officer of Emprise, and Emprise was also granted 650,000 options exercisable at \$0.45 on or before October 3, 2021.

Arm’s Length Transactions

The Proposed Transaction is an arm’s length transaction.

Legal Proceedings

Management knows of no legal proceedings material to Discovery Metals to which Discovery Metals is a party or of which any of its property is the subject matter whether contemplated or actual.

Auditor, Transfer Agent and Registrar

The auditor of the Company is K.R. Margetson Ltd., Chartered Professional Accountants, with an address at Suite 210 – 905 West Pender Street, Vancouver, British Columbia, V6C 1L6.

The transfer agent and registrar of the Company is AST Trust Company (Canada), with an address at 1600 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

Material Contracts

The Company has not entered into any material contracts other than contracts entered into in the ordinary course of business, except the following:

- (i) the Puerto Rico Option Agreement (See Part I: “*Change of Business*”);
- (ii) the Renata Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”);
- (iii) the Monclova Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”);

- (iv) the La Minerva Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”);
- (v) the Santa Rosa Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”);
- (vi) the Jemi / Rare Earth Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”); and
- (vii) the La Kika Option Agreement (See Part III: “*Information concerning the Puerto Rico Property and Additional Properties*”).

Copies of these material contracts will be available for inspection (without charge) at the registered office of the Company located at Suite 2200-885 West Georgia Street, Vancouver, British Columbia during ordinary business hours until the Closing Date and for a period of 30 days thereafter.

PART III: INFORMATION CONCERNING THE PUERTO RICO PROPERTY AND ADDITIONAL PROPERTIES

INTRODUCTION

Source of Information and Data

The following is a summary of the Technical Report for the Puerto Rico Property, located in Coahuila, Mexico. The Technical Report is available in its entirety on SEDAR at www.sedar.com and readers should review it in its entirety for a full description of the Puerto Rico Property.

Definitions contained in this Part and not otherwise defined in this Filing Statement, shall have the meanings ascribed to such definitions in the Technical Report.

Property Description and Location

The Puerto Rico property is located in northern Coahuila State, Mexico, approximately 250 kilometres from the city of Melchor Múzquiz on both paved highway and improvised dirt roads (Figure 1). The project site is situated along the base of a major escarpment on the western edge of the Sierra del Carmen range and within the Maderas del Carmen Biosphere Reserve. A small camp is established on the Puerto Rico property; however, necessary supplies must be sourced from Melchor Múzquiz, whereas basic supplies can be sourced from the village of Norias de Boquillas, approximately 12 kilometres from the Puerto Rico camp. The property contains several small artisanal mines and workings that are currently active. The centre of the property is located at approximately 29.18 degrees latitude north and 102.81 degrees longitude west.

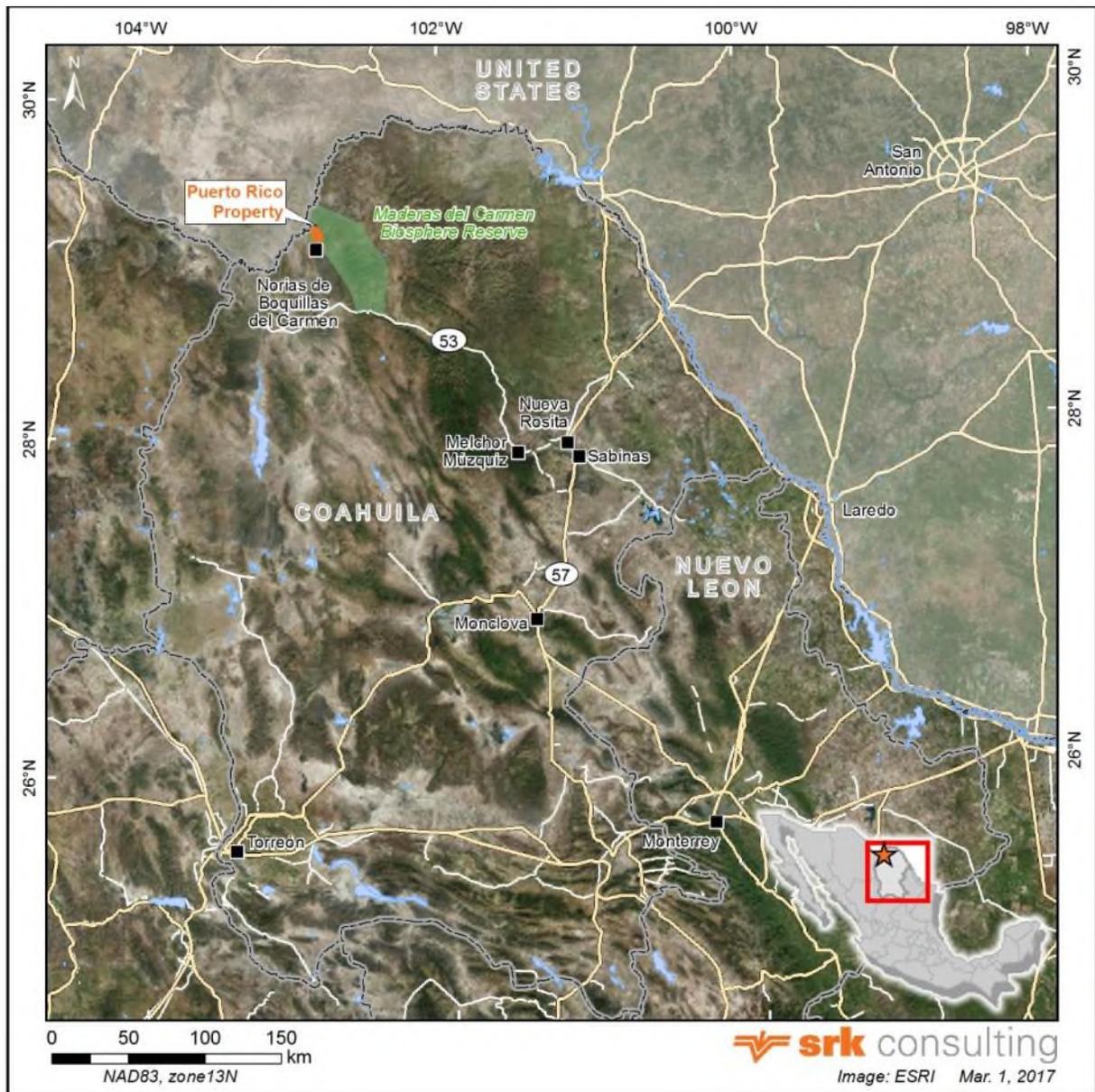


Figure 1: Location Map of the Puerto Rico Property

Mineral Tenure

The Puerto Rico Property comprises six mining concessions (Table 1 and Figure 2) covering an area of approximately 2,822 hectares. Five of the six concessions are active; the sixth concession, Alytu 3 (title 233478), was cancelled on May 19, 2014 by the Mines Recorder Office of the Federal Directorate of Mining of the Secretariat of the Economy of Mexico (Mines Recorder Office). A revision recourse was filed against the cancellation and, to our knowledge, it has not been resolved to date. Discovery Metals understands the reason for the cancellation of mining concession Alytu 3 is a result of unpaid mining duties. The six Puerto Rico mining concessions were granted between 2004 and 2009 for a period lasting 50 years. The concessions were originally granted to the Vendors, or a 50/50 split between the two individuals.

On January 15, 2010, the Vendors transferred a shareholders' contribution to Solvitec, S.A. de C.V. (Solvitec) for the Alytu 8 (title 225821) and Panama (title 222958) mining concessions. The shareholders' contribution agreement was for a two-year term commencing February 1, 2010 which could be extended for an additional term of five years. The Vendors have provided Discovery Metals with a copy of shareholders' resolutions of Solvitec confirming the termination of the shareholders' contribution agreement and the return of the Alytu 8 (title 225821) and Panama (title 222958) mining concessions. Discovery Metals understands that registration at the Mines Recorder Office of the said shareholders' resolutions and the return to the Vendors of title to the Alytu 8 (title 225821) and Panama (title 222958) mining concessions is underway.

Most of the mineralized zones of highest and immediate interest to Discovery Metals are found along the corridor from the Papicuario to Zaragoza workings, and include the Puerto Rico and San José mines. They are located within active concessions and are not affected by the status of cancelled concession Alytu 3 (Figure 2).

Table 1: Mineral Tenure Information

Concession Name	Title Number	Status	Registered To	Original Grant Date	Expiry Date	Area (hectares)
Alytu	226665	Active	Juan Reynaldo Elizondo Falcón 100%	17-Feb-2006	16-Feb-2056	200
Alytu 3	233478	Cancelled*	Jesús Miguel Hernández Garza 100%	10-May-2009	Mar-2059	2,224
Alytu 7	232334	Active	Jesús Miguel Hernández Garza 50% Juan Reynaldo Elizondo Falcón 50%	29-Jul-2009	28-Jul-2058	99
Alytu 7	231824	Active	Jesús Miguel Hernández Garza 50% Juan Reynaldo Elizondo Falcón 50%	7-May-2008	6-May-2058	100
Alytu 8	225821	Active	Solvitec, S.A. de C.V. 100%**	27-Oct-2005	26-Oct-2055	149
Panama	222958	Active	Solvitec, S.A. de C.V. 100%**	30-Sep-2004	29-Sep-2054	50
Total						2,822

* Cancelled on May 19, 2014 with a revision recourse against cancellation filed, though no determination on the matter has been issued to date.

** On January 15, 2010, the Vendors transferred a shareholders' contribution to Solvitec, S.A. de C.V. (Solvitec) for the Alytu 8 (title 225821) and Panama (title 222958) mining concessions. The agreement consisted of a two-year term commencing February 1, 2010 which could be extended for an additional term of five years. Cancellation of the Solvitec Transfer has been confirmed by the Vendors, but is not yet recorded at the Mines Recorder Office.

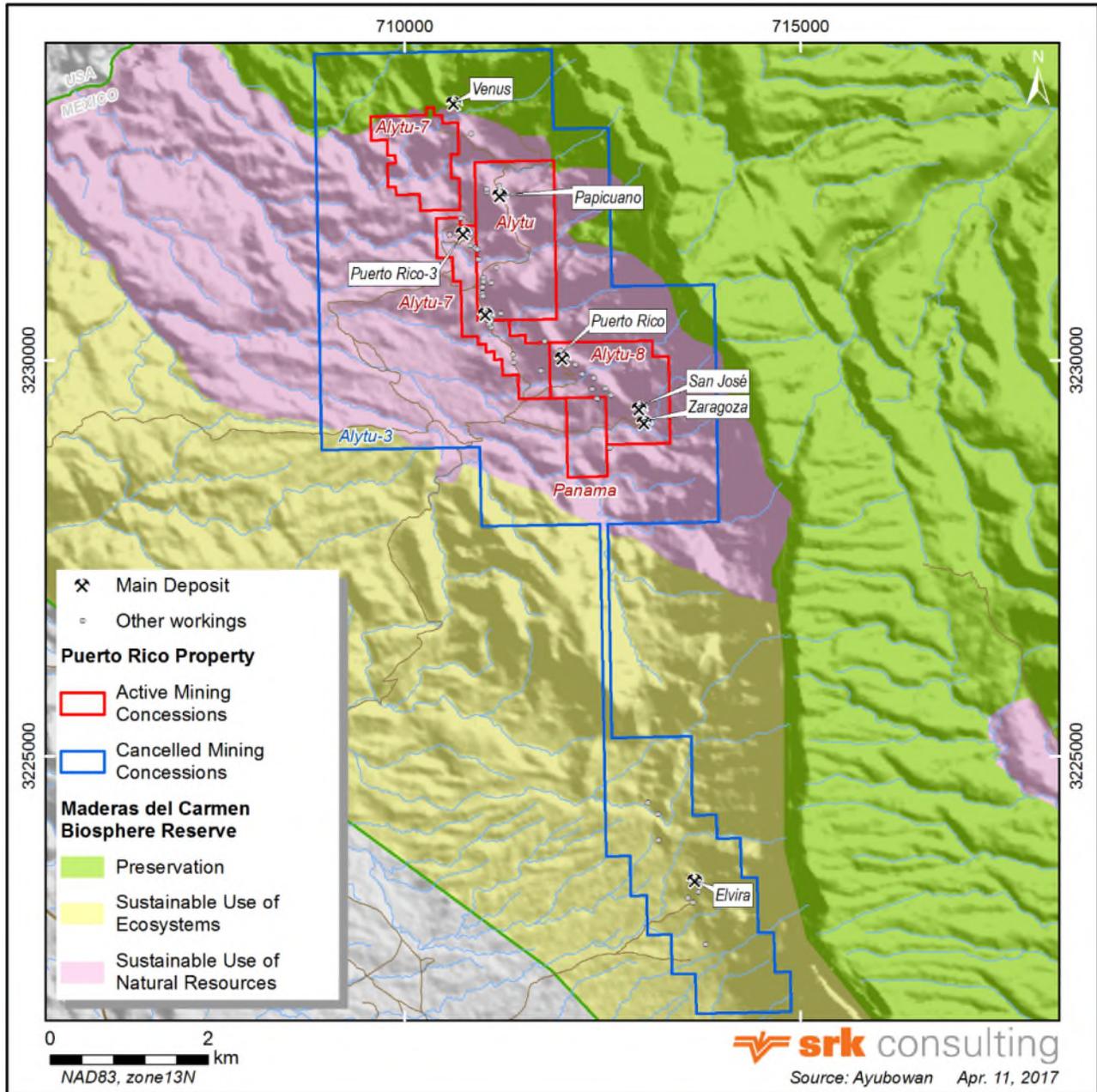


Figure 2: Land Tenure Map of the Puerto Rico Property

Assessment reports through to 2015 have been submitted to the Mines Recorder Office for all six concessions. Assessment work reports for 2016 are due by May 31, 2017. Mining duties have been paid up to the first half of 2016 for all five active claims. Unpaid mining duties for the second half of 2016 and the first half of 2017 total MXN\$168,124 (about C\$12,000). Mining duties for cancelled concession Alytu 3 were paid up to 2014.

Underlying Agreements

On April 7, 2017, the Vendors (acting as property owners) and Discovery Metals, S.A. de C.V. a wholly-owned Mexican subsidiary of Discovery Metals (acting as the Company), signed the Puerto Rico Option Agreement for the transfer to the Company of mineral exploration rights and the option to purchase, for a term of 5 years, 100% title to the Puerto Rico Property in consideration of cash payments, share issuances, and expenditures on the Puerto Rico Property. The cash payments and share issuances are to total a minimum value of US\$10,000,000. Discovery Metals must also complete exploration expenditures of US\$12,500,000 within five years of receiving the permits for drilling on the Puerto Rico Property, of which a minimum of US\$2,000,000 must be spent within the first 12 months.

Permits and Authorization

In Mexico, surface exploration can be carried out on titled mining concessions without additional permits, as long as such activities fall within the framework of Mexican technical official norm NOM-120-SEMARNET-2011. When drilling is planned and drill sites selected, an application must be submitted to the Secretaria del Medio Ambiente y Recursos Naturales (SEMARNAT) prior to issuing an environmental drilling permit (Informe Preventivo).

The Puerto Rico Property is located within the Maderas del Carmen Biosphere Reserve (Figure 2). Mining is not prohibited, as the mining concessions are primarily within an area designated as available for sustainable use of natural resources. However, additional permits will be required for exploration and an environmental impact study is necessary for exploration activities involving surface roads and drill pads (McAnulty 2009). The Vendors have informed Discovery Metals that an application to the Regional Director of the National Commission of Natural Protected Areas of Mexico (CONANP) was filed on February 22, 2017 formally requesting the “regularization” of mineral exploration activities on the Puerto Rico Property and the revision of the Handling Manual of the Maderas del Carmen Natural Protected Area. An Environmental Impact Manifest (MIA) on the Puerto Rico Property was appended to the application (A. Urias, personal communication, April 11, 2017).

Environmental Considerations

The Puerto Rico Property is an exploration project at the mineral resource definition-stage with a history of mining including a mine at Puerto Rico in the early 20th century. The modern work completed thus far has been limited primarily to drilling in a limited area, prospecting, geophysical surveys, and some small-scale artisanal underground development. Planned exploration programs will require careful environmental considerations considering its location within the Maderas del Carmen Biosphere Reserve. As far as SRK can determine, the current environmental liabilities related to the Puerto Rico Property, if any, are negligible.

Mining Rights in Mexico

The Mining Law of 1992 regulates mining in Mexico. It establishes that all minerals found in Mexican territory are owned by the nation of Mexico. The mining law specifies that private parties may exploit minerals (except oil and nuclear fuel minerals) through concessions granted by the federal government. Mining licences are known as “concessions” in Mexico. Mining concessions are granted for a period of 50 years, renewable once for an additional period of 50 years.

Only Mexican nationals or Mexican-incorporated companies may hold mining concessions in Mexico, although there are no foreign ownership restrictions on such companies. This means that foreigners wishing to engage in mining in Mexico must establish a wholly-owned Mexican corporation for that purpose, or enter into joint ventures with Mexican individuals or corporations. Once acquired, concessions are freely transferrable.

Concessions are acquired by locating and erecting a principal monument and having the concession located by an official surveyor. All concessions must be registered with the Mexican Public Registry of Mining. The General Direction of Mines grants mining concessions for periods of 50 years so long as work is performed on the ground, assessment reports are filed in May, and taxes, based on the area and age of the concession, are paid in advance in January and July of each year. A mining concession can be renewed for another 50-year period. Properties that add

up to less than 1,000 hectares in size (in the aggregate) are not required to file annual work assessment reports, although assessment work commitments must be satisfied.

Surface rights are owned either by private persons or ejidos (common land owned by an agrarian community). A land lease agreement with the local ejido, approved by the general assembly of members of the ejido, is required to access and carry out exploration activities on the Puerto Rico Property. Compensation on a yearly basis is usually required to carry out any extensive work program and the landholders must also be compensated, should the land be required for development. Under the Puerto Rico Option Agreement, the Company is required to pay taxes, carry out assessment work and file statistical technical report, among other things, to maintain the mining concessions comprising the Puerto Rico Property in good standing. The Vendors have informed Discovery Metals that they are certified members of the local ejido.

Maintenance obligations that arise from a mining concession that must be kept current to avoid its cancellation include performance of assessment work, the payment of mining taxes, and compliance with environmental laws.

SRK is unaware of any other significant factors and risks that may affect access, title, or the right of ability to perform the exploration work recommended for the Puerto Rico Property.

Accessibility, Climate, Local Resources, Infrastructure, and Physiography

Accessibility

Access to the Puerto Rico Property is from the city of Melchor Múzquiz via paved Highway 93 a distance of 180 kilometres to the north-northwest, then 50 kilometres north on a maintained gravel road to the village of Norias de Boquillas, and finally 12 kilometres northeast on a rugged road to the project area.

Local Resources and Infrastructure

Norias de Boquillas is a small farming and agricultural village and thus provides very few amenities, limited to a general store with basic supplies. No electrical services are available, and the nearest power line is located along Highway 93. A small camp has been built on the Puerto Rico Property; however, electricity is unavailable on site.

Múzquiz-Sabinas-Nueva Rosita comprise the main coal-producing region in Mexico, as well as producing significant fluorite and celestite, and is therefore well established to provide support services. Múzquiz is a major supply center, and as indicated above is located approximately 250 kilometers from the project area. Additionally, post-secondary institutes in the region specializing in mining could provide skilled labour.

The city of Monterrey provides the closest international flight services and is located approximately 3.5 hours to the southeast of Múzquiz by car. As a mining and processing center for mineral deposits, Monterrey could also provide additional support services.

Ore from the Puerto Rico Property is currently being sold to a large base metals processing plant in the city on Monclova, located approximately 400 kilometres to the southeast of the project area.

Climate

Coahuila is characterized as having a semiarid to desert climate. Minimal precipitation corresponds to the desert climate, while greater rainfall in the northeastern and southeastern portions of the state corresponds to more vegetation found at higher elevations. The average high temperature in Norias de Boquillas ranges from approximately 17°C in winter months to 35°C in summer months, while the average low temperature ranges from 3°C in winter months to 22°C in summer months. Rainfall is minimal, with less than 40 millimetres accumulated each month from May to October and less than 15 millimetres accumulated each month from November to April. Temperatures below freezing are experienced from time to time during the winter. Accordingly, work on the project could be performed year-round.

Physiography

The Puerto Rico Property extends along the base of the Sierra del Carmen in the Sierra Madre Oriental physiographic province of Mexico. The rugged mountain range is skirted by Chihuahuan Desert landscape with scattered growth of thorny and evergreen shrubs, agave plants, and cactuses. Vastly different from the surrounding desert, near-vertical cliff faces and rugged hills are found along the eastern side of the project. The closest major river system is called the Rio Grande in the United States and Rio Bravo in Mexico, and is located approximately five kilometres to the north along the Mexico-United States border.



 **srk consulting**

Photos: SRK March, 2017

Figure 3: Typical Landscape in the Project Area

- A: Zaragoza mine portal (Looking southeast)
- B: Historical artisanal mine portal (Looking northeast)
- C: Puerto Rico scenic view (Looking northeast)
- D: Typical landscape (Looking southwest)

History

The information contained within this section is taken primarily from a 2009 summary report written by consulting geologist, W. Noel McNulty, Jr. on the Puerto Rico mine prospect.

Mineralization at the Puerto Rico mine was first discovered in 1883 as an outcropping lead-silver oxide chimney, and subsequently at the more southerly Mina San José site. The project was leased to the Kansas City Smelting and Refining Company in 1896 and the Puerto Rico chimney was mined from 1896 to 1900. Some ores were smelted near the mine, but were primarily shipped by wagon to Marathon, Texas from which it was shipped by rail to El Paso, Texas for smelting. The high-grade lead-silver oxide chimney was mined out by 1900.

In 1906, ASARCO, a stock company, was formed to mine zinc oxides from the walls of the lead oxide stopes. An aerial tramway was constructed near the Puerto Rico mine to haul ores across the Rio Grande and into Texas. It was then transported to Marathon to be shipped by rail to St. Louis. Mining of the zinc oxides ended around 1918 due to the onset of the Mexican Revolution.

Minor amounts of lead oxides and lesser amounts of copper oxides were shipped to Mexican smelters via the city of Cuatro Ciénegas through the early 1920s. Production is reported to be poorly documented from the 1920s to 1960s.

Mining of direct-shipping zinc oxide ores took place from the 1970s to 1985. During this time, the majority of workings on haulage levels of the Puerto Rico and San José mines were excavated after mantos were recognized in historic haulage crosscuts. From 1975 to 1978, Mexico's Consejo de Recursos Minerales (CRM), in partnership with the Metal Mining Agency of Japan (MMAJ), explored the Puerto Rico Property. Geochemical sampling was executed and the surface geology was mapped. No drilling was performed at the Puerto Rico or San José mines. However, core drilling to the north at the Papicuano lead-silver site was conducted. The CRM has measured approximately 4,000 metres of underground workings in the district as a whole and suggest that 1,000,000 tonnes of material has been mined since initial exploitation (Caldwell 2016). Further description of the exploration and drilling by the CRM and MMAJ can be found in Sections 8 and 8.3.

The project was inactive until 2004 when Minera Aventureros del Yaqui and the Vendors staked claims and began the current small-scale mining of direct-shipping zinc, lead and copper ores.

Geological reconnaissance, survey mapping of some of the underground mine workings, and limited sampling has been carried out on the Puerto Rico Property since 2008.

There are reported to be over 200 historical workings in the district, with the Puerto Rico and San José mines accounting for over 90% of the mined tonnage. Non-mechanized mining by the Vendors at the Puerto Rico Property over the past three years has resulted in the sale of approximately 10,000 tonnes of nominal 20% zinc to a base metals processing plant in Monclova (Caldwell 2016).

There are no known historical mineral resource or mineral reserves on the project.

Geological Setting and Mineralization

The Puerto Rico Property is found within the northern extension of the Gondwanic Maya and Oaxaquia terranes. The Oaxaquia microcontinent forms a north-south trending belt of high-grade metamorphic rocks. Mesoproterozoic gneisses and anorthosites are unconformably overlain by Paleozoic marine and continental sedimentary rocks containing Gondwanic fossils. Little is known about the Maya Terrane, located to the east of Oaxaquia, and comprised of Ediacaran to Mississippian magmatic and metamorphic rocks. The Mesozoic sedimentary sequence of the Maya Terrane can be linked to that of the Oaxaquia.

From Paleozoic to present time, the Gondwanic crust underlying northern Coahuila underwent five deformation events. The Late Paleozoic Ouachita-Marathon-Sonora Orogeny resulted from the collision of a Gondwana (South America) continental margin arc against the southern margin of Laurentia (North America), leading to the closure of the Rheic ocean and the creation of foredeep and foreland basins and uplifts throughout the southern margin of Laurentia.

Progressive break-up of Pangea in the Late Triassic resulted in the opening of the Atlantic Ocean and subsidiary basins and in the shifting and rearrangement of continental blocks along the incipient plate margin. This led to the development of Mesozoic extensional to trans-tensional basins and carbonate platforms along Mexico's Gondwanic

and Laurentian backbone. Opening of the Gulf of Mexico 166 million years ago (Ma) resulted in the development of normal faults that controlled positive and negative paleogeographic features in a horst-and-graben arrangement and the deposition of Triassic and Jurassic lacustrine, evaporitic, and alluvial-fan red-beds and other clastic sediments in the basins (González-Sánchez et al. 2015). Carbonate platforms formed atop the Paleozoic to Triassic horsts in the Aptian-Albian. The Chihuahua Trough is an approximately 150 by 350 kilometres northwest-southeast basin extending from Ciudad Juárez to close to the border of Chihuahua. Up to 1,000 metres of Upper Jurassic, Cretaceous, and Paleogene marine sediments were deposited in the Chihuahua Trough (Oviedo-Padrón et al. 2010). It was rimmed by carbonate platforms and subaerial regions. Its boundaries are interpreted to be faults that controlled deposition of sediment during subsidence and that were reactivated during Laramide shortening and basin inversion (Wilson 1990). Approximately 6,000 metres of Jurassic to Cretaceous siliclastic, carbonate, and evaporitic rocks were deposited in the Sabinas Basin. The basin was bound by the Coahuila paleo-island to the south, the Burro Peyote paleo-peninsula to the north and east, and the Tamaulipas paleo-archipelago to the east. The Sabinas Basin is bound by the regional scale San Marcos and La Babia faults and contains important deposits of Mississippi Valley Type, evaporate-hosted barite, fluorite, and celestine, paleokarstic zinc-lead, and carbonate replacement deposits (CRD) [Figure 4].

Subduction processes from the Paleo-Pacific margin produced the Laramide Orogeny, which originated in the west during the Late Cretaceous and propagated east until the Eocene. Laramide shortening resulted in the inversion of the Chihuahua and Sabinas Basins into the northwest-trending Sierra Madre Oriental fold and thrust belt.

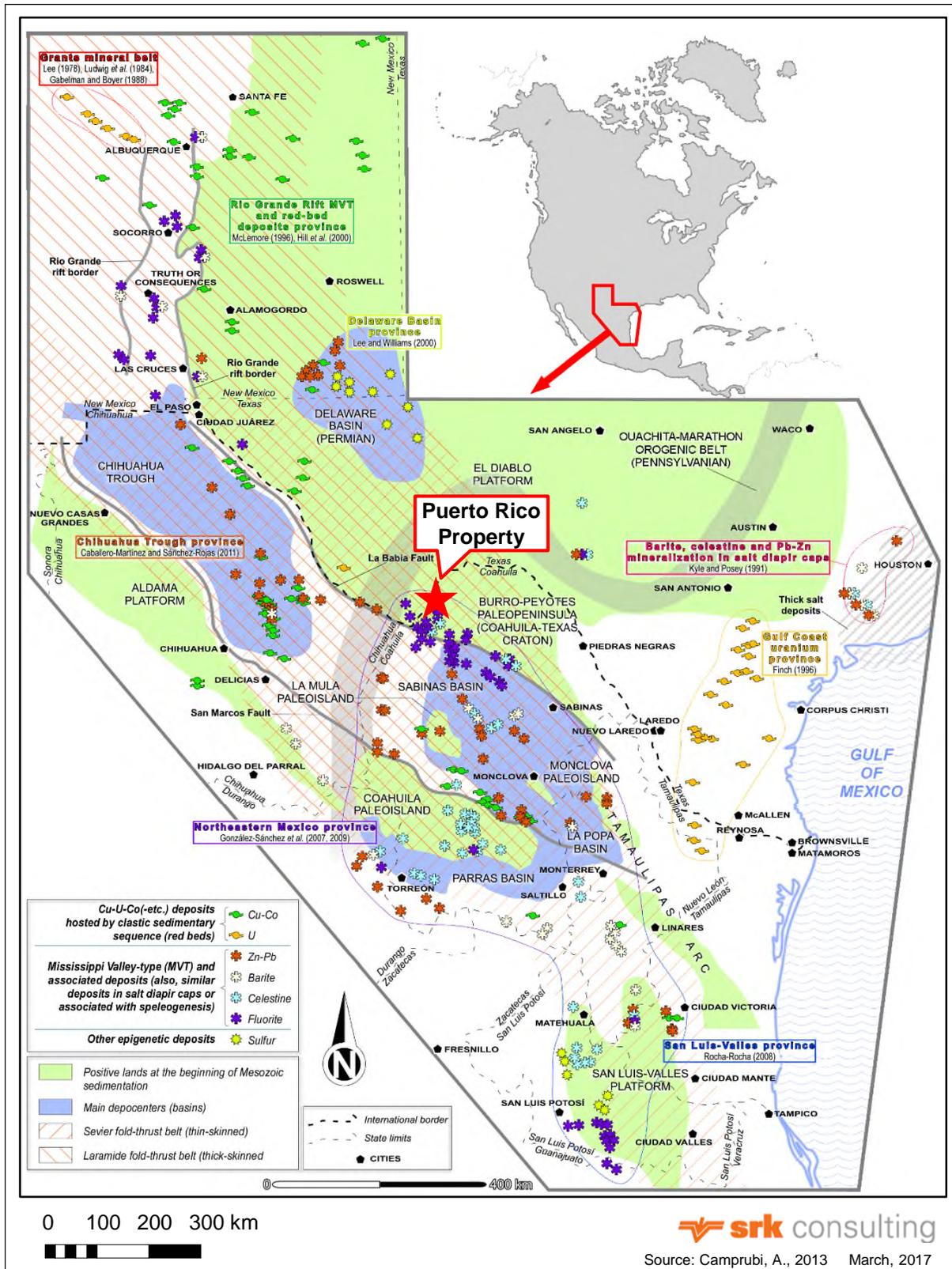


Figure 4: Distribution of Sedimentary Basins and Stratabound Deposits in Northern Mexico

Source: Camprubi (2013)

The Puerto Rico Property is located in an area of overlap of two currently active extensional systems, the Basin and Range Province and the Rio Grande Rift Province. High-angle faults reported in northern Chihuahua and Coahuila are interpreted to be associated with Basin and Range extension, and normal faulting reported in the inverted Chihuahua and Sabinas Basins suggest that the Rio Grande Rift may extend into the inverted Chihuahua Basin.

As mapped by Vergara-Martinez and Huicochea-Reyes (2007), in the Boquillas del Carmen map sheet (Figure 5), the Permian Puerto Rico schist is the oldest unit found within the vicinity of the Puerto Rico Property. Aptian to Cenomanian carbonate sedimentation deposited the Cupido, La Peña, Glen Rose, Telephone Canyon, Edwards, McKnight, Santa Elena-Salmon Peak, Del Rio, and Buda formations, which are overlain by Cenomanian calcareous shales of the Boquillas-Eagle Ford, San Vicente-Austin, and Pen formations. Magmatic rocks are interpreted to be Oligocene in age and include, from oldest to youngest, diorite, andesite flows and intermediate tuffs, rhyolite domes and flows, granitic to syenitic intrusions, and felsic tuffs. The entire Paleozoic to Mesozoic sequence forms an east-verging fold and thrust belt with arcuate northwest-trending fold axes that are in turn mapped as being displaced by a conjugate set of southeast-trending sinistral faults and northeast-trending normal faults.

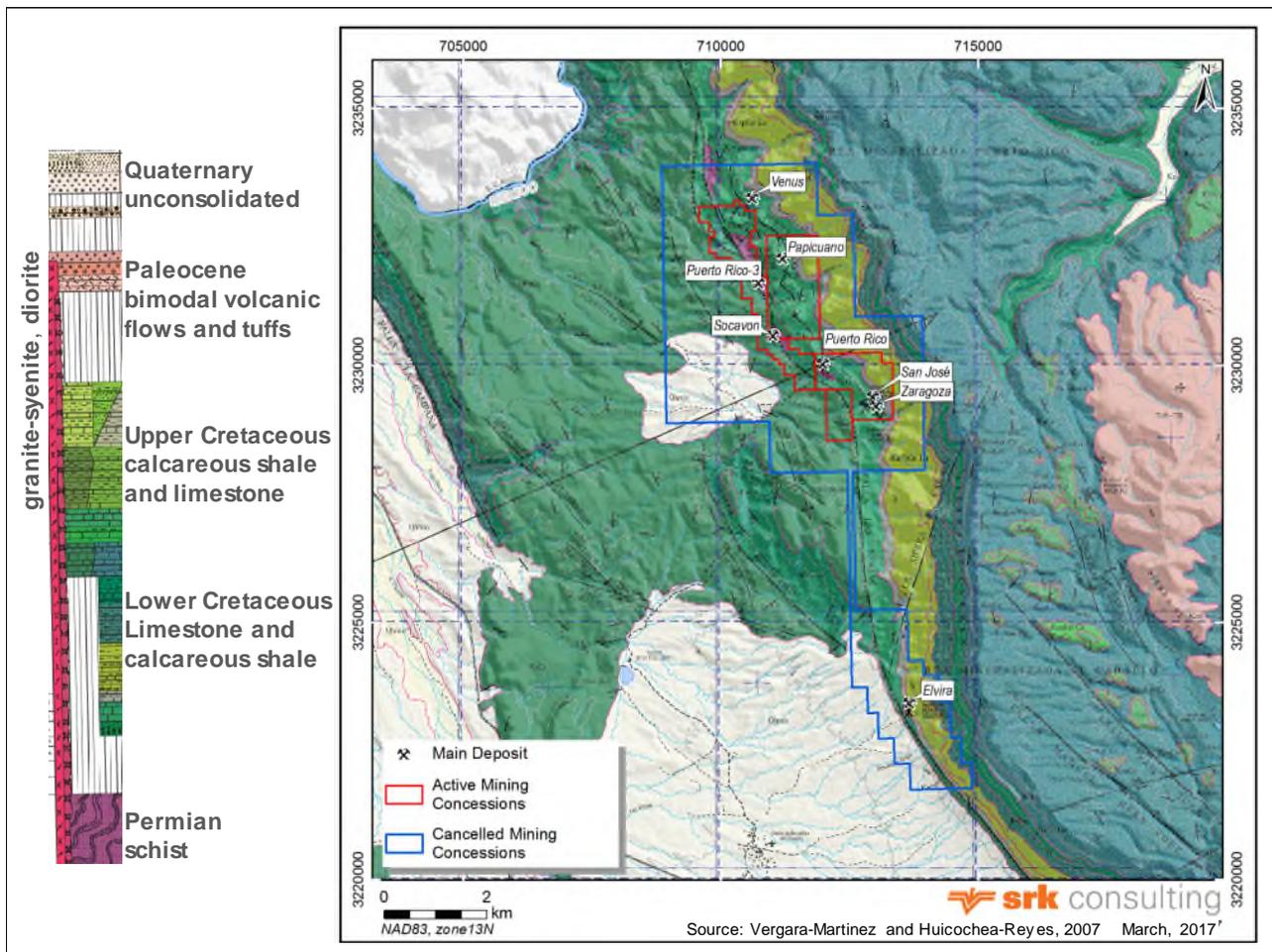


Figure 5: Geology of the Boquillas del Carmen Map Sheet

Source: Vergara-Martinez and Hulcochea-Reyes (2007)

Property Geology

The joint venture between the CRM and the MMAJ conducted detailed mapping along an approximately 6 by 1.5 kilometres northwest-southeast elongated area extending from south of Mina Zaragoza to immediately north of Mina Venus, and a 2.4 by 1.5 kilometre north-northwest-trending area over the Elvira area (Figure 6 and Figure 7). The geology of the northern area is dominated by a partially eroded, overturned anticline that forms a thrust sheet atop shallow dipping Cupido limestone beds. The core of the anticline exposes the regional Paleozoic unconformity between Paleozoic Schist and Puerto Rico Formation clastic wedge and the regional Mesozoic unconformity between Puerto Rico Formation conglomerate and platformal sedimentation. Mesozoic strata of the recessive Cupido limestone, the more resistant La Peña calcareous shale, and the cliff-forming Glen Rose limestone form the partly-preserved eastern limb of the anticline and are intruded by a fine-grained, equigranular, leucocratic sill reported by the CRM as being monzonitic to syenitic, and mapped continuously for an over two-kilometre strike length. West of the anticline axis, the Las Norias normal fault downdrops the Glen Rose and Santa Elena formation rocks approximately 400 metres and juxtaposes them against Paleozoic rocks and Cupido Formation limestone. Carbonate replacement-style mineralization occurs along the southeast-striking Las Norias and parallel faults. Alteration of the limestone in this zone is characterized by a change from grey to a homogeneous dark reddish-brown colour resulting from iron and manganese oxyhydroxide replacement and fracture fill, whereas monzonitic sills show texture-destructive clay alteration.

Bedding measurements collected by the CRM show a noticeable westerly shift of the anticline axis in the Puerto Rico to Zaragoza mines area relative to the Venus-Papicuan and Puerto Rico-3-Socavón areas. The anticline axis varies from 326-trending in the Venus-Papicuan area to 347-trending in the Puerto Rico-3-Socavón area, and to 139-trending in the Puerto Rico to Zaragoza area. This shift is interpreted to represent a bend in an orientation that favours the development of dilational zones during sinistral reactivation of northwest-trending thrusts and has the potential to draw in hydrothermal fluids from major corridors such as the two unconformities, the thrust fault, the Las Norias and parallel faults and injected those fluids into permeable limestones of the Cupido Formation.

The geology of the southern area consists of an approximately north-south-trending section of carbonate rocks of the Cupido, La Peña, and Glen Rose formations in the eastern third, a north-south elongated fault bound block of Glen Rose Formation in the centre, and Santa Elena Formation carbonate rocks downdropped in the western third. Structural measurements in the southern area define a 165-trending antiform. Mineralization occurs along the easternmost normal fault.

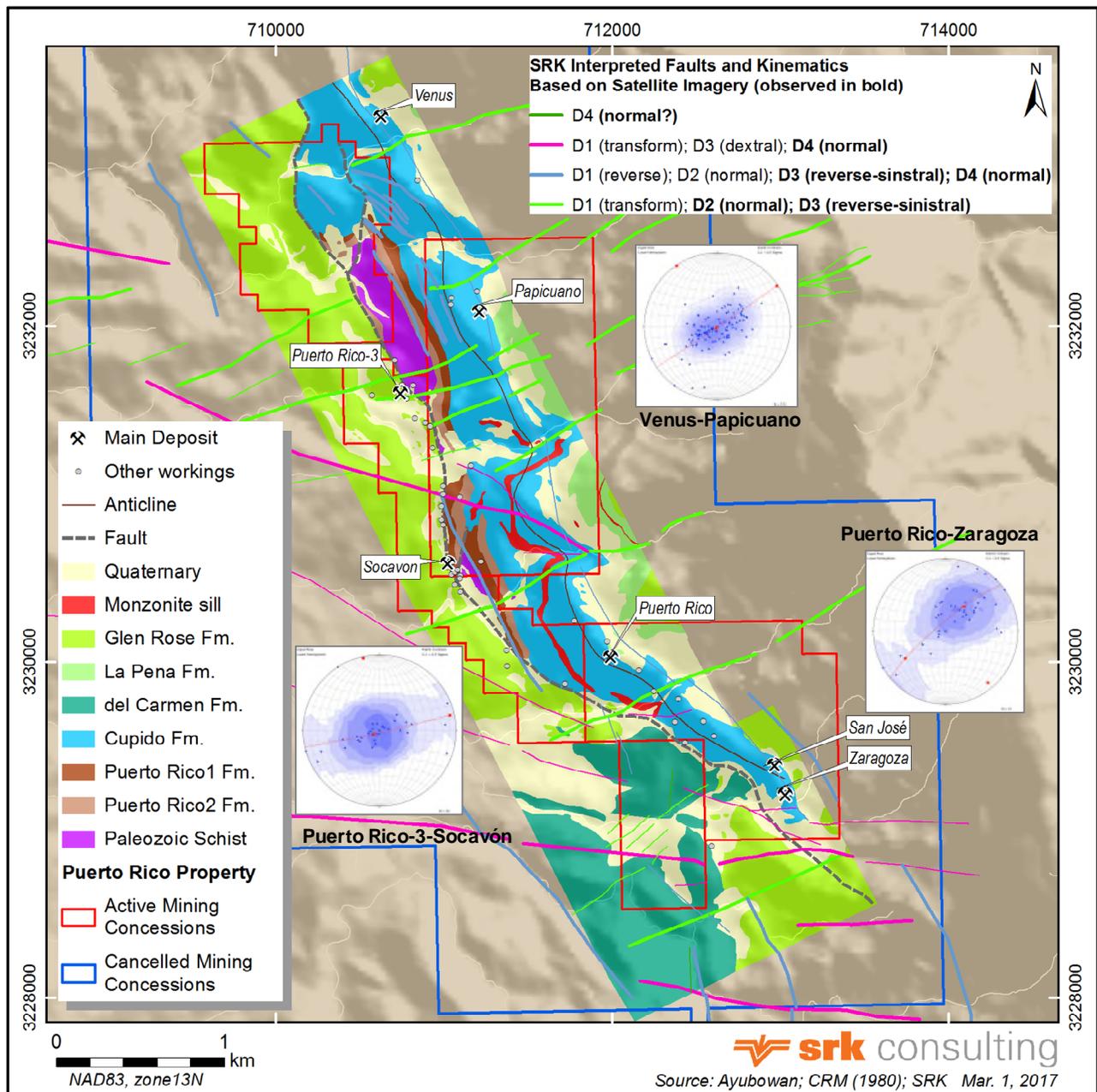


Figure 6: Local Geology as Mapped by the CRM (1980), Stereonets of Poles to Bedding Planes, Faults Interpreted by SRK from Satellite Imagery of the Northern Portion of the Puerto Rico Property.

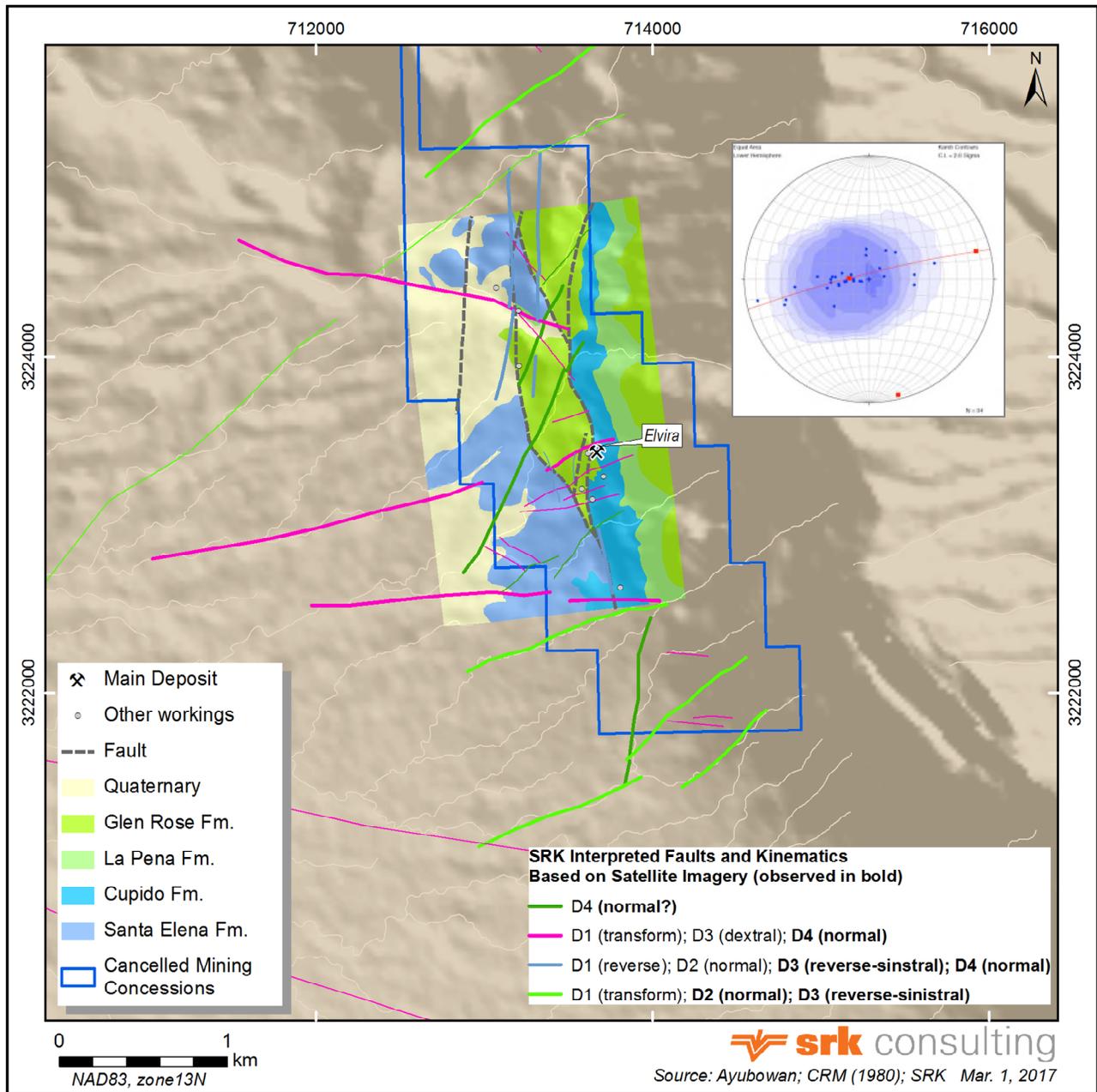


Figure 7: Local Geology as Mapped by the CRM (1980), Stereonets of Poles to Bedding Planes, and Faults Interpreted by SRK from Satellite Imagery of the Southern Portion of the Puerto Rico Property.

Paleozoic Schist

In the Sierra del Carmen, the Paleozoic Schist crops out over an approximately 4.5 kilometre area. In the Manuel Benavides map sheet, the Paleozoic schist is described as greenschist facies, calcareous, compact to granular texture, medium-grained, and having muscovite, calcite, opaques, and potassic feldspar as major metamorphic minerals, and calcite, muscovite, hematite, and sparse quartz as cements. Contacts with the overlying Cupido Formation are unconformable and marked by red conglomerates. The schist's lower contact is not exposed, and its true thickness is

unknown; minimum thickness is estimated at 50 metres. The metamorphism of the schist is interpreted as being Permian and associated with the Ouachita-Marathon-Sonora Orogeny, and the age of deposition is interpreted as being Devonian. In the Puerto Rico Property, the Paleozoic schist displays a well-developed penetrative foliation that is overprinted by a poorly- to moderately-developed crenulation. A single mineralized location is reported by the CRM (1980) in the Puerto Rico Formation. White bull quartz is widespread along the unconformable contact with the overlying Puerto Rico clastic rocks.

Puerto Rico Formation

Sanchez (1975) defines the Puerto Rico Formation as polymictic conglomerate-sandstone. The conglomerate is well cemented and poorly sorted, red to purplish-red on fresh and weathered surfaces, forms 0.2 to 1.0-meter-thick beds, and contains subangular to subrounded milky quartz, concretions, limestone, sandstone, and andesite clasts that range from a few millimetres to 30 centimetres within a rusty sandy-clay matrix. Contacts with the underlying schist and with the overlying Cupido Formation limestone are discordant, and the unit is estimated at 150 metres thick. Based on stratigraphic correlations with La Mula and Las Vigas formations, the Puerto Rico Formation is interpreted as being of Hauterivian to Lower Cretaceous age. Mineralization in the Socavón area is partly hosted in the Puerto Rico Formation conglomerate in fault contact with Glen Rose Formation limestone strata shed from horsts during the opening of the Atlantic.

Cupido Formation

In the Puerto Rico Property, the Cupido Formation limestone is found as a distinct black, coarsely fossiliferous grainstone to wackestone and oolitic packstone that may constitute as a useful stratigraphic marker. Contacts with the overlying La Peña Formation are concordant, whereas contacts with Puerto Rico Formation conglomerate and sandstone are discordant. In the Puerto Rico Property, the Cupido limestone's recessive character contrasts topographically with the overlying La Peña calcareous shale and Glen Rose limestone. The Cupido Formation has an estimated thickness of 220 metres, and an age of Hauterivian-Aptian based on stratigraphic correlations of the lower Cupido Formation with the La Mula, La Virgen, and Patula formations. A depositional environment of shallow platform with agitated and well oxygenated waters allowing for abundant bioherm development is interpreted. The Cupido Formation is the main host to CRD-style base metals mineralization in the Puerto Rico Property area.

La Peña Formation

The La Peña limestone was defined by Imlay (1936) as having a carbonate basal unit, and a clay-calcareous upper unit. Humphrey and Diaz (1956) restricted the La Peña Formation to the clay-calcareous beds containing *Dufrenoyia justinae* fossils. The calcite member consists of dark grey, locally-dolomitized lime-mudstone containing nodules and concretions, whereas the calcareous shale member forms narrow, dark grey beds. Contacts with the underlying Cupido and the overlying Glen Rose formations are conformable and gradational. The thickness of the unit is measured between 58 metres (Carpenter 1997) and 95 metres (Vergara-Martinez and Huicohea-Reyes 2007). An Aptian age was assigned to the Cupido Formation based on stratigraphic correlations of the Otates Formation. Similar to the Cupido Formation, the depositional environment is interpreted as shallow platform. The La Peña Formation is not known to host mineralization.

Glen Rose Formation

The Glen Rose limestone was defined by Hill (1891) as a sequence of alternating magnesian fossiliferous limestone, lime mudstone to wackestone, clay rich sandstone, and crystalline, commonly oolitic limestone. Vergara-Martinez and Huicohea-Reyes (2007) distinguished at least ten lithofacies within the Glen Rose Formation. Contacts with the underlying La Peña Formation is conformable and gradational, whereas contacts with the overlying Telephone Canyon Formation are concordant but sharp. The thickness of the unit is estimated at between 530 metres Vergara-Martinez and Huicohea-Reyes (2007) and 563 metres (Carpenter 1997). A lower Albian age was assigned based on its fossil content and on correlations with Benigno, Lagrima, and Aurora formations. A depositional environment of shallow marine to lagoonal has been interpreted for the Glen Rose Formation. A single mineralized occurrence hosted in the Glen Rose limestone is recorded by the CRM (1980).

Santa Elena Formation

The Santa Elena-Salmon Peak limestone was initially defined by Shumard (1860) as the “Washita Limestone”, and made formal by Barnes (1974) as a 23-metre-thick upper member of granular cross-bedded limestone with abundant concretions, caprinids, and other shell fragments, and a 115-metre-thick lower member of mudstone. Contacts with the underlying Burro Peyotes Formation are conformable, and the upper contact with the Del Rio Formation is abrupt and well-marked by a change from limestone to coarse-grained dolomite sedimentation. The unit is estimated at 220 metres thick in Mexico (Vergara-Martinez and Huicohea-Reyes 2007) and 104 metres in Texas (Barnes 1974). At the Elvira area in the southern portion of the Puerto Rico claims, the Las Norias and parallel normal faults downdrop the Santa Elena Formation to the west against Glen Rose and Cupido formations. Based on the caprinid species, the formation is assigned an Albian age. Depositional environment is marked by strongly oxygenated water leading to abundant maritime fauna, and magnesium input during diagenesis. The Santa Elena limestone is commonly host to fluorite-celestite mineralization, specifically along contacts with felsic subvolcanic rocks.

Structural Setting

Three fault sets were interpreted by SRK from ASTER and Quickbird satellite imagery in the Puerto Rico Property area: arcuate southeast striking thrusts and parallel normal faults, a conjugate set of jagged faults trending northeast (sinistral) and southeast (dextral), and young north-northeast-trending faults (Figure 6 and Figure 7). With the exception of the straight north-northeast-trending faults, all faults are interpreted to have formed as early as the Ouachita Orogeny. Faults in favorable orientations are interpreted as having reactivated during subsequent deformation events. CRD-style mineralization is controlled primarily with southeast striking thrusts and normal faults, and subordinately with the conjugate set. Shallowly dipping faults lacking a well-defined strike-slip movement component could not be identified from satellite imagery, but mappable portions of those faults include a thrust fault in the Puerto Rico mine and shallowly dipping normal faults.

Pre-Mineral Veins

Calcite veining is very intense above the Puerto Rico to Zaragoza areas, and widespread throughout the property. Calcite veins emplaced in non-mineralized Cupido limestone in the La Cubana mine display shallowly dipping dilational jogs indicative of emplacement associated with reverse faulting. Non-mineralized calcite veins are interpreted to be associated with the Laramide compressional event and to predate base metal mineralization.

Northwest-Southeast Trending Fault

In the Papicvano portal area, a 345-striking steeply dipping to subvertical fault with 20 to 50 centimetres of clast-supported monomictic fault breccia along the footwall has well-developed 105-trending slickenlines (Figure 8). The orientation and sense of movement on the slickenlines indicate that jogs to the northwest and dip shallowing have potential of producing dilational zones, whereas jogs to the southeast and dip steepening are restrictive.

Historical workings in the Socavón area occur along the Las Norias fault, which downdrops Glen Rose Formation limestone to the west against red weathering Puerto Rico Formation conglomerate. Lower order 130 to 140-trending

oxidized faults are exposed in the old workings. The Las Norias fault surface was observed in a single locality, where it forms a polished, cryptocrystalline quartz-lined surface without kinematic indicators.

In the Elvira area, calcite veins display a predominantly northwest strike (average 325), forming sheeted veins spaced by 5 to 30 centimetres. Sigmoidal tensional vein arrays indicate sinistral movement. In one location, a 141-striking subvertical calcite vein displays well-developed extensional textures.

Conjugate Fault System

Strike-slip movement on the northeast-trending La Cubana fault produces an apparent normal displacement of flat-lying beds beneath a thrust by approximately 50 metres, whereas apparent displacement of the thrust is approximately 5 metres (Figure 8).

Northeast-trending sinistral faults fan from more northerly orientations in the north to more east-west orientations in the Puerto Rico to Zaragoza and Elvira areas. Northeast trending faults are dominant over northwest trending dextral faults in the Papicuano-Venus area, whereas first order northwest trending faults are strongest in the Socavón to Zaragoza area. Northeast-trending horsetail faults show sinistral displacements of 30 to 40 metres in satellite imagery over an area immediately outside of the northeastern claim boundary. The sense of movement observed on the conjugate fault set in satellite imagery and interpreted from kinematic indicators in outcrops is opposite to that mapped by Vergara-Martinez and Huicohea-Reyes (2007) in the Boquillas del Carmen map sheet, affirming the reactivation history of those faults.

Attesting to the mineralization potential during syn-mineral reactivation of the conjugate set include observations made of a 35- to 45-centimetre-wide northwest-striking fault zone which was high-graded in the San José mine, and northwest-striking faults which are mineralized in the Puerto Rico-3 area.

Post-Mineral Faulting

Examples of post-mineral faulting observed at the Puerto Rico Property include a 022-striking, moderately-dipping fault observed in the Zaragoza portal area that downdrops barite veins by seven centimetres to the east (Figure 8). Additionally, in the San José portal area, a red iron oxyhydroxide-stained, 045-trending, moderately-dipping fault with well-developed slickenlines indicative of normal movement displaces a non-mineralized, steeply-dipping, 169-trending, 25-centimetre-wide fault breccia zone.



Figure 8: Structural Features Observed at the Puerto Rico Property

- A: Calcite vein with dilational jog indicating reverse sense of movement in the Puerto Rico mine (looking 315)
- B: Papicuaño mineralized fault with well developed slickenlines with reverse-sinistral sense of movement and 20 to 50 centimetre monomict fault breccia along the footwall (looking 255). Inset schematic representation of potential dilational jogs (red) and restricting bends (teeth) on the northwest striking Papicuaño fault.
- C: La Cubana Fault (green) produces apparent 50 metre normal displacement of flat-lying beds (yellow) without equivalent displacement in the thrust plate (blue) [looking 300]
- D: 022-striking post-mineral fault downdrops a barite vein to the east by 7 centimetres (looking 212)

Alteration

SRK performed preliminary interpretations of 30-metre pixel resolution Landsat-8 and ASTER remote-sensing visible and infrared spectral data in order to identify anomalous features associated with known base metal mineralization that can be used for regional targeting. The Crosta analysis of Landsat-8 visible and infrared data is a double principal components analysis used to obtain a broad distinction between: dominantly iron oxyhydroxide-bearing; dominantly clay-sericite-bearing; and mixed iron oxyhydroxide- and clay-sericite-bearing pixels. In the Puerto Rico Property area, Crosta analysis shows a distinctive arcuate, strongly fault-controlled yellow-brown colour over the main mineralized trend that extends northward into Texas (Figure 9).

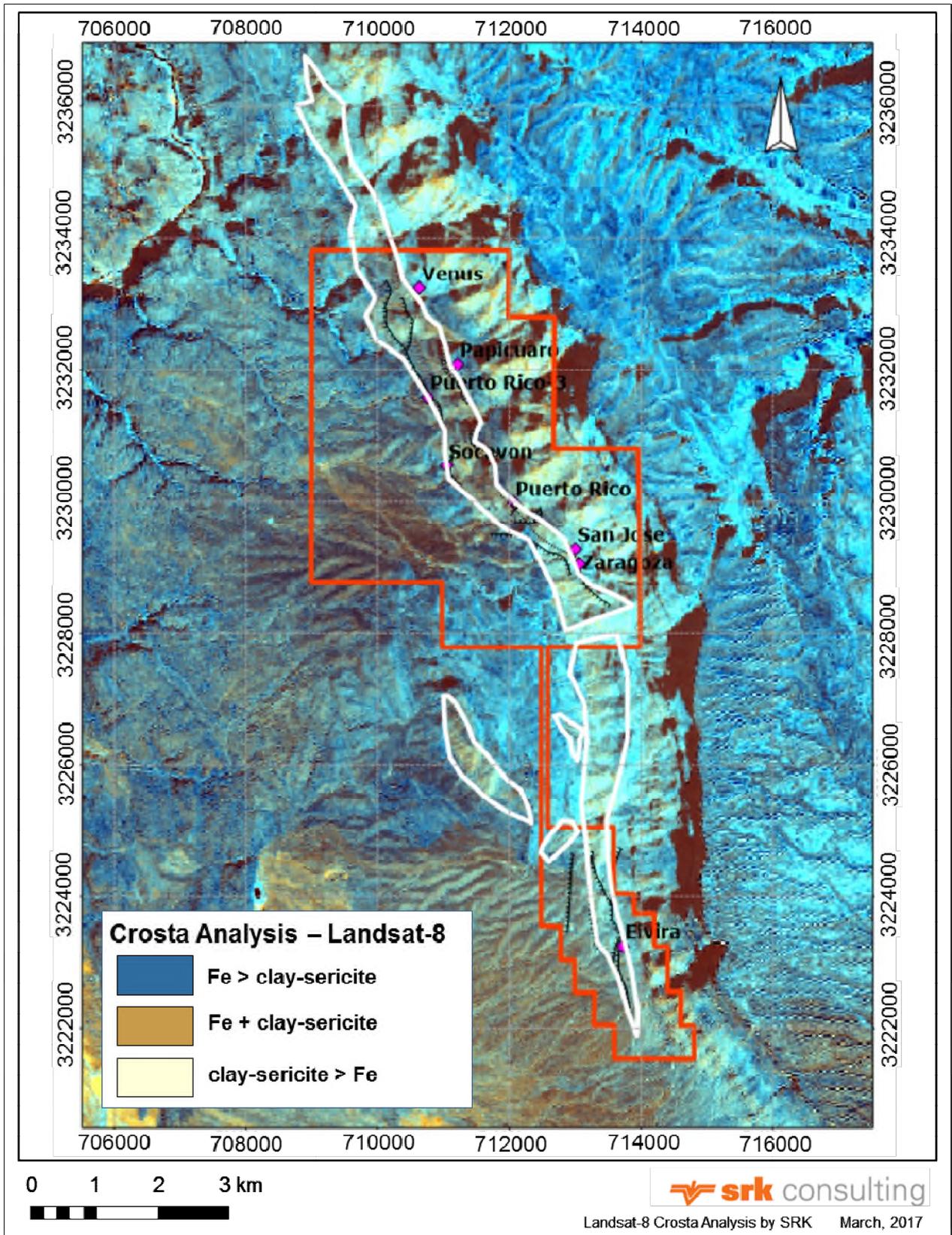


Figure 9: Landsat-8 Crosta Analysis Performed by SRK
Distinctive Color Anomaly Outlined in White

The southerly extension of the colour anomaly into the Elvira area has a lighter tint indicative of higher clay content, and resembling the colour associated with massive limestone beds of the Glen Rose Formation to the east of the mineralized trend. A colour anomaly similar to that of the main mineralized trend occurs to the northwest of the Elvira area, outside the Puerto Rico Property.

Mineralization

Puerto Rico Mine

The Puerto Rico mine is the main historical deposit on the Puerto Rico Property. Oxidized mantos and subordinate structurally-controlled chimneys are hosted in steep- to shallow- dipping Cupido Formation limestone in the overturned anticline above an easterly vergent thrust. A leucocratic, fine-grained, equigranular sill of monzonitic to syenitic composition intrudes the western limb of the anticline. The northeast trending La Cubana fault is mineralized in the La Cubana portal area.

The larger stopes of the Puerto Rico Level 18 expose strongly oxidized mantos 8 to 12 metres wide consisting of pink and white zinc oxides, red to orange iron oxyhydroxides, patchy and disseminated galena, and lesser barite and copper oxides replacing steeply dipping limestone beds. The patchy and mixed colour nature of the oxide mineralization makes it difficult to estimate base metal-bearing mineral percentages and to distinguish massive from semi-massive mineralization. McAnulty (2009) estimated the main mineralized zone to be 65 metres in vertical length by approximately 100 metres horizontal length. SRK believes McAnulty's estimate to be a minimal size, and that the vertical and strike extents of the steeply dipping Puerto Rico mineralization and the La Cubana mantos have greater extents that need to be verified through adequate drilling and surveying.

Other mineralization styles include stacked 40-centimetres- to over four metres-thick shallowly-dipping mantos, galena-cemented breccia, and copper-rich stacked mantos in the La Cubana area. Examples of the CRD mineralization found in the Puerto Rico mine can be seen in Figure 10.

San José Mine

Stacked, strongly-oxidized, barite-bearing mantos and lesser structurally-controlled chimneys in the San José mine are hosted in Cupido Formation limestone. Mantos that are replacing beds in the eastern limb of the fold are flat-lying and up to 1.5 metres thick, and are controlled by smaller older folds in the eastern limb, whereas mantos that are replacing the western limb dip moderately to the southwest and are up to 2.5 metres thick. This differs from the fold control over the mineralization in the Puerto Rico mine where the mantos in the eastern limb dip steeply. Stacked manto zones are up to five metres thick, with lower-grade disseminated zinc oxides and lead sulphides occurring between the mantos.

The approximately 4- by 10-metre stope in the lowest level of the San José mine exposes a copper oxide and carbonate cement-supported monomict breccia with subrounded clasts strongly replaced by yellow to brown oxides and chalcocite. The breccia appears open at depth and along strike. Examples of the CRD mineralization found in the San José mine can be seen in Figure 10.

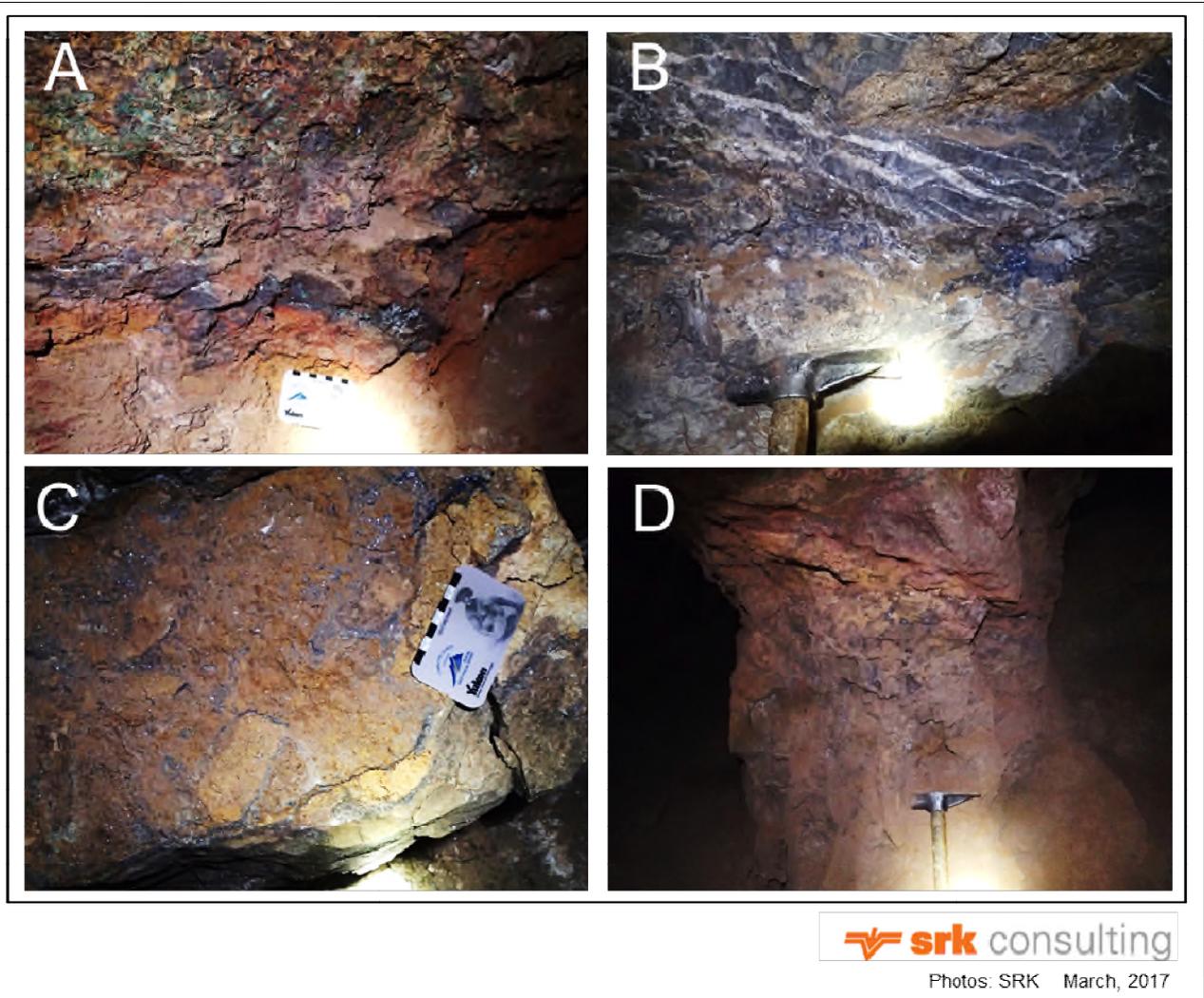


Figure 10. CRD Mineralization in the Puerto Rico and San José Mines

- A: Puerto Rico Level 0 copper oxide rich manto (looking 240 degrees)
- B: Galena cemented breccia zone and disseminated galena in strongly veined limestone in the Puerto Rico Mine (looking 030 degrees)
- C: Galena cement supported monomict breccia in the San José mine. Subrounded yellow oxide replaced clasts less than 20 centimetres in size (looking 030 degrees)
- D: Zinc rich pillar in the San José mine (looking 109 degrees)

Zaragoza Mine

Stacked, barite-calcite-rich mantos up to 60 centimetres thick have sharp contacts and form massive replacement of Cupido Formation limestone. Galena and lesser non-sulphide zinc minerals form veinlet stockwork, disseminations, monomict breccia cement and clast replacement adjacent to the mantos. Examples of the CRD mineralization found in the Zaragoza mine can be seen in Figure 11.

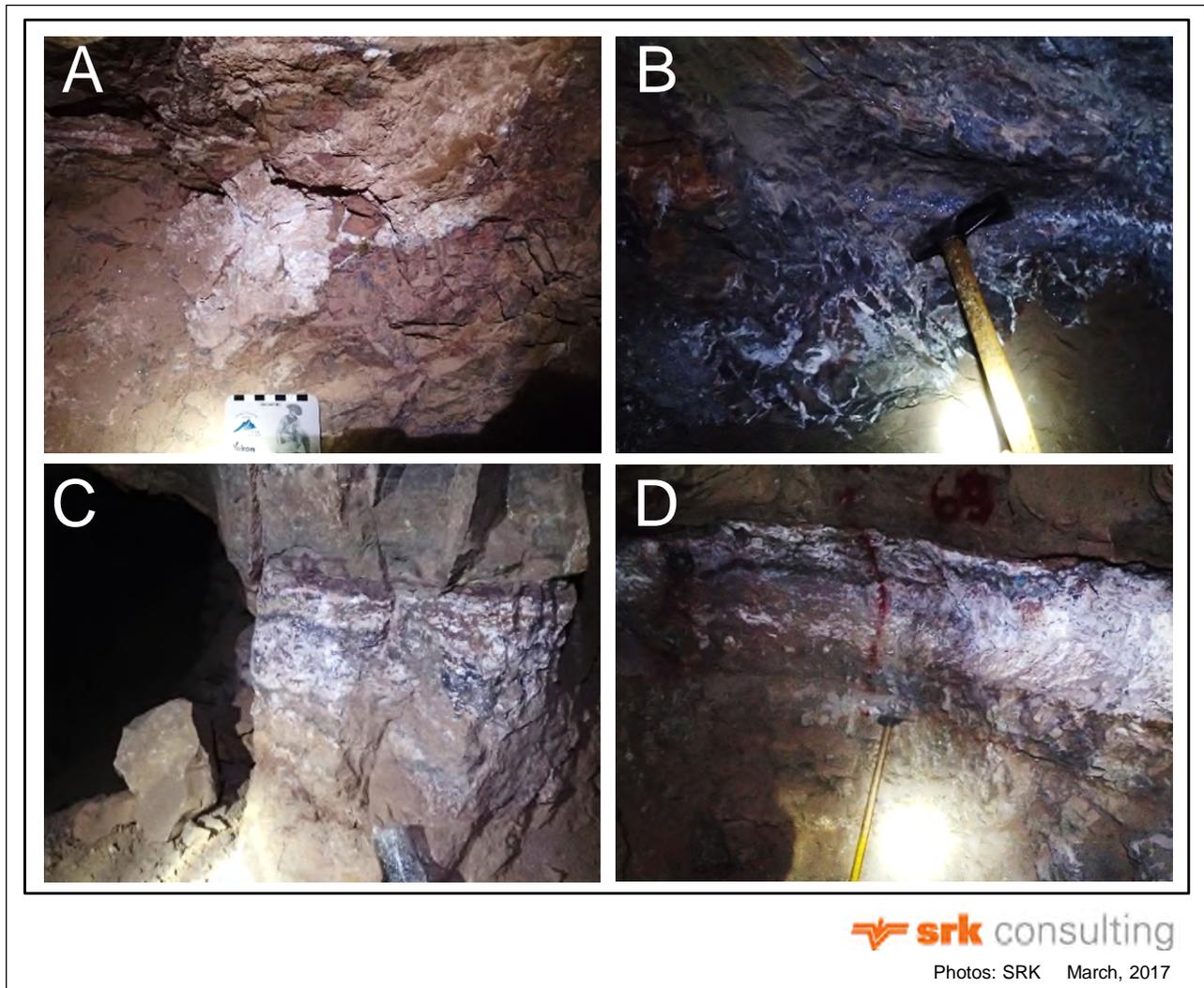


Figure 11: CRD Mineralization in the Zaragoza Mine

- A: Barite veins less than five centimetres with breccia angular clast or red-brown oxide altered limestone and galena along vein contacts (looking 090 degrees)
- B: Monomict breccia clasts strongly replaced by galena and sphalerite and cemented by white barite and clay/oxides
- C: Sharp contact of flat-lying manto of white barite, orange and red oxides, grey sphalerite, and galena (looking 344 degrees)
- D: Over 35% white zinc-oxide and sphalerite manto with sharp, flat-lying contacts, 30–40 centimetres wide with copper oxides, less than 1% chalcopyrite, and less than 3% chalcocite near upper contact (looking 045 degrees)

Papicuario Area

The Papicuario underground working was not accessible at the time of SRK's site visit.

Outcrops at the Papicuano portal have a strongly bleached, pink-grey colour due to disseminated non-sulphide zinc and galena. A small adit approximately 120 metres north of the Papicuano portal exposes approximately two metres of calcite-galena veins, stockwork, and breccia above a flat-lying leucocratic sill (Figure 12).

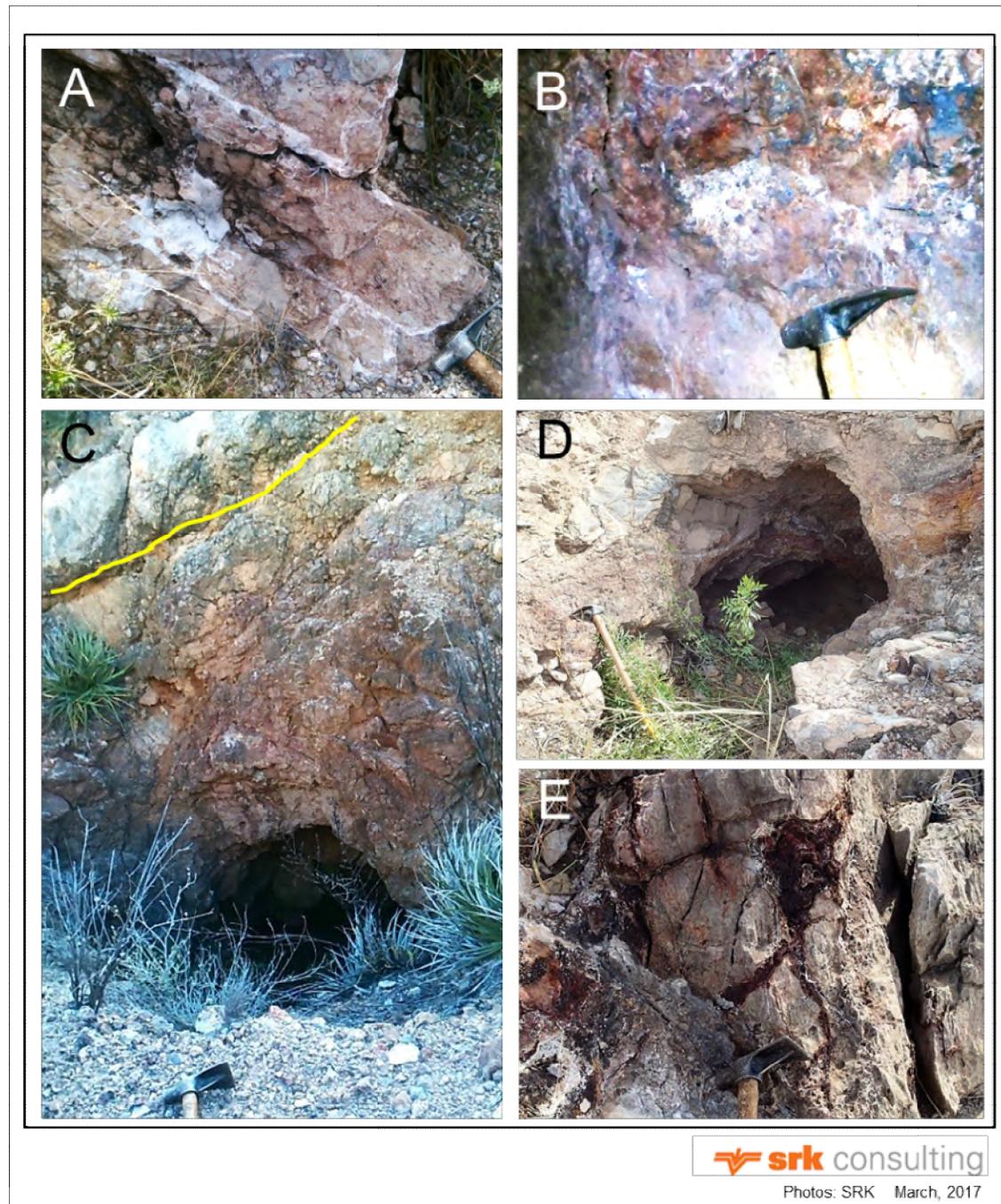


Figure 12: CRD Mineralization Found at the Papicuano, Socavón, and Elvira Areas

A: Bleached limestone outcrop with low grade disseminated galena at the Papicuano portal

B: Adit found approximately 120 metres north of Papicuano with calcite-galena stockwork, calcite-galena vein-breccia cement, and strongly developed calcite galena vein stockwork. A flat lying sill was found exposed for over two metres inside small working.

- C: Socavón portal outcrop. The Las Norias Fault (yellow) downdrops beige yellow Glen Rose limestone above pink conglomerate. The conglomerate has disseminated non-sulphide copper and black oxidized galena.
- D: Elvira adit that exposes a 60 centimetre shallowly east-southeast dipping strongly oxidized manto.
- E: Pink-beige altered packstone at Elvira and enlarged mineralized zone along the intersection between steeply dipping and shallowly dipping veins.

Socavón Area

Several historical workings are hosted in pink-red Puerto Rico Formation calcareous conglomerate in the fault bounded block between the 140-trending Las Norias Fault and a north-northeast-trending normal fault in the Socavón area (Figure 12).

Elvira Area

The Elvira underground working was not accessible at the time of SRK's site visit.

Historical workings expose a shallowly east-southeast-dipping oxidized manto up to 60 centimetres wide, zones of calcite-galena veinlet stockwork, strongly oxidized dilational intersections between steeply- and shallowly-dipping calcite-oxide veins, and a zone of increased hardness in red aphanitic calc-silicate replacement along a north-south trending anticline axis (Figure 12).

Venus Area

The Venus underground working was not accessible at the time of SRK's site visit.

Deposit Types

The Puerto Rico Property hosts polymetallic carbonate replacement deposit (CRD) style mineralization across an approximately 12-kilometre, northwest-elongated corridor in the northern Mexico carbonate replacement deposit belt.

The high temperature carbonate-hosted silver-lead-zinc-copper deposits of northern Mexico are epigenetic deposits found in thick Jurassic to Cretaceous basinal sedimentary sequences dominated by carbonate (Megaw et al. 1988). Mineralization styles include lithologically controlled stratiform mantos and structurally controlled discordant chimneys, breccias, and vein networks. Disseminated sulphides or supergene products can occur adjacent to mantos. The variety of mineralization styles shown by these deposits are representative of responses to variations in intrusive associations, depth of emplacement, host-rock characteristics, and the geochemical evolution of the individual systems (Megaw et al. 1988). No consistent link between ore deposition and carbonate composition, facies, organic content, or insoluble components has been reported in the Mexican CRD district (Megaw et al. 1998). However, zones of secondary enhanced porosity and permeability are considered important mineralization controls (Megaw et al. 1988). The major polymetallic lead-zinc-silver-copper districts of northern Mexico show metal sourcing to be a mixture of basin brines and magmatic sources (Megaw 1996).

Elevated zinc, lead, silver and copper are key indicators in rock samples, while other elements such as cobalt, gallium, bismuth, cadmium, vanadium, molybdenum and barium can be useful pathfinders (Trueman 1998). Stable isotopes of carbon and oxygen are another useful geochemical vectoring tool in most carbonate hosted deposit types, including CRD. Resistivity, IP, and gravity can be useful geophysical exploration tools. Tectonically disturbed zones with carbonate/oxidized clastic sequences of major basins are a regional exploration target. CRD deposits often occur as clusters or in close proximity to associated deposit types such as skarn and porphyry. Thermal maturation anomalies and clay mineral zoning can also be a useful exploration tool (Trueman 1998).

The CRD district of northern Mexico is located within a major fold and thrust belt. Regional fault, fold, and fracture systems are dominant controls on mantos and chimney. Mantos and chimneys are enclosed within carbonate rocks

and are generally remote from intrusive bodies. Sulphide mantos are commonly fed by sulphide chimneys which may in turn be fed by skarn chimneys cored by dikes (Megaw et al. 1988).

The Puerto Rico Property is underlain by platformal rocks deposited to the north of the Sabinas Basin, which served as the depositional site for approximately 6,000 metres of Jurassic to Cretaceous siliclastic, carbonate, and evaporitic rocks, and is host to numerous high temperature CRD style, as well as lower temperature fluorite-barite and MVT style deposits and prospects. CRD mineralization is interpreted to be associated with Cenozoic extensional events and magmatic pulses, although the causal pluton is not always exposed. Clusters of carbonate replacement base metal mineralization form stratiform mantos and structurally controlled chimneys in limestone of the Cupido Formation along an approximately seven kilometre trend extending from the Venus mine to the Elvira zone. Mineralization appears to be associated with southeast striking thrust and normal faults, and lesser so with the conjugate fault system and appears to be controlled by changes in strike of the normal faults, which are also observed as variations in anticline axis orientation. An aphanitic to fine grained leucocratic sill exposed in outcrop and mine workings is found in the eastern part of the property, but its temporal association to mineralization remains unclear.

Exploration

Exploration on the Puerto Rico Property is primarily historic in nature and includes the collection of geochemical samples, the execution of geophysical surveys, and geological mapping and sampling of a number of the underground workings. Discovery Metals has not conducted exploration work on the Puerto Rico Property.

Surficial Geochemistry

Sampling by CRM and MMAJ

The collection of geochemical samples by the Consejo de Recursos Minerales (CRM) jointly with the Metal Mining Agency of Japan (MMAJ) was executed in the late 1970's. A total of 814 samples, including 677 rock chip samples and 137 soil samples, were collected along a northwest-southeast elongated grid that extends from within United States territory to the Elvira zone; soil samples were collected where exposed bedrock was absent (Figure 13). In the area extending from the Venus zone to the Puerto Rico mine, line spacing was 200 metres and samples were collected every 25 metres. North of the Venus zone, lines were spaced 500 metres and samples were collected every 200 metres, whereas to the south of the Puerto Rico mine, line spacing varied from 200 metres to 500 metres and sample spacing was every 200 metres.

A preliminary statistical analysis by SRK has identified the following:

- The entire analytical data set shows strong correlations between zinc and lead, and lead and silver, and a significantly weaker correlation between copper and silver (Table 2).
- A correlation matrix for the rock samples shows similarly strong correlations between zinc and lead, and lead and silver, and a weak correlation between copper and silver (Table 3).
- Boxplot comparisons of rock and soil samples show distinct zinc and lead grade distributions, indicating that the two data types must be treated separately (Figure 14).
- The strongly correlated nature of the data is likely to overpower subtle trends. More sophisticated data mining methods such as principal components analysis should be employed in order to distil subtle patterns that may represent areas of structural complexities, favorable stratigraphy, or a combination thereof.
- Generally, zinc and lead are enriched in the Cupido Formation limestone, whereas copper is enriched along the unconformable contacts of the Paleozoic shales and Puerto Rico Formation and silver is most anomalous along the Las Norias fault (Figure 15).

Plots of silver and base metals for rock and soil geochemical samples show a marked difference between the results of samples collected along tightly spaced lines in the Venus to Puerto Rico areas and samples collected to the south of Puerto Rico area and north of the Venus area, and are coincident with two different sample batches (Figure 16). This may be a result of different dissolution and analytical procedures employed in two analytical batches, however, due to the lack of documentation on the procedures used it is not possible to verify.

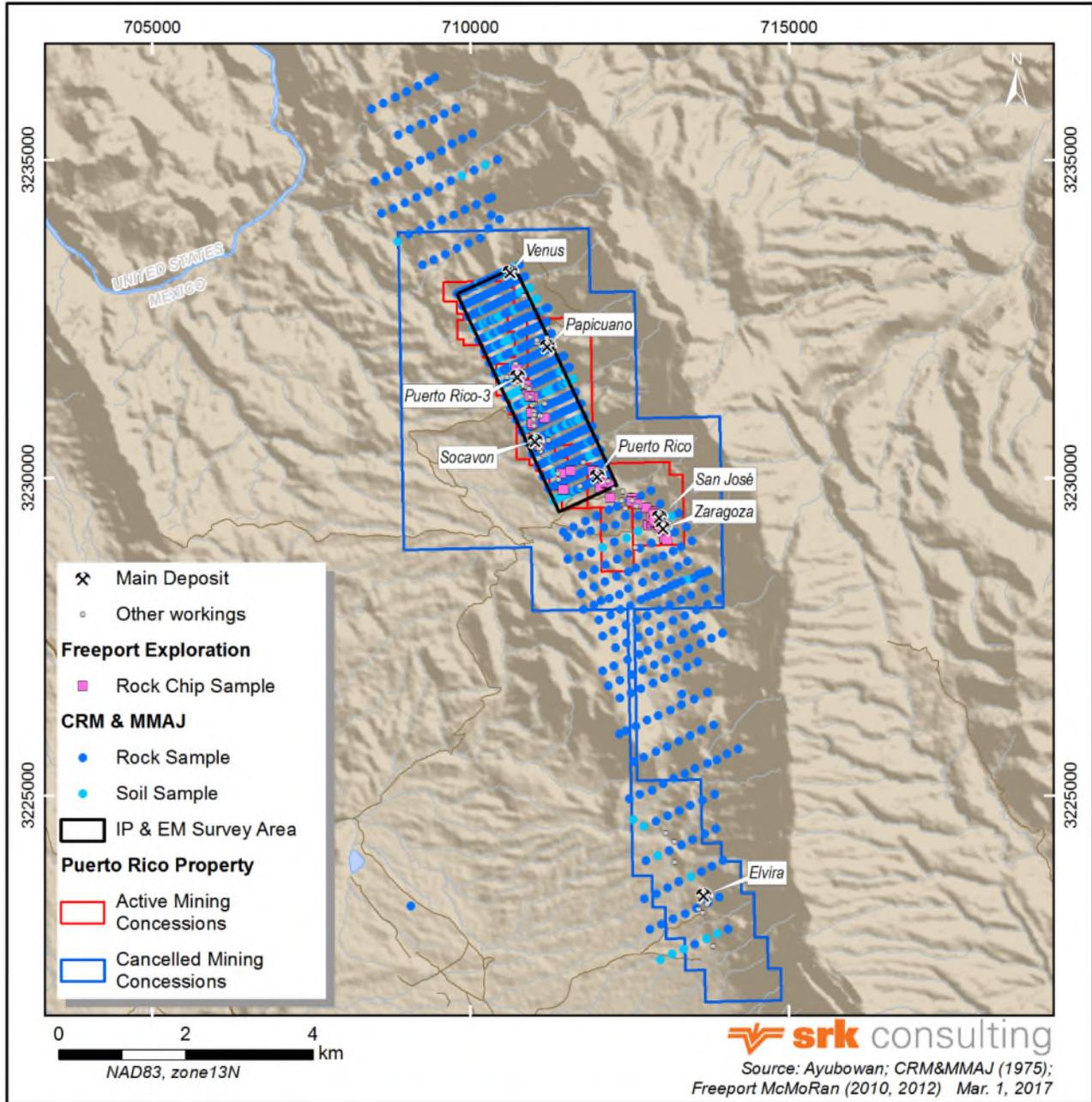


Figure 13: Compilation of Exploration Work on the Puerto Rico Property Executed by the Consejo de Recursos Minerales Jointly with the Metal Mining Agency of Japan (1975; blue), and Freeport McMoRan (2010, 2012; pink).

Table 2: Correlation Matrix of Logged Analytical Data Set of Combined Rock Chip and Soil Samples Collected by the CRM and MMAJ

Rock Chip and Soil Samples				
	LogZn	LogPb	LogCu	LogAg
LogZn	1			
LogPb	0.628	1		
LogCu	0.321	0.236	1	

LogAg	0.371	0.650	0.054	1
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Table 3: Correlation Matrix of Logged Analytical Data Set of Rock Chip Samples Collected by the CRM and MMAJ

Rock Chip Samples				
	LogZn	LogPb	LogCu	LogAg
LogZn	1			
LogPb	0.678	1		
LogCu	0.321	0.229	1	
LogAg	0.422	0.671	0.017	1

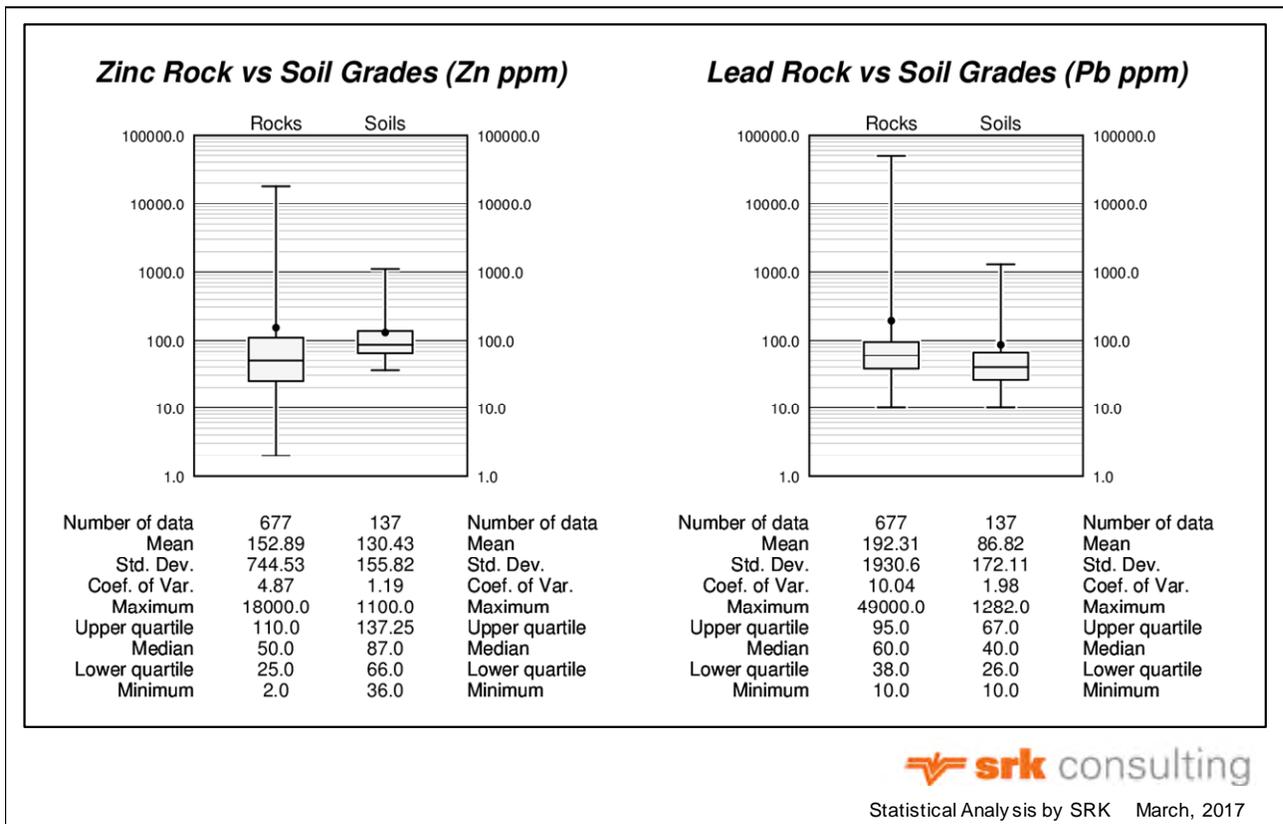


Figure 14: Boxplot Comparisons of Rock Chip and Soil Samples Collected by the CRM and MMAJ

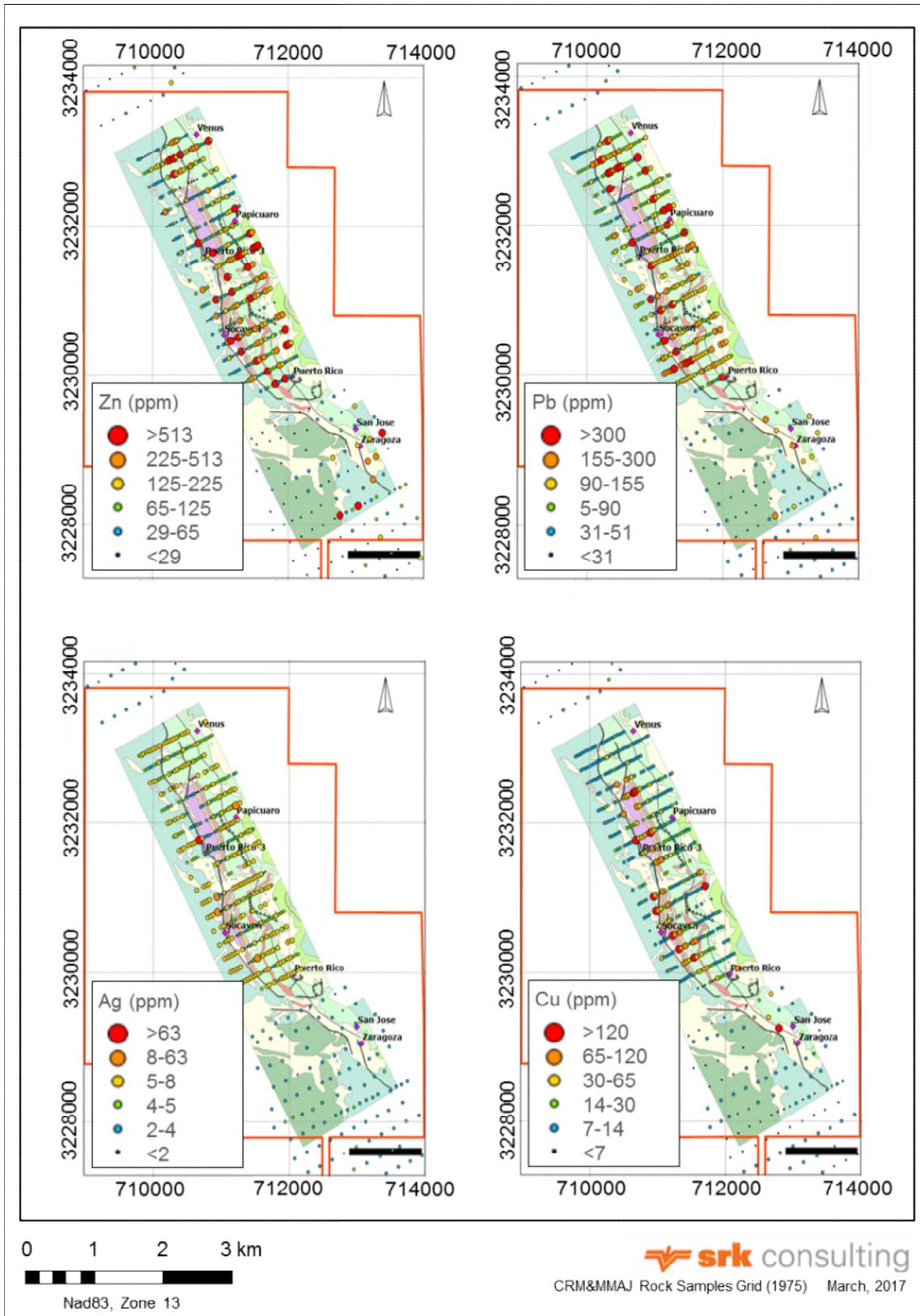


Figure 15: Zinc, Lead, Silver, and Copper Content from Geochemical Samples Collected Across the Puerto Rico Property by the CRM and MMAJ (1975)

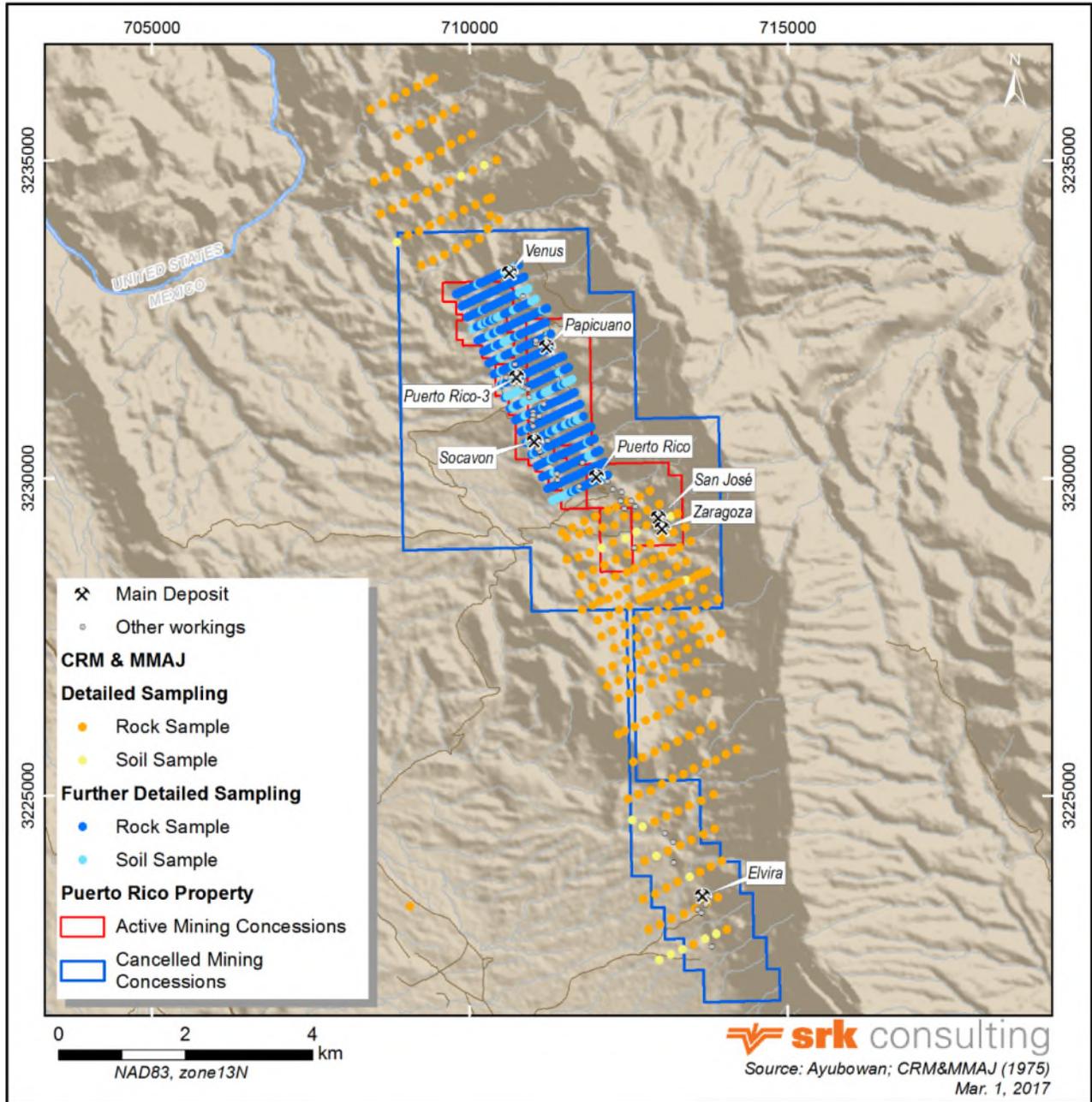


Figure 16: Two Batches of Rock and Soil Samples Collected by the CRM & MMAJ (1975)

Sampling by Freeport McMoRan Copper & Gold

Geochemical samples were collected from various sites on the Puerto Rico Property by Freeport McMoRan from 2008 to 2012. Twenty rock chip and grab samples were collected in 2008 from mine tunnels, dump material and outcrop; no coordinates pertaining to these samples are available. In 2010, 24 rock chip and grab samples were collected from the San José mine, mine dump material, and outcrop; the coordinates of four tunnel samples are not included in the available dataset.

In 2012, a total of 63 rock chip and grab samples were collected primarily from outcrop and lesser from dump material and workings. Coordinates from nine of the 2012 samples are missing. Additional rock chip and grab samples were collected in 2012 from nine sites at the Puerto Rico mine and from 15 sites at the San José mine.

Samples collected by Freeport McMoRan which have coordinate data available can be found in Figure 13. Salient results from the 2008 sampling program and from the samples collected at the Puerto Rico and San José mines in 2012 can be found in Table 4 and Table 5, respectively.

Table 4: Results of Geochemical Samples Collected by Freeport McMoRan in 2008. Samples Analysed by ICP and Fire Assay for Silver.

Sample	Mine/Location	Remarks	Zn (%)	Pb (%)	Ag (ppm)	Cu (%)
PRF 1	Puerto Rico haulage level		29.0	0.9	40	0.00
PRF 2	Puerto Rico	Chip samples across vein zones	50.5	2.9	113	0.01
PRF 3	Puerto Rico	Chip samples in raise at west end of drift	19.5	6.4	105	0.01
PRF 4	Puerto Rico		17.3	41.0	409	0.04
PRF 5	Puerto Rico		37.5	38.1	310	0.03
PRF 6	Puerto Rico		7.7	49.5	628	0.06
PRF 7	Puerto Rico		5.5	69.8	680	0.07
PRF 8	Puerto Rico east drift	Chip 50 cm across manto	3.0	22.5	204	7.25
PRF 9	Puerto Rico east drift	Chip 30 cm across manto in floor of drift	6.2	1.1	13	21.80
PRF 10	Puerto Rico east drift	Chip of high grade pocket of galena in manto	4.0	69.8	524	0.05
PRF 11	Puerto Rico, portal of east drift	Grab of high grade Cu pile	4.5	0.8	188	12.00
PRF 12	San José	Partly oxidized pocket of galena; high-graded	31.0	10.0	382	1.64
PRF 13	San José surface prospect pit	Selected for galena	13.7	25.7	1,906	3.05
PRF 14	San José haulage level	Chip across galena-bearing manto	44.5	0.5	9	0.00
PRF 15	San José	Cu oxide in dump on surface	17.5	4.8	135	12.50
PRF 16	San José haulage level	Chip across lower part of manto in Chuyon level incline	0.5	58.4	281	0.03
PRF 17	WP 403	Grab of small pile of "ore" from prospect pit at contact schist with limestone	2.5	13.4	3725	2.43
PRF 18	Papicuanó	Grab of ore pile at surface	2.6	34.7	338	0.03
PRF 19	Papicuanó	Fines from screening	2.0	8.8	123	0.01
PRF 20	Puerto Rico base camp ore stockpile	Grab from Zn oxide stockpile	55.0	0.7	9	0.00

Table 5: Results of Geochemical Samples Collected by Freeport McMoRan from the Puerto Rico and San José Mines in 2012. Samples Analysed by ICP/MS.

Sample	Easting	Northing	Mine	Remarks	Zn (%)	Pb (%)	Ag (ppm)	Cu (%)
MSJ-1	713008	3229111	San José	Erasmó Chimney, Haulage level + 10m	3.8	20.4	> 150	0.91
MSJ-2	713009	3229094	San José	Erasmó Chimney, Haulage level + 10m, north	14.8	23.9	> 150	1.50
MSJ-3	713022	3229081	San José	Erasmó Chimney, Haulage level + 10m, middle	12.6	8.2	60	2.03
MSJ-4	713028	3229076	San José	Erasmó Chimney, Haulage level + 10m, south	12.6	0.2	6	4.19
MSJ-5	713032	3229080	San José	Erasmó Chimney, Haulage level + 10m, south	8.3	3.3	92	2.24
MSJ-6	713024	3229074	San José	Erasmó Chimney, Haulage level + 10m, south	5.6	1.4	77	6.85
MSJ-7	712970	3229109	San José	Haulage level chimney, vein intersection	4.2	4.7	105	3.07
MSJ-8	712981	3229098	San José	Haulage level chimney, vein intersection	27.0	1.4	62	0.35
MSJ-9	712966	3229116	San José	Chuyon/Borrado levels, Pb-Cu manto	33.0	20.1	> 150	0.54
MSJ-10	712969	3229112	San José	Chuyon/Borrado levels, anticline vein	0.4	49.5	> 150	0.21
MSJ-11	712960	3229103	San José	Borrado manto, middle	2.0	0.2	32	3.99
MSJ-12	712959	3229099	San José	Borrado manto, south	1.0	0.8	40	3.98
MSJ-13	712955	3229105	San José	Borrado manto, north	0.4	0.2	43	4.63
MSJ-14	712960	3229106	San José	Chuyon manto, Chuyon chimney	1.7	0.2	44	5.41
MSJ-15	712930	3229131	San José	Chuyon manto, north	0.3	0.7	104	5.14
MPR-1	711988	3229904	Puerto Rico	Upper Chimney, middle	38.9	6.0	> 150	0.03
MPR-2	711981	3229913	Puerto Rico	Upper Chimney, north	25.8	4.9	> 150	0.02
MPR-3	711969	3229914	Puerto Rico	Upper Chimney, north	2.7	6.2	> 150	0.04
MPR-4	712085	3229818	Puerto Rico	Upper Chimney, south	23.9	26.3	> 150	0.25

MPR-5	712176	3229713	Puerto Rico	La Cubana, chimney to manto transition	4.0	4.2	> 150	5.27
MPR-6	712196	3229719	Puerto Rico	La Cubana, chimney.	3.9	2.6	> 150	3.52
MPR-7	712194	3229725	Puerto Rico	La Cubana, NE-dipping vein	0.3	0.4	> 150	7.41
MPR-8	712217	3229720	Puerto Rico	La Cubana	8.1	7.8	> 150	5.06
MPR-9	712257	3229696	Puerto Rico	La Cubana, south	5.3	1.5	> 150	8.30

Geophysical Surveys

As part of the same program that involved the collection of geochemical samples, geophysical surveys were executed over the Puerto Rico Property by the CRM and MMAJ (Figure 13). Induced polarization (IP) and electromagnetic (EM) surveys were conducted; no mutual relation was found between survey anomalies.

IP Survey by CRM and MMAJ

Time domain method was used to execute the IP survey, which covered an area of 3.8 square kilometres over the Puerto Rico Property (Figure 13). Survey lines were one kilometre long, oriented northeast-southwest (N65°E – S65°W), and spaced 200 metres apart. Survey points were collected in 100-metre intervals and measurements were taken at 100 metres, 200 metres, and 300 metres depth, directly below the survey point.

The following conclusions were made from the IP survey by MMAJ (1978):

- IP anomaly distribution in the survey area coincide with that of Paleozoic Schist.
- Surface showings were found by MMAJ along the western limit of the Paleozoic Schist, however, strong IP anomalies corresponding to the showings were not detected during the survey.
- The discovery of viable CRD type deposits may be unlikely in the IP anomalous zone since those anomalies are associated with Paleozoic Schist and not with permissive carbonate rocks.

EM Survey by CRM and MMAJ

A ground EM survey using Turam method was conducted along the IP survey lines, with additional lines established between each IP survey line. Stations were established at 25-metre intervals along 40 one kilometre length, 100 metres spaced survey lines covering a 3.8 square kilometre area (Figure 13).

The following conclusions were made from the EM survey by MMAJ (1978):

- Anomalies were detected in the southwestern portion of the survey area and were interpreted by MMAJ to be caused by lead-zinc mineralization.
- Anomalous resistivity ranged from 0.2 to 1.2 ohm-metres and the depth of the causative bodies was estimated to be 0 to 20 metres below surface
- Based on the parallel distribution of the anomalies, they were interpreted as sheeted veins.

Geological Mapping and Sampling by McAnulty

An investigation of the Puerto Rico Property was undertaken in early 2009 by consulting geologist W. Noel McAnulty, Jr. The Puerto Rico, San José, and Zaragoza underground workings were surveyed, the geology was mapped, and rock chip samples were collected. Level maps and cross sections were produced from the geological data that was gathered, examples of which can be seen in Figure 17.

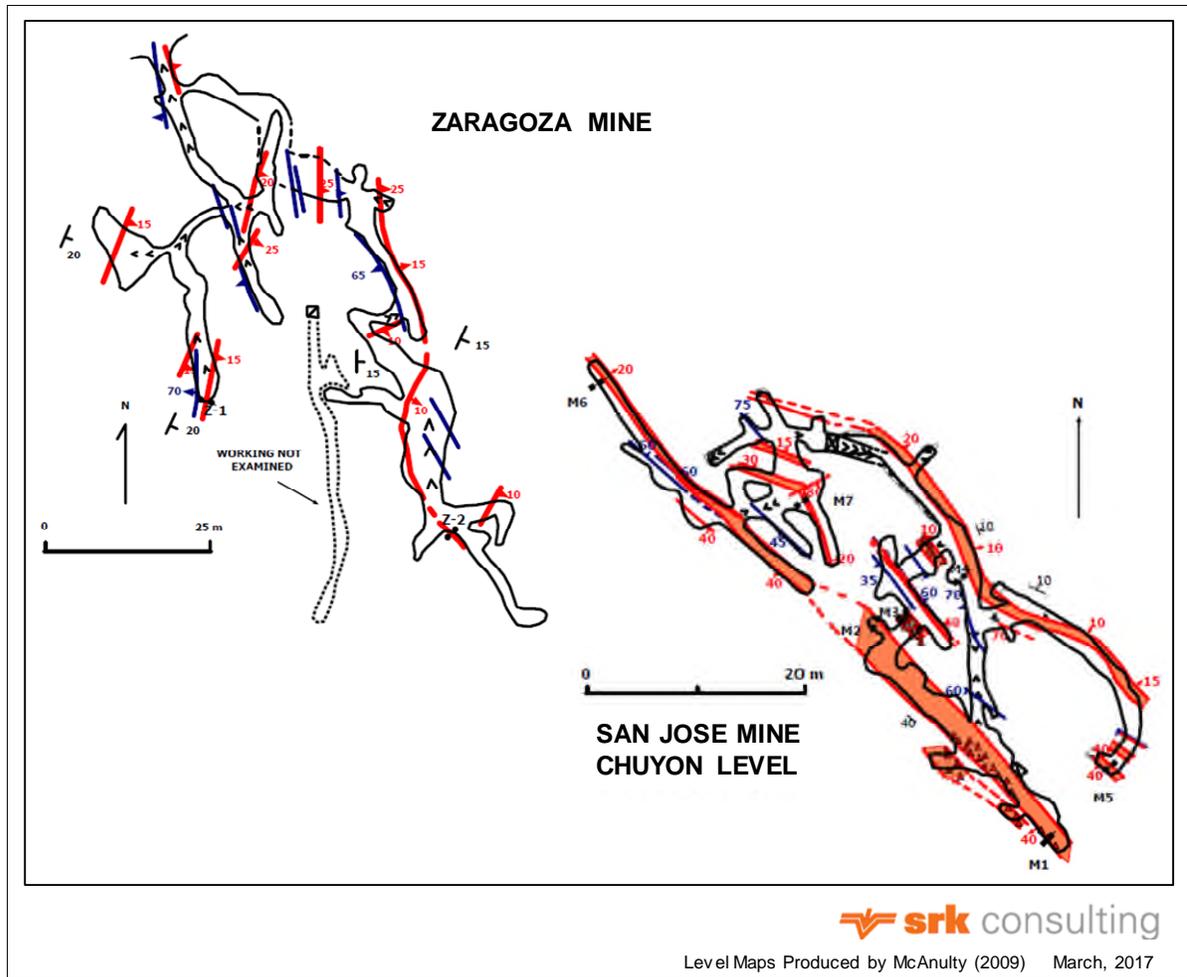


Figure 17: Level Maps Produced by McAnulty (2009) of the Zaragoza and San José Mines. Mantos and Chimneys are Illustrated in Red.

Puerto Rico Mine

McAnulty (2009) collected seven samples from the wall rock of horizontal chimney workings found approximately 15 metres above the haulage level and two samples from copper mantos in the southeast drift in the Puerto Rico mine (

Table 6). McAnulty suggests that previously mined material would likely have had even higher grades than those collected in 2009.

Table 6: Analytical Results of Samples from the Puerto Rico Mine by McAnulty (2009)

Sample Number	Ag ppm	Pb %	Zn %	Cu %
PRF-1	34	0.8	29	0.009
PRF-2	124	2.9	50.5	0.018
PRF-3	94	6.4	19.5	0.025
PRF-4	409	44	17.3	0.015
PRF-5	310	38.1	37.5	0.037
PRF-6	628	46	7.7	0.051

PRF-7	680	69.8	5.5	0.039
PRF-8	204	7.2	22.5	0.000
PRF-9	<3	21.8	1.1	0.001

San José Mine

McAnulty (2009) collected five chimney samples and two mantos samples on the Chuyon level of the San José underground workings and observed that chimneys contained high values of copper with associated zinc and notable, but low silver values, and generally low lead values (Table 7). Conversely, mantos exhibit high lead and zinc values, mostly as oxides, with high silver and relatively low copper. Mercury, antimony, and molybdenum are elevated in mantos which McAnulty (2009) interpreted as being indicative of a relatively low temperature of mineralization, whereas chimneys reflect a later, higher-temperature stage of mineralization.

Table 7: Analytical Results of Samples from the San José Mine by McAnulty (2009)

Sample Number	Cu %	Zn %	Pb %	Ag ppm	Au gpt	Mo ppm	Hg ppm	Sb ppm
Chimneys								
SRM-1	11.4*	1.1	0.2	110	0.01	200	15	158
SRM-2	2.7	3.1	4.5	120	0.01	94	210	85
SRM-3	2.4	1.3	0.4	29	<0.005	39	54	33
SRM-5	4.9	0.5	0.4	40	0.01	52	24	43
SRM-6	6.7	0.3	0.4	68	0.01	76	24	77
Mantos								
SRM-4	0.6	35	21	601	0.03	1734	1534	1989
SRM-7	0.2	33	20	485	0.01	142	1034	566

* McAnulty (2009) suggests the high copper value reported likely reflects inadvertent nugget effect in sampling or assaying.

Zaragoza Mine

McAnulty (2009) collected two samples from different mantos in the Zaragoza underground workings. Although only two samples were collected, McAnulty (2009) noted that one manto was copper-bearing and the other was not, and that the mercury and antimony values were higher than what was observed in the San José mine (Table 8). Abundant barite was observed as gangue in the Zaragoza workings.

Table 8. Analytical Results of Samples from the Zaragoza Mine by McAnulty (2009)

Sample Number	Cu %	Zn %	Pb %	Ag ppm	Au gpt	Mo ppm	Hg ppm	Sb ppm
Z-1	0.2	17.3	10.2	227	<0.005	14	783	618
Z-2	6.1	9.5	3.3	202	<0.005	60	111	248

Drilling

Drilling by CRM and MMAJ 1977–1982

Core drilling on the Puerto Rico Property was executed jointly by the Consejo de Recursos Minerales (CRM) and the Metal Mining Agency of Japan (MMAJ) from 1977 to 1982. A total of 16 core boreholes were drilled; 11 holes were drilled in the Papicuano area, two holes were drilled 400 metres southeast of Venus area, and three holes were drilled west of the Norias Fault (Figure 18, Table 9). Few details of the core drilling are available; graphic logs with assays are accessible for boreholes BD-20 to BD-32, with the exception of BD-25, for which no information is available.

Drilling results were summarized by McNulty (2009) and are included in the subsections below. SRK reviewed the location of the core boreholes and noted that the reported collar coordinates do not coincide with the actual locations. Borehole locations within this report have been updated to reflect the validation easting and northing coordinates collected by SRK.

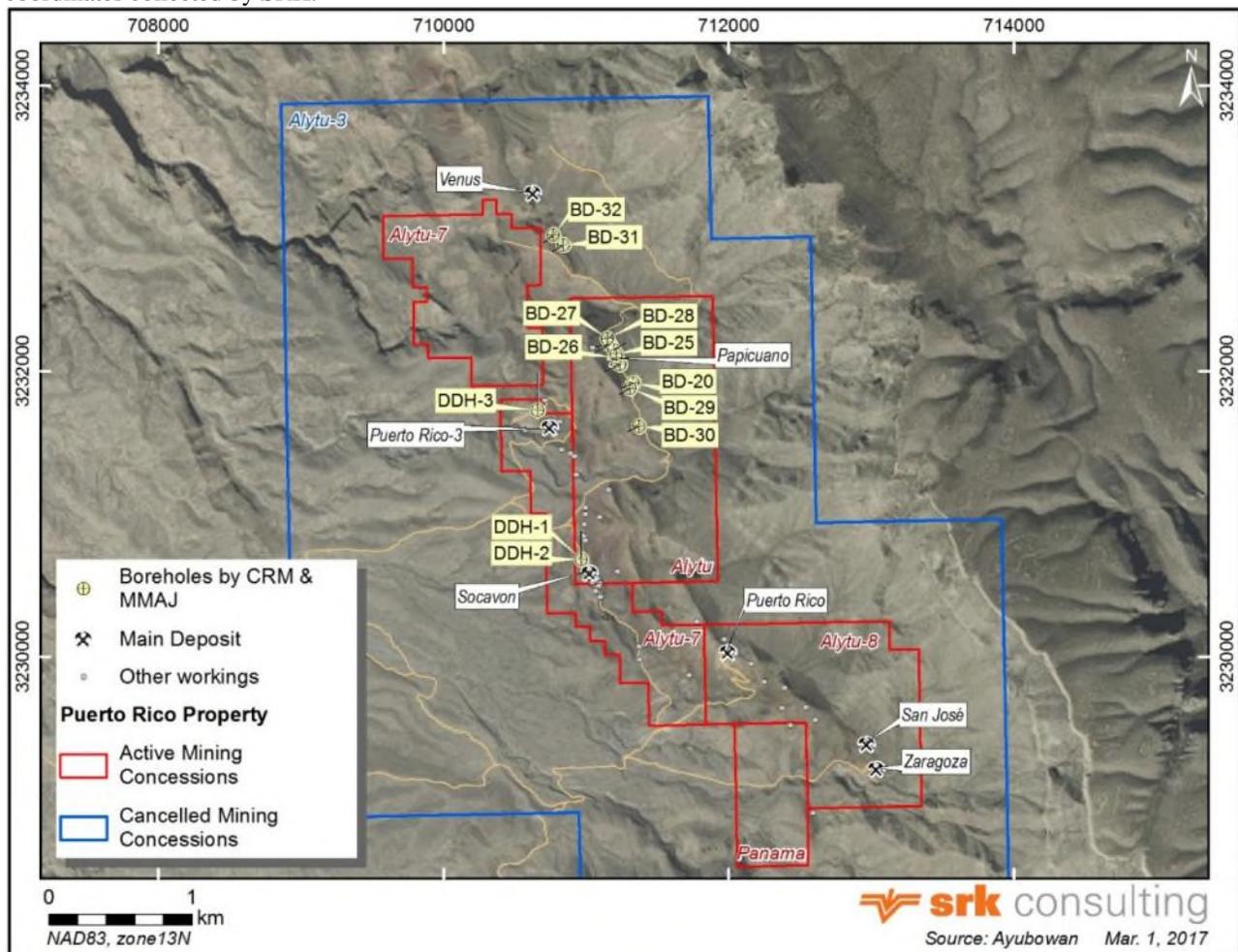


Figure 18: Map Showing the Distribution of Drilling on the Puerto Rico Property

Table 9: Summary of Drilling Executed by CRM and the Metal Mining Agency of Japan

Borehole ID	End Date	Easting*	Northing*	Elevation	Azimuth	Dip	Length (metres)	Target
DDH-1	Nov 1977	710,966	3,230,680	964		-90	130.50	W of Las Norias Fault
DDH-2	Jan 1978	710,966	3,230,680	957		-90	200.20	W of Las Norias Fault
DDH-3	Mar 1978	710,658	3,231,726	985		-90	270.00	W of Las Norias Fault
BD-20	May 1981	711,329	3,231,916	1,160	245	-70	250.10	Papicuan area

BD-21	Sep 1981	711,239	3,232,047	1,160	245	-55	222.45	Papicuano area
BD-22	Dec 1980	711,167	3,232,188	1,145	240	-60	258.65	Papicuano area
BD-23	Feb 1981	711,167	3,232,188	1,145	260	-60	200.95	Papicuano area
BD-24	Apr 1981	711,194	3,232,148	1,150	60	-60	200.40	Papicuano area
BD-25	N/A	711,210	3,232,121					
BD-26	May 1981	711,212	3,232,094	1,151	240	-70	100.00	Papicuano area
BD-27	July 1981	711,149	3,232,229	1,149	60	-45	204.80	Papicuano area
BD-28	Aug 1981	711,149	3,232,229	1,149	70	-70	145.30	Papicuano area
BD-29	Sep 1981	711,306	3,231,881	1,160	240	-45	127.20	Papicuano area
BD-30	May 1981	711,372	3,231,616	1,140	245	-45	136.10	Papicuano area
BD-31	Mar 1982	710,843	3,232,883	1,115	240	-50	151.10	SE of Mina Venus
BD-32	Mar 1982	710,769	3,232,953	1,120	230	-50	151.20	SE of Mina Venus
Total							2,748.95	

* Easting and northing coordinates collected by SRK.

West of Las Norias Fault

The drilling of boreholes DDH-1, DDH-2 and DDH-3 utilized a TGM-5A-type drill machine from Japan. Both NQ and BQ drill bit sizes were used on the three holes, and the average core recovery was 88.4%. Drilling water was pumped from a well at Ejido las Norias and transported by truck with a 10-tonne capacity carrying tank; the water was stored on-site in two plastic water tanks. Drill core was transported to a CRM warehouse in Sabinas, approximately 300 kilometres southeast, where core logging took place.

Drilling of the three boreholes west of the Las Norias Fault was based primarily on the results of the geochemical and geophysical surveys previously conducted. DDH-1 was drilled to investigate anomalous results from the geochemical exploration program, where a weak IP anomaly was also recognized. Silver, copper, lead and zinc anomalies from the geochemical exploration program, along with anomalies identified from the IP and EM geophysical surveys lead to the drilling of borehole DDH-2. Borehole DDH-3 targeted an anomalous zone identified from both the IP and EM geophysical surveys, although no geochemical anomalies were identified.

Base metal mineralization in the three holes drilled west of the Las Norias Fault zone was found to be generally weak. MMAJ (1978) reported veins filled with calcite and iron oxide accompanied with oxidized lead and zinc minerals in borehole DDH-2 and summarized notable intersections as follows:

- A 0.12-metre-thick oxide vein intersected at 56.55 metres depth yielded 1.7 parts per million (ppm) silver, approximately 0.8% zinc, 0.1% lead, and trace copper;
- A one-metre-thick fractured zone with a network of veinlets intersected at 57.35 metres depth yielded 2.9 ppm silver, approximately 0.9% zinc, 0.1% lead and trace copper;
- A 0.25-metre-thick oxide vein intersected at 58.95 metres depth yielded 16.1 ppm silver, approximately 2.2% zinc, 0.2% lead and trace copper;

- A 0.2-metre-thick oxide vein intersected at 131.65 metres depth yielded 17.6 grams per tonne silver, approximately 4.4% zinc, 0.1% lead, and 0.05% copper.

Papicuario Area

In the Papicuario area, boreholes were collared along a strike length of approximately 550 metres on the eastern flank of the anticline and angled to the southwest toward the anticline axis.

Boreholes BD-27 and BD-28 were drilled in the northern Papicuario area and were collared at the same location. Borehole BD-27 did not intersect significant mineralization; the highest reported silver values were 10 to 16 ppm in scattered intercepts in the upper 20 metres of the borehole, maximum lead values were approximately 0.02%, the maximum zinc value reported was 0.08% with additional narrow intercepts of approximately 0.04%, and copper values were of trace amounts. Borehole BD-28 intersected scattered weak mineralization in the upper 50 metres, in which several intercepts of less than one metre of 10 to 20 ppm silver were found with associated lead and zinc values below 1%. Both holes intersected an approximately 10-metre-wide monzonite body at a depth of approximately 50 metres.

Boreholes BD-22 and BD-23 were collared at the same location and both reported to have intersected good values of lead and zinc, and moderate silver near surface. A 1.5 metre intercept averaging 6.4% lead, 3.5% zinc, and 35 ppm silver at a depth of four metres in core borehole BD-23 was reported. The same zone in borehole BD-22 reported a 2.9 metre intercept averaging 5.9% lead, 1.6% zinc, and 44 ppm silver. An approximately 15-metre-wide monzonite sill was intersected in both boreholes at a depth of approximately 65 metres. High zinc values are reported in several intercepts above and below the monzonite, and within the monzonite in borehole BD-22; a maximum zinc value of 13% was reported, with several intervals greater than 6%. Accompanying lead values are relatively low; however, up to 5% lead is reported in some intercepts. Silver values accompanying the high zinc are enriched, but low; silver values average approximately 20 ppm in core borehole BD-22 and approximately 8 ppm in borehole BD-23.

Borehole BD-24 also intersected good values of lead near surface. At a depth of 15 metres, a 75-centimetre intercept reported 9.5% lead, 0.3% zinc, and 62 ppm silver. An additional 1.5 metre intercept at a depth of 21 metres reported 2.5% lead, 0.15% zinc and 20 ppm silver. A monzonite sill was intersected at a depth of 70 metres and minor zinc enrichment is reported from assayed intervals near and within the sill, ranging from 0.7% to 2%.

Borehole BD-26 reported weak silver anomalies of 25 ppm to 100 ppm from three scattered narrow intervals. A 65-centimetre intercept reported 1.5% lead, 0.32% zinc, and 37 grams per tonne silver. A 12-metre-thick monzonite sill was intersected at 70 metres depth; no lead or zinc enrichment was reported from the assayed interval near and within the sill.

Boreholes BD-20 and BD-30 were drilled along the same line of section in the southeast portion of the Papicuario zone. Silver was found enriched in the upper 120 metres of borehole BD-20; one metre thick assay intervals report silver values ranging from 20 ppm to 40 ppm with accompanying lead and zinc values below 0.1%. At 116 metres depth, an 85-centimetre intercept reported 4.2% lead, 0.08% zinc and 12 ppm silver. Both holes intersected a monzonite sill at approximately 75 metres depth with scattered weakly mineralized intervals in BD-20 slightly above and below the sill. Borehole BD-30 was not mineralized; silver values of 5 ppm were reported in assayed intervals, and lead, zinc and copper values report as trace amounts.

Boreholes BD-21 and BD-29 did not intersect significant base metal mineralization. In borehole BD-21, most silver values ranged from 1 to 6 ppm, with maximum values of 61 and 40 ppm intersected at approximately 114 metres depth and 121 metres depth, respectively. A maximum content of 0.02% lead, 0.05% zinc, and trace copper were reported. Borehole BD-29 reported silver values ranging from 2 to 10 ppm, a maximum lead value of 0.01%, maximum zinc value of 0.03%, and maximum copper value of 0.01%. A monzonite dike was intersected from approximately 85 metres to 104 metres in borehole BD-21 and from approximately 93 metres to 111 metres in borehole BD-29.

Venus Mine Area

Borehole BD-31 was collared on the eastern flank of the anticline and angled toward the overturned axis of the fold. From 115 metres to 132 metres, high silver values are reported; 30 to 50-centimetre-wide assayed intercepts report silver values ranging from 107 to 311 ppm. Trace amounts of lead and zinc accompany the high silver values. A monzonite dike was intersected from 129.5 metres to 131 metres.

Borehole BD-32 reported weak silver anomalies; a 94-centimetre intercept at approximately 25 metres depth reported 60 ppm silver, a 40-centimetre intercept at approximately 26 metres depth reported 53 ppm silver, and a 45-centimetre intercept at approximately 121 metres depth reported 69 ppm silver. A maximum value of 1.58% zinc and maximum value of 0.31% lead were reported.

SRK Comments

SRK located 16 of the diamond drilling sites by the CRM and MMAJ joint venture. In all cases, the drill pad was recognizable and a cement pad was left at the collar site, but borehole numbers and drilling orientation marks were absent. A small amount of core was found near the collar location of DDH-1, DDH-2, and BD-24.

GPS locations were collected at each drill collar. Collar coordinates reported in drill reports and maps by the CRM and MMAJ do not coincide with the actual locations, and SRK therefore assigned core borehole identities on the basis of proximity to collars plotted in historical maps.

Discovery Metals has yet to undertake any drilling on the prospective mineralized zones of the Puerto Rico Property, including the Puerto Rico, San José, and Zaragoza mines. Previous drilling by the CRM and MMAJ in the Papicuano and Venus areas did not adequately target the mineralized zones, and the Puerto Rico and San José mines could not be drilled at the time as the claims were privately held. The available data regarding the historic drilling programs is limited, and more detailed and targeted drilling on the main mineralized zones of the Puerto Rico Property is warranted.

Sample Preparation, Analyses, and Security

Surficial Geochemistry Sampling by CRM and MMAJ

Geochemical samples collected from rock chip samples were sent to the Sabinas Lab of CRM for analysis. Samples were dried, crushed, and divided by conical quartering. An unspecified amount of the crushed sample was ground under 200-mesh for use in analysis. Soil samples were screened under 80-mesh, and after splitting by conical quartering were ground under 200-mesh for use in analysis.

Two grams of each sample were mixed with 10 millilitres HNO₃ concentrate, two millilitres H₂SO₄ concentrate and deionized water. The mixture was heated on a hot plate until H₂SO₄ fumes were generated and then cooled. Up to 50 millilitres of solution with 2N HNO₃ was prepared, stirred, and filtered, and then the concentrations of silver, copper, lead and zinc were determined by atomic absorption methods.

Due to the historic nature of the geochemical sampling executed by the CRM and MMAJ, and the minimal documentation of sample processing protocol, it has not been determined whether the Sabinas Lab was certified at the time of sample analyses.

Surficial Geochemistry Sampling by Freeport McMoRan

The analysis of samples collected by Freeport McMoRan was executed by Skyline Assayers & Laboratories (Skyline) from Tucson, Arizona. The laboratory is accredited ISO/IEC 17025:2005 by the American Association for Laboratory Accreditation and is independent of Freeport McMoRan. Samples collected in 2008 underwent ICP and Fire Assay-gravimetry analysis, and the samples collected at the Puerto Rico and San José mines in 2012 underwent analysis by ICP-MS.

SRK was not provided with information regarding the sampling executed by Freeport McMoRan or the associated results, and the details pertaining to sample preparation, analysis and security is minimal. Geochemical analytical results were provided to SRK in excel spreadsheet format by Discovery Metals.

Drill Sampling by CRM and MMAJ

No information is available on the sample preparation, analyses, and security procedures done on the core drilling program by CRM and MMAJ between 1977 and 1982.

Quality Assurance and Quality Control Programs

The historical exploration work documented in this technical report has reported minimal quality control measures typically set in place to ensure the reliability and trustworthiness of exploration data.

For the Freeport McMoRan sampling program, Skyline Assayers & Laboratories from Tucson, Arizona performed some lab internal quality control checks. Skyline inserted certified reference material CDN-CM-21 for gold only to sample batches GRUPO 1 to 7 collected in 2012, and tested two pulp duplicates for gold on each group of samples. The results obtained from the reference material were found to be within two standard deviations of the expected gold value in each sample batch. Certified reference material DC 70005 and PB139 for lead and zinc, and certified reference material CDN-CM-8 for copper was included by Skyline with samples collected from the Puerto Rico and San José mines in 2012. Five pulp duplicate checks were performed on this group of samples. The results obtained from known certified reference materials were within two standard deviations of the expected value.

SRK Comments

SRK is unable to directly verify the sampling preparation, analyses, and security procedures used by previous operators due to the historical nature of the work. It is SRK's opinion however that based on the available reports and based on SRK's sampling which yielded analytical results comparable with those quoted by previous operators, the results are adequate for the purpose of determining the merit of the property.

SRK recommends that the proposed exploration program incorporate robust quality control measures that involve internal and external laboratory control measures implemented to monitor the precision and accuracy of the sampling, preparation, and assaying processes. The laboratories chosen for analyses should be accredited ISO/IEC 17025:2005 for the analytical procedures used.

Data Verification

Site Visit

In compliance with the Canadian Securities Commission's requirements under National Instrument 43-101, the Puerto Rico Property was visited by Ms. Anna Fonseca, PGeo over a six-day period from February 13 to 18, 2017. During the site visit, SRK was accompanied by agricultural engineer Jesús Miguel Hernández Garza from Múzquiz and geologist Alvaro Lopez-Pico from Guadalajara who are familiar with the geology and mineralized zones in the property. Mr. Hernández holds surficial and artisanal mining rights over the property.

SRK verified the location of 16 of the drilling sites from the drill program completed by the CRM and MMAJ joint venture between 1977 and 1982. The drill pad was recognizable and a cement pad was left at the collar site of all visited borehole sites, though borehole numbers were absent. A small amount of core was found near the collar location of DDH-1, DDH-2, and BD-24.

GPS locations were measured at each drill collar with a handheld GPS device. Previously reported collar coordinates do not coincide with the actual locations, and SRK therefore assigned core borehole identities on the basis of proximity to collars plotted in historical maps.

Rock samples were collected for geochemical analyses in order to verify base metal and silver grades reported in historical exploration, the details of which can be found in Section 0 Independent Verification Sampling.

Further geological information was collected in the field to improve the understanding of the structural, stratigraphic, and alteration controls over CRD-style mineralization over the property.

Independent Verification Sampling

In order to verify historical geochemical analyses, SRK collected 33 samples on the Puerto Rico Property during the site visit: four grab samples from mine dumps or selective samples from outcrops to test specific mineralized zones, six underground grab samples, 10 rock chip samples from outcrops, and 13 underground rock chip samples (Figure 2 and

Figure 3;

Table 10). An attempt was made to collect representative rock chip samples. However, in several underground workings it was not possible and a grab sample was collected instead. The geochemical samples collected by SRK were double bagged at the sample collection site, sealed with a numbered security zap strap, and sample bags were labeled with the security strap number in permanent marker. Over the course of the site visit, samples were stored in the secured Puerto Rico camp.

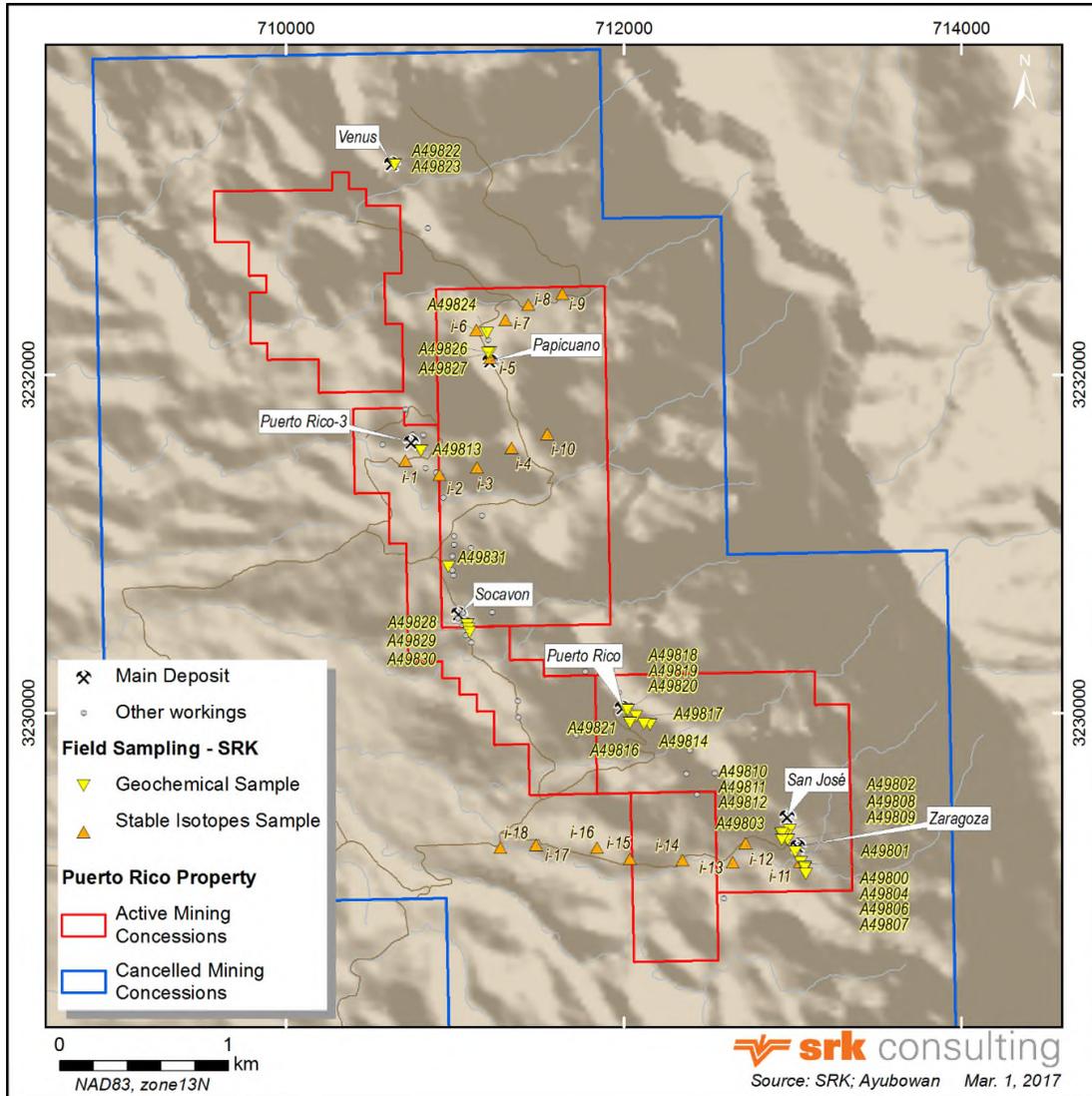


Figure 2: Location of Independent Verification Samples Collected by SRK in the Northern Portion of the Puerto Rico Property

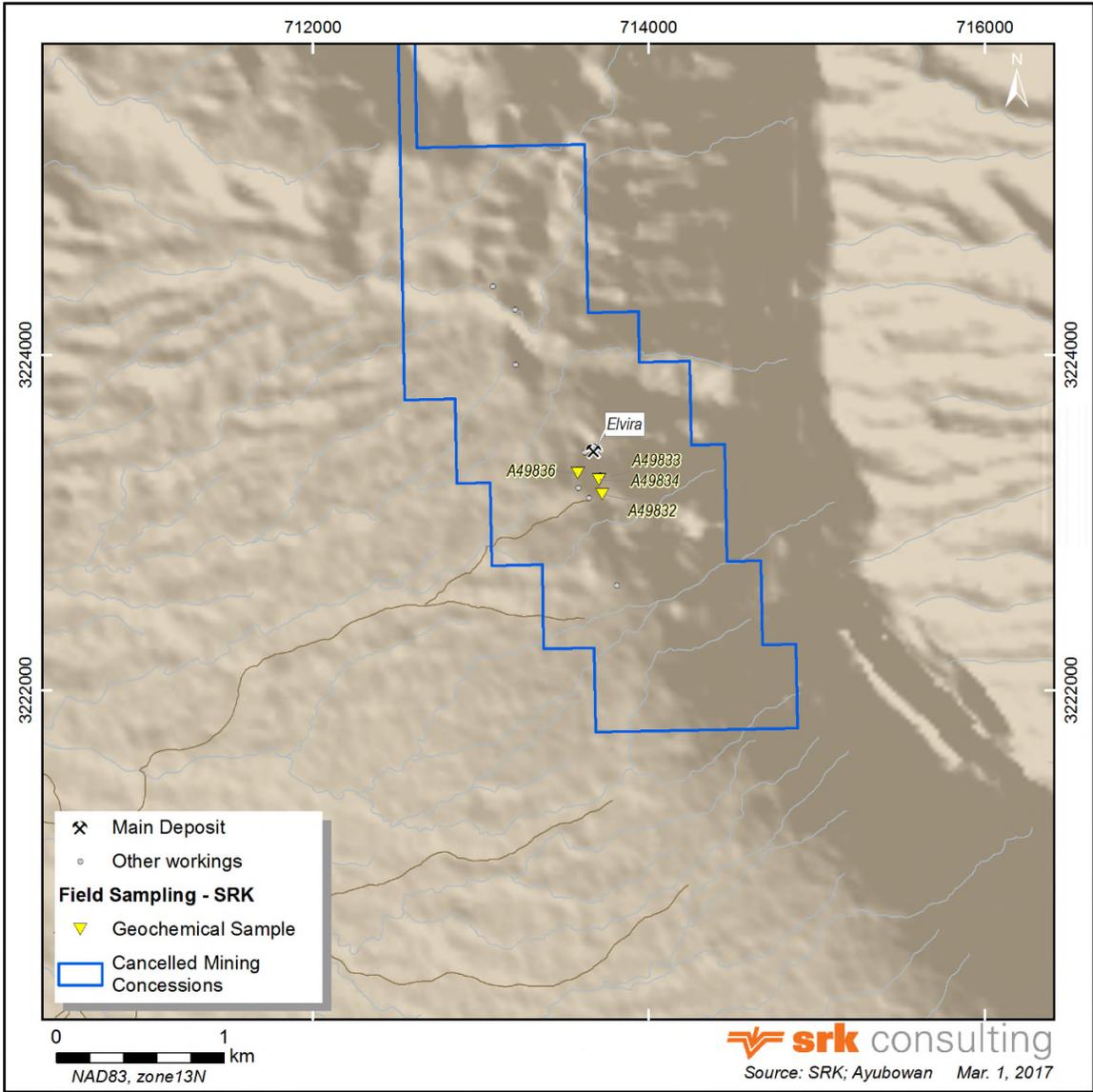


Figure 3: Location of Independent Verification Samples Collected by SRK in Proximity to the Elvira Zone

Table 10: Independent Verification Samples Collected for Geochemical Analyses

Sample	Easting	Northing	Mine	Type	Width (m)	Zn (%)	Pb (%)	Ag (ppm)	Cu (%)
A49800	713050	3229116		chip	1.0	0.1	2.4	38	0.05
A49801	713016	3229175	Zaragoza	chip	1.0	1.2	1.8	226	0.20
A49802	712982	3229304	Zaragoza	grab		0.3	14.7	220	0.16
A49803	712946	3229273	San José	grab		8.9	12.7	299	3.23
A49804*	713071	3229088	Zaragoza	chip	1.0	23.9	2.2	48	0.03
A49806	713071	3229077	Zaragoza	grab		13.4	4.2	107	0.06
A49807	713077	3229048	Zaragoza	grab		3.6	0.4	45	7.31
A49808	712968	3229250	San José	grab		1.8	0.0	58	5.54
A49809	712972	3229250	San José	chip	1.0	3.4	3.5	56	0.11
A49810	712934	3229282	San José	chip	1.0	34.2	0.7	10	0.48
A49811	712935	3229285	San José	chip	1.0	34.5	6.1	118	0.22
A49812	712936	3229250	San José	chip	1.0	0.2	0.1	17	2.05
A49813	710799	3231550	La Cubana	chip	0.5	0.6	0.6	215	8.25
A49814	712157	3229929	La Cubana	chip	1.0	0.0	0.1	5	0.02
A49816	712121	3229934	Puerto Rico	chip	2.0	10.9	0.6	28	1.78
A49817	712074	3229981	Puerto Rico	chip	1.5	13.4	4.0	157	0.11
A49818	712016	3230013	Puerto Rico	chip	0.5	15.1	2.0	280	0.02
A49819	712009	3230024	Puerto Rico	chip	1.0	42.7	4.0	180	0.02
A49820	712023	3230016	Puerto Rico	grab		26.0	15.7	309	0.02
A49821	712037	3229940	Puerto Rico	chip	0.5	1.7	1.9	3327	2.55
A49822	710644	3233244		grab		13.4	6.6	79	0.02
A49823	710644	3233238		panel		11.1	7.5	90	0.01
A49824	711190	3232244		chip	1.0	3.9	1.7	29	0.00
A49826	711209	3232131		chip	1.0	0.2	0.5	4	0.00
A49827	711196	3232127		grab		0.5	14.5	198	0.00
A49828	711076	3230522		grab		0.0	0.1	< 3	0.05
A49829	711083	3230495		chip	1.0	1.6	0.6	228	0.50
A49830	711087	3230477		chip	1.0	0.4	1.4	222	0.07
A49831	710961	3230863		grab		0.0	0.4	202	0.03
A49832	713725	3223171		chip	0.5	24.7	0.1	13	0.00
A49833	713707	3223262		chip	1.0	5.1	0.5	27	0.02
A49834	713704	3223258		chip	1.0	2.1	1.3	55	0.12
A49836	713576	3223297		chip	1.0	0.0	0.0	3	0.17

* Approximate Location

One certified reference material was inserted by SRK for each batch of ten samples. OREAS lead-zinc ore certified reference materials 131b and 133b were inserted in alternate fashion. (Table 11).

An additional 18 chip samples of limestone were collected to conduct a pilot carbon and oxygen isotopes survey along three cross-sections over the Puerto Rico Property (Figure 2, Table 12). Samples were spaced approximately 250 metres and were collected in a way to represent unaltered and unweathered limestone. In cases where the outcrop was strongly veined, some calcite vein is incorporated in the sample. The goal of the survey was to identify the magnitude of isotopic anomalies produced over known CRD-style mineralization to test if the method is a useful exploration technique in northern Coahuila carbonate rocks. The samples collected for the pilot survey were handed to Discovery Metals by SRK to submit for stable isotopes analyses if they wish.

Table 11: Reference Materials Inserted by SRK for Independent Verification Samples and the Related Analytical Results

Reference Material	Constituent	Exp. Value	Std. Dev.	A49805	A48925	A48937	A48915	A19835
OREAS 131b	Zn (%)	3.04	0.119	2.992	2.963	3.083		
	Pb (%)	1.88	0.086	1.737	1.493	1.448		
	Ag (ppm)	33.3	1.21	34.3	32.9	34.7		
	Cu (ppm)	216	11	210	220	220		
OREAS 133b	Zn (%)	11.35	0.347				10.533	10.158
	Pb (%)	5.06	0.098				3.107	4.305
	Ag (ppm)	104	2				103	101
	Cu (ppm)	327	30				320	320

Table 12: Carbon and Oxygen Isotopes Survey Samples Collected by SRK

Sample	Easting	Northing	Carbonate Facies	Texture	IRS-active Minerals	Comments
i-1	710709	3231490	lime mudstone		siderite	
i-2	710910	3231407	lime mudstone	recrystallized	calcite	Fe-oxyhydroxide altered and recrystallized, shallowly dipping
i-3	711132	3231452	grainstone	oolitic	calcite	moderately recrystallized, sparsely oolitic
i-4	711337	3231567	lime mudstone		calcite	
i-5	711209	3232099	grainstone	fossiliferous	calcite	sample collected 15 cm above an 8 cm wide white barite-calcite cemented breccia
i-6	711127	3232264	lime mudstone		calcite	very hard, weak pervasive Fe-oxyhydroxide altered
i-7	711300	3232323	packstone	fossiliferous	calcite	
i-8	711434	3232414	wackestone	fossiliferous	siderite, calcite	strongly recrystallized
i-9	711636	3232478	lime mudstone		calcite	
i-10	711548	3231650	lime mudstone		ankerite, illite	laminated poker chip calcareous shale to lime mudstone (La Pena Fm.)
i-11	713045	3229121	grainstone	fossiliferous	calcite	
i-12	712723	3229229	wackestone	sparsely fossiliferous		
i-13	712645	3229116	lime mudstone			
i-14	712347	3229128	wackestone	recrystallized	calcite	moderately recrystallized, beige
i-15	712038	3229137	lime mudstone	recrystallized	calcite	moderately recrystallized, beige
i-16	711843	3229204	grainstone	fossiliferous	calcite, illite	
i-17	711481	3229219	wackestone	recrystallized	calcite	weakly recrystallized, white
i-18	711270	3229201	wackestone	fossiliferous	calcite	

A small chip from most geochemical samples was selected for infrared spectroscopy (IRS) analyses of the altered wallrock. Analyses were conducted using an Arcoptix Rocket FT-IR spectrometer, from which data within the 1,000 to 2,600 nm range are collected. The goal of the IRS survey was to determine whether the technique can be applied to identify invisible alteration outside of the known mineralized zones. IRS spectra from samples collected for base metal assays show variations in the dominant carbonate species and local presence of the clay minerals illite, smectite, chlorite, and palygorskite. IRS spectra from samples collected for the stable isotopes survey shows variations in carbonate species, and the presence of illite in samples that lack visible alteration (Table 13). A sample from the Zaragoza mine yielded ammonium bearing clays.

All samples were triple bagged and sealed in a cardboard box along with an analytical requisition form for shipment to Actlabs Mexico S.A. de C.V. in Zacatecas. The samples were personally delivered by SRK to Coahuilense de Autobuses in Múzquiz for shipment to Actlabs. The samples were submitted for analysis by base metal assays Code 8-AR-ICP-OES, which does not have an upper detection limit. The management system of Actlabs Mexico S.A. de C.V. in Zacatecas is accredited ISO 9001: 2008 by BVQI Mexicana, S.A. de C.V. for sample preparation, mineral analysis for geological and mining samples fire assaying geochemical and assay services. The laboratory is not accredited ISO 17025 for the specific test procedures.

The analytical results of the OREAS 131b and OREAS 133b reference materials are generally lower than their expected value, but are mostly within an acceptable range. The majority of the results are found to be within two standard deviations of the expected value. Reported lead values are less than two standard deviations below the expected value in four out of the five reference material samples, and sample 48915(OREAS 133b) reported a lead value 20 standard deviations below the expected value. Although the lead values show a small low bias in the reference materials, the results for zinc, lead, silver, and copper are found to be sufficiently reliable for the purpose of determining the merit of the property.

SRK Comments

Due to the historical nature of the surficial and drilling exploration work completed by the previous operators on the Puerto Rico Property, SRK is unable to directly verify the sampling methodology and results. SRK however is of the opinion that based on the available reports, the results are adequate for the purpose of assessing the merit of the property.

SRK recommends that the proposed exploration program incorporate robust quality control measures that are set in place to ensure the reliability and trustworthiness of exploration data. These measures include written field procedures and independent verifications of aspects such as drilling, surveying, sampling and assaying, data management, and database integrity. Appropriate documentation of quality control measures and regular analysis of quality control data are important as a safeguard for project data and form the basis for the quality assurance program implemented during exploration.

Analytical control measures should include internal and external laboratory control measures implemented to monitor the precision and accuracy of the sampling, preparation, and assaying processes. They are also important to prevent sample mix-up and monitor the voluntary or inadvertent contamination of samples. Assaying protocols typically involve regular duplicate and replicate assays and insertion of quality control samples. Check assaying is typically performed as an additional reliability test of assaying results. The laboratories chosen for analyses should be accredited ISO/IEC 17025:2005 for the analytical procedures used.

Table 13: Results from Infrared Spectroscopy Survey Conducted by SRK

Sample	NH	Illite	Smectite	Ankerite	Siderite	Magne- site	Calcite	Dolomite	Chlorite	Palygors- kite	Gypsum
A49800							x				
A49802					x						
A49803							x				
A49804				x							x
A49806	x										
A49807					x						
A49808											

A49809	x			x
A49810				
A49811	x		x	
A49812		x		
A49813	x			
A49814				x
A49816				x
A49817				x
A49818			x	x
A49818_white				
A49819			x	x
A49820		x		
A49820B				x
A49821	x			x
A49822				
A49822B		x	x	
A49824				x
A49826	x			x
A49828	x		x	
A49828	x			
A49829	x		x	
A49832		x	x	
A49833		x		x
A49834				x
A49836	x			
S11			x	
S12				x
S13				x
S14				x
S15				x
S16				x
S17				x
S18			x	x
S19				x
S110	x	x		
S111				x
S116				x
S114				x
S115	x			x
S117				x
S118				x

Mineral Processing and Metallurgical Testing

There are no known mineral processing or metallurgical testing analyses that have been carried out on the Puerto Rico Property.

Mineral Resource and Mineral Reserve Estimates

There are no known mineral resources or mineral reserves on the Puerto Rico Property.

Interpretation and Conclusions

The Puerto Rico Property is an early stage, carbonate-hosted polymetallic exploration project located approximately 250 kilometres by road from Melchor Múzquiz in northern Coahuila State, Mexico. The area has a long history of

polymetallic mining, with lead-silver CRD style mineralization at the Puerto Rico Property first discovered in 1883, and subsequently at the more southerly San José site. Minor production has occurred intermittently since that time. Artisanal mining started again in 2004 and continues to this day. There are reported to be over 200 historical workings in the district, with the Puerto Rico and San José mines accounting for over 90% of the mined tonnage. Non-mechanized artisanal mining over the past three years has resulted in the sale of approximately 10,000 tonnes of nominal 20% zinc to a base metal processing plant in Monclova (Caldwell 2016).

The Puerto Rico Property is located within the Maderas del Carmen Biosphere Reserve. Mining is not prohibited in the areas currently being exploited by artisanal miners. Additional permits will be required for exploration and an environmental impact study is necessary for exploration activities involving surface roads and drill pads. Planned exploration programs will require careful environmental considerations.

The property includes regional-scale structures that served as major hydrothermal fluid corridors:

- Two regional scale unconformities are exposed in the core of a partly-eroded overturned anticline.
- The Las Norias listric normal fault and a parallel fault further to the east.
- A conjugate fault set controls the location of high grade chimneys in favourable limestone beds and along intersections.
- Property scale thrust faults have known CRD-style mineralization predominantly in the hanging wall.

Variations in the anticline axis orientation can explain the high-grade CRD-style mineralization in Puerto Rico, San José, and Zaragoza mines since certain bends in normal faults exploiting thrusts and fold axial surfaces have potential to develop dilatational jogs during normal reactivation.

Sampling within the existing workings by McAnulty in 2009 and by SRK for this technical report confirm the potential of the property. At Puerto Rico, the nine samples collected by McAnulty averaged 26.3% lead, 21.2% zinc, and 276 ppm silver and the six samples collected by SRK averaged 4.7% lead, 18.3% zinc, 714 ppm silver, and 0.75% copper. In addition, the six samples collected by SRK at the San José mine averaged 3.9% lead, 13.8% zinc, 93 ppm silver and 1.9% copper, and the five samples collected at the Zaragoza mine averaged 4.7% lead, 8.5% zinc, 129 ppm silver, and 1.6% copper.

After review, the exploration data were found to be sufficiently reliable to support the assessment of the merit of the property as an exploration project, but the quantity and quality of data is insufficient to support mineral resource modelling. Nevertheless, the exposed CRD mineralization in the existing deposits and its geological setting in the fertile backbone of Mexico indicates good potential for the polymetallic mineralization to extend at depth and along strike of the existing workings.

SRK is not aware of any significant risks and uncertainties that could be expected to affect the reliability or confidence in the exploration information discussed herein.

Recommendations

In the opinion of SRK, the character of the early stage Puerto Rico Property is of sufficient merit to recommend an exploration program designed to identify and prioritize exploration targets and investigate selected targets with drilling. Implementation of the proposed program will satisfy the minimum work commitment requirements to qualify the Puerto Rico Property as a qualifying property for the purpose of supporting a change of business listing application as a Tier 2 company on the Toronto Stock Exchange. The proposed exploration program also satisfies the terms of the Puerto Rico option agreement.

The recommended work program includes ground and airborne geophysical surveys, geological and structural mapping, geochemical sampling, reverse circulation and core drilling, and geological and resource modelling. Detailed mapping of the Las Norias fault and parallel faults should be executed to identify subtle bends in favourable orientations for mineralization, thrust faults should be mapped, and the internal carbonate stratigraphy of the Cupido Formation should be defined. Surficial exploration methods should be employed to characterize and test the unconformities where they are still covered by the upper limb of the overturned anticline, and to test the copper

anomalies along the unconformable contacts at the core of the anticline. Induced polarization survey lines should be completed over exploration targets, including the Puerto Rico, San José, and Zaragoza mines to assist with sub-surface imaging of the structural geometry of the targets in preparation for drilling. Drilling in the second phase of exploration should initially focus on testing the down-dip and along strike extent of the known mineralization at the Puerto Rico, San José, and Zaragoza mines. Existing roads at the Puerto Rico, San José and Zaragoza mines can be utilized to access drill sites at each working, where seven angled HQ core boreholes of approximately 100 to 150 metres in length are recommended to be drilled toward the northeast. The strong IP and geochemical anomalies associated with the Paleozoic schist also warrant further investigation, and should be considered as part of the drilling program.

Other workings, namely the Papicuano, Socavón, Venus and Elvira zones should be investigated to confirm historical information and the presence of carbonate replacement-style mineralization, and ascertain their geological and structural setting. Any encouraging results should be followed up with drilling. Additionally, Crosta analysis of Landsat-8 visible and infrared data by SRK identified a colour anomaly similar to that of the main mineralized trend to the northwest of the Elvira area, outside of the Puerto Rico Property. This area should be investigated with geochemical sampling to determine the anomaly's merit as an additional exploration target.

Although the mineralized zones of highest and immediate interest are found within active concessions, the recommended work program should also incorporate the necessary measures to ensure the re-instatement of mining concession Alytu 3.

The proposed work program involves two phases, which are estimated to cost approximately US\$693,000 and US\$6,080,000 respectively, including 10% contingency (Table 14). Advancement to the second phase of exploration is not contingent on the positive results of phase 1. The results of the first phase of exploration will assist in determining the areas of focus for exploration and resource definition in the second phase of exploration.

Table 14: Estimated Cost for the Exploration Program Proposed for the Puerto Rico Property

Work Program	Phase 1 Cost (US\$)	Phase 1 Cost (Cdn\$)⁽¹⁾	Phase 2 Cost (US\$)	Phase 2 Cost (Cdn\$)⁽¹⁾
RC and Core Drilling (Estimated at \$200 per metre)			\$3,000,000	\$3,750,000
Drill Core Assaying and Geochemistry			\$900,000	\$1,125,000
Geology, Soil and Rock Sampling	\$50,000	\$62,500	\$50,000	\$62,500
Induced Polarization and Airborne Geophysics	\$200,000	\$250,000	\$100,000	\$125,000
Direct Salaries and Expenses	\$250,000	\$312,500	\$500,000	\$625,000
Land Holding Costs	\$80,000	\$100,000	\$80,000	\$100,000
Permitting and Environmental	\$50,000	\$62,500	\$50,000	\$62,500
Metallurgical Testing			\$50,000	\$62,500
Resource Estimation			\$50,000	\$62,500
Engineering			\$20,000	\$25,000
Administrative			\$800,000	\$1,000,000
Total	\$630,000	\$787,500	\$5,600,000	\$7,000,000

Work Program	Phase 1 Cost (US\$)	Phase 1 Cost (Cdn\$)⁽¹⁾	Phase 2 Cost (US\$)	Phase 2 Cost (Cdn\$)⁽¹⁾
Contingency (10%)	\$63,000	\$78,750	\$480,000	\$600,000
\$	\$693,000	\$866,250	\$6,080,000	\$7,600,000

(1) Based on an exchange rate of US\$1.25 for Cdn\$1.00.

SRK is unaware of any other significant factors and risks that may affect access, title, or the right or ability to perform the exploration work recommended for the Puerto Rico Property.

Additional Properties and Additional Option Agreements

The technical information below has been reviewed by Moira Smith, Ph.D., P.Geo, who is a Qualified Person (as defined in National Instrument 43-101). The mineral concessions disclosed below are considered non-material to the Company as at the date of this Filing Statement, and no technical reports under National Instrument 43-101 have been prepared.

Renata Option Agreement

The Company entered into a mineral exploration and option agreement (the “**Renata Option Agreement**”) dated April 20, 2017, with the Vendors, providing an option to acquire a certain mineral concession (the “**Renata Concession**”) located in Ocampo, Coahuila, Mexico comprising the Renata exploration project (the “**Renata Property**”).

The Renata Property is located a few kilometres south of and in a similar geological setting as a privately held mine and may host a possible extension of high grade Zn-Pb-Ag mineralization currently being mined. The Company expects to be able to quickly drill test to confirm any mineralization at the Renata Property. At the present time, the Company considers the Renata Property non-material and a technical report under National Instrument 43-101 has not been prepared.

The Vendors collectively hold 100% title in one mineral concession forming the Renata Property that is subject to the Renata Option Agreement.

Terms of the Renata Option Agreement

Pursuant to the terms of the Renata Option Agreement, the Company may exercise the option and acquire the Renata Property on the following terms:

- (a) an aggregate cash payment of US\$100,000 to the Vendors three months from approval of the Renata Option Agreement by the Exchange; and
- (b) the Company incurring exploration expenditures on the Renata Property of not less than US\$2,000,000 within three years of the latter of the closing date and the entering into by the Company of any required land occupation or lease agreements on the subject lands.

An additional US\$100,000 payment will be due if the Company has not made a decision to keep or return the Renata Concession to the Vendors within two years.

During the term of the Renata Option Agreement, the Company may negotiate the sale and transfer of the Renata Concession to an arm’s length party, before or after making the required exploration expenditures and acquiring the Renata Property. In the event of sale, the Vendors shall receive the first US\$3,000,000 of sale proceeds, and the balance of consideration shall be split equally between the Company and the Vendors, net of any exploration expenditures already incurred.

The Company will be the operator of the Renata Property during the term of the Renata Option Agreement and is required to pay all mining duties to maintain the Renata Concession in good standing. The Company has budgeted approximately \$36,020 in connection with the Renata Property in the next 12 months.

Loan in connection with the Renata Property

Please see Part I: “*Change of Business – Loans*”.

Monclova, La Minerva, Santa Rosa and Jemi/Rare Earth Option Agreements

The Company entered into mineral exploration and option agreements with respect to the Monclova (the “**Monclova Option Agreement**”), La Minerva (the “**La Minerva Option Agreement**”), Santa Rosa (the “**Santa Rosa Option Agreement**”) and Jemi/Rare Earth (the “**Jemi/Rare Earth Option Agreement**”) properties each dated May 15, 2017, with the Vendors, providing options to acquire certain additional mineral concessions (the “**Additional Mineral Concessions**”) located in the state of Coahuila, Mexico.

Monclova Property

Monclova (the “**Monclova Property**”) is a large property centred over a 12 km² dioritic stock, intruding limestones that are affected by contact metamorphism over a distance of over 1 km from the stock margins. Multiple copper-gold rich skarns have been identified and exposed in bulldozer cuts and small shafts along the stock margins. The Real Viejo Mine area, located near the southwest margin of the stock, contains quartz veins, breccias and silicified zones with high grade silver, lead and zinc. High grade silver was mined from this area during Spanish Colonial times from several small pits and underground workings scattered over an approximate 0.5 km² area. Grab and chip sampling of historic workings and dump piles by McAnulty (2008) yielded samples with up to 2,356 g/t silver, up to 14.8% lead and up to 34% zinc. Grab samples are selective samples and are not necessarily representative of the mineralization hosted on the property. All historical workings appear to have targeted linear zones of mineralization that are open in both directions and to depth. Evidence of mining of similar high-grade silver-lead-zinc veins is also found at the Ojo de Agua prospect near the centre of the property.

Following closing the Company intends to undertake an airborne magnetics – EM survey of the entire property to identify the extent of surface and shallowly-buried magnetite-bearing skarn and sulphide mineralization. The Company will also complete detailed mapping and sampling of historic workings in the Real Viejo silver-lead-zinc vein area and the Ojo de Agua silver-leadzinc vein area. Reconnaissance geochemical sampling and mapping of the rest of the property will also be undertaken. The Company has budgeted approximately \$242,325 for this work program in the next 12 months.

For more information regarding the sample results of the Monclova Property, please see the Company’s news release dated June 1, 2017.

La Minerva Property

The La Minerva property (the “**La Minerva Property**”) consists of numerous concessions, located on the northwest flank of Sierra Minerva, an island of bedrock surrounded by broad alluvial plains. A dioritic intrusion forms the central core of the range, and is flanked by limestone and interbedded limestone and shale. In the western part of the Property, several old prospect pits, trenches and shallow shafts occur in limestone along intrusive contacts and brittle faults. Silver, lead and zinc oxides are present over a one square kilometre area. Another zone of mineralization is present in the eastern part of the property, where several old prospect pits and bulldozer trenches tested the contact of diorite with marble. Galena-cemented breccias and veinlets are present in these areas, both in marble and diorite. Moderate grade silver is present in association with galena. Both areas afford excellent road access.

Following closing the Company intends to undertake detailed mapping and sampling of the two areas of silver-lead-zinc mineralization identified in previous prospecting efforts. A ground magnetic survey of the claims will also be undertaken to determine the extent of intrusive rocks and magnetite-bearing skarn mineralization. The Company has budgeted approximately \$289,873 for this work program in the next 12 months.

Santa Rosa Property

The Santa Rosa property (the “**Santa Rosa Property**”) is located south of the Renata Property. Recessive-weathering silty limestones are locally iron-oxide stained, with elevated silver and zinc. Alteration may indicate the presence of a carbonate replacement (CRD) system at depth.

Following closing the Company intends to undertake grid-based soil sampling and rock sampling of the previously identified zone of alteration with anomalous silver, lead and zinc concentrations. The Company has budgeted approximately \$36,020 for this work program in the next 12 months.

Jemi/Rare Earth Property

The Jemi/Rare Earth property (the “**Jemi/Rare Earth Property**”) is located over Sierra La Vasca, an island of bedrock cored by a dioritic intrusion. Flanking areas are underlain by limestones intruded by ring dykes and sills. In the Jemi area on the east side of the intrusion, grab samples from prospect pits contain elevated silver, lead, zinc and copper in skarn and quartz-sulphide veins. In the Anufo area on the northwest side of the range, narrow sills and dykes of syenite cut marble and recrystallized limestone. Many of the dykes contain an abundance of Eudialyte, a zirconium silicate mineral. Limited sampling suggests elevated rare earth elements, zirconium and platinum and palladium. Additional sampling and mapping will be needed to determine the extent and tenor of mineralization on this large property. Following closing the Company intends to undertake mapping and geochemical sampling of the Jemi CRD/historic mining area to assess the extent and tenor of silver, lead and zinc mineralization. Mapping and geochemical sampling of the rare earth minerals area will also be undertaken to assess the extent and tenor of rare earth and platinum and palladium mineralization hosted in alkaline porphyry dykes. Reconnaissance mapping and sampling of the rest of the property will also be completed to assess the potential for base metal and rare earth mineralization. The Company has budgeted approximately \$88,738 for this work program in the next 12 months.

The Vendors collectively hold 100% title in the 27 mineral concessions forming the Additional Mineral Concessions that are subject to the terms of the Monclova, La Minerva, Santa Rosa, and Jemi/Rare Earth Option Agreements.

Terms of the Monclova, La Minerva, Santa Rosa, and Jemi/Rare Earth Option Agreements

Pursuant to the terms of the Monclova, La Minerva, Santa Rosa, and Jemi/Rare Earth option agreements, the Company may exercise its option and acquire the underlying concessions that are subject to each option agreement on the following terms:

- (a) the Company incurring exploration expenditures of not less than US\$2,000,000 per option agreement within five years; and
- (b) the issuance to the Vendors of an aggregate 1,000,000 Discovery Metals Shares in respect to three of the option agreements in connection with the La Minerva Property, Santa Rose Property and the Jemi/Rare Earth Property, and the issuance of 2,000,000 Discovery Metals Shares in respect of the option agreement governing the Monclova Property.

In addition, on approval of the Monclova, La Minerva, Santa Rosa, and Jemi/Rare Earth option agreements by the Exchange, the Company has agreed to pay back taxes on the Monclova concessions of approximately US\$48,000, and to make a cash payment to the Vendors of US\$70,000 with respect to the La Minerva concessions.

The Company will be the operator of the Additional Minerals Concessions during the term of the Monclova, La Minerva, Santa Rosa, and Jemi/Rare Earth option agreements and is required to pay all mining duties to maintain the underlying concessions in good standing.

La Kika Option Agreement

The Company entered into a mineral exploration and option agreement (the “**La Kika Option Agreement**”) dated June 7, 2017, with the Vendors, providing option to acquire the La Kika mineral concession located in the state of Coahuila, Mexico.

La Kika Property

The La Kika property (the “**La Kika Property**”) hosts silver-lead-zinc carbonate replacement mineralization, hosted in Mesozoic limestone. Mineralization is exposed as both mantos and a prominent high-angle breccia zone in underground workings extending in a north-south direction for approximately 110 metres, and to a depth of approximately 25 metres. Mineralization in the workings is open in all directions. Numerous prospect pits are scattered over a 200 x 200 metre area. Mineralized material remaining in the walls of underground workings and dump piles has been examined using a hand-held Niton™ portable XRF analyzer. While routinely used in industrial settings to measure metal content of alloys, etc., a single measurement of elemental abundance with a Niton™ analyzer is not a substitute for an assay at an accredited lab, as, in this context, it only measures elemental abundances on exposed rock surfaces and not within the body of the rock. However, with repeated measurements over a rock face, it can provide a semi-quantitative indication of the tenor of mineralization. The Niton™ testing returns values frequently exceeding 1,000 grams/ton silver and 30% combined lead and zinc in mineralized areas of the underground workings and dump piles at La Kika. The timing of historic mining is unknown. The La Kika Property has not seen any modern exploration or drilling. The remainder of the property is virtually unexplored.

Following closing, the Company intends to establish road access to the main prospect area and begin exploration to establish the extent of silver-lead-zinc mineralization exposed in the underground workings and prospect pits.

At the present time, the Company considers the La Kika concession non-material and a technical report under National Instrument 43-101 has not been prepared. Subject to Exchange review, a technical report may be required prior to, or following closing of the Principal Transaction, for the La Kika concession. The Company has budgeted approximately \$505,775 for this work program in the next 12 months.

Terms of the La Kika Option Agreement

Pursuant to the terms of the La Kika Option Agreement, the Company may exercise its option and acquire the underlying La Kika concession on the following terms:

- (a) reimbursing USD\$45,000 to the Vendors on closing;
- (b) the Company incurring exploration expenditures of not less than US\$2,000,000 within five years, half of which is a firm expenditure commitment; and
- (c) the issuance to the Vendors of an aggregated 1,000,000 Discovery Metals Shares.

In addition, the Company has agreed to pay the Vendors a royalty on the first 450,000 tonnes of ore extracted by the Company from the La Kika concession. The royalty will equal 30% of the operating profits in the event that the Company undertakes direct shipping operations, or a 2% net smelter return otherwise.

The Company will be the operator of the La Kika concession during the term of the La Kika Agreement and is required to pay all mining duties to maintain the underlying concessions in good standing.

Finder's Fees

Please see Part I: “*Change of Business – Finder's Fees*”.

**PART IV:
INFORMATION CONCERNING THE RESULTING ISSUER**

Name and Incorporation

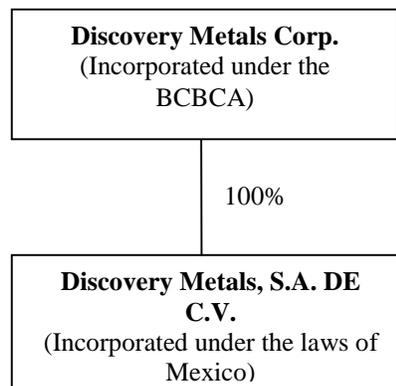
Following completion of the Proposed Transaction, the Company will continue to be a corporation governed by the BCBCA.

The Company's head office will be re-located to Toronto, Ontario, and its registered office will continue to be located at 2200-885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

Following completion of the Proposed Transaction, Discovery will commence trading on the Exchange under the symbol "DSV".

Inter-corporate Relationships

The following organizational chart sets out the corporate structure of the Company upon completion of the Proposed Transaction including its active subsidiary, its respective jurisdiction of incorporation, and the percentage of voting rights held.



Description of the Business

The Company is currently listed on NEX and it is intended that the Proposed Transaction will constitute its "reactivation" as defined under the policies of the Exchange. Upon completion of the Proposed Transaction and meeting all the conditions of the Exchange, the Company will have its listing transferred from NEX to the Exchange. The Proposed Transaction will constitute a Change of Business and the Puerto Rico Property will be the Company's Qualifying Property under Exchange policies. Upon completion of the Proposed Transaction the Company will operate as a junior mining / exploration company.

Milestones

To pursue the foregoing business objectives, the Company will target the milestones and conduct the recommended exploration programs set forth in the Puerto Rico Technical Report. See Part III: "*Information Concerning the*

Puerto Rico Property and Additional Properties".

The Company will utilize the proceeds from the Concurrent Financing to finance its operations going forward, being primarily the recommended exploration work on the Puerto Rico Property. The balance of the proceeds will be used to fund preliminary exploration work on the other properties optioned by the Company as detailed in Part III: "*Information Concerning the Puerto Rico Property and Additional Properties*".

Exploration and Development

See Part III: "*Information Concerning the Puerto Rico Property and Additional Properties – Recommendations*".

Description of Securities

The share capital structure of the Resulting Issuer will be the same as the share capital structure of Discovery Metals and the rights associated with each Resulting Issuer Share will be the same as the rights associated with each Discovery Metals Share. See *Part II: "Information Concerning the Company - Description of Securities"*.

Discovery Metals Shares are currently listed on NEX. Upon completion of the Proposed Transaction, it is contemplated that Discovery Metals Shares will be listed for trading on the TSX Venture Exchange as a Tier 2 issuer subject to the approval of the TSX Venture Exchange. See "*Forward-Looking Information*".

Pro Forma Capitalization

The following table sets forth the capitalization of the Resulting Issuer after giving effect to the Proposed Transaction.

Designation of Security	Amount Authorized	Amount Outstanding After Completing the Change of Business transaction, upon conversion of the Subscription Receipts	Amount outstanding as at June 30, 2017
Common Shares	Unlimited	64,982,699	32,669,999
Preferred Shares	Unlimited	Nil	Nil

Fully-Diluted Share Capital

In addition to the information set out in the capitalization table above, the following table sets out the diluted share capital of Discovery Metals after giving effect to the Proposed Transaction.

	Number of Resulting Issuer Shares	Percentage of Total
Discovery Metals Shares held by Discovery Metals Shareholders before completing the Proposed Transaction	32,669,999	31.93%
Outstanding Discovery Metals Warrants before completing the Proposed Transaction	Nil	Nil
Discovery Metals Shares to be issued to the Vendors as on closing of the Proposed Transaction	500,000	0.49%
Discovery Metals Shares to be issued to certain finders on closing of the Proposed Transaction in connection with the Puerto Rico Option Agreement	209,500	0.20%
Discovery Metals Shares issued in connection with the Concurrent Financing, upon conversion of the Subscription Receipts ⁽¹⁾	31,603,200	30.88%
Discovery Metals Warrants issued in connection with the Concurrent Financing, upon conversion of the Subscription Receipts ⁽¹⁾	31,603,200	30.88%

	Number of Resulting Issuer Shares	Percentage of Total
Discovery Metals Warrants issued for finder's fee in connection with the Concurrent Financing	1,244,460	1.22%
Discovery Metals Options	4,500,000	4.40%
Total Number of Diluted Securities ⁽²⁾	102,330,359	100%

(1) Includes Units issued in payment of certain finder's fees due in connection with the Concurrent Financing.

(2) Excludes any additional shares which may be issuable pursuant to all option agreements and finder's fee agreements. In order to exercise its options on the Puerto Rico Property and the Additional Properties, the following additional Discovery Metals Shares will be issued to the Vendors: an aggregate of 2,500,000 Discovery Metals Shares, and the issuance of that number of Discovery Metals Shares representing the Thirty Percent Interest in connection with Puerto Rico Option Agreement; 1,000,000 Discovery Metals Shares in connection with the Jemi/ Rare Earth Option Agreement; 1,000,000 Discovery Metals Shares in connection with the La Minerva Option Agreement; 1,000,000 Discovery Metals Shares in connection with the Santa Rosa Option Agreement; 2,000,000 Discovery Metals Shares in connection with the Monclova Option Agreement; 1,000,000 Discovery Metals Shares in connection with the La Kika Option Agreement. The Company will also issue that number of Discovery Metals Shares to certain finders equal to 5% of any Discovery Metals Shares issued in connection with the acquisition of the Additional Mineral Concessions on exercise of any of the Additional Option Agreements.

Available Funds and Principal Uses

Following completion of the Proposed Transaction, Discovery Metals expects to have the following funds available to it on a consolidated basis:

Estimated working capital of Discovery Metals as at June 30, 2017	\$438,095 ⁽¹⁾
Net Proceeds from Concurrent Financing	\$15,283,075
Total	\$15,721,170

Discovery Metals intends to use these funds as set out in the following table:

Anticipated Use of Funds	Amount
Transaction Costs ⁽²⁾	\$125,000
Proposed work program (Phase 1) on Puerto Rico Property ^{(3) (4)}	\$926,250
Proposed work programs (Phase 1) on the Additional Properties ^{(3) (5)}	\$1,198,750
Cash payments in connection with the Puerto Rico Option Agreement ⁽³⁾	\$750,000
Cash payments in connection with the Additional Option Agreements ⁽³⁾⁽⁶⁾	\$328,750
Reserved for Phase 2 Budget – Puerto Rico	\$2,600,000
General and Administrative Expenses ⁽⁷⁾	\$2,100,627
Working Capital	\$7,691,793
Total	\$15,721,170

(1) Includes the Loans which will be offset on closing against certain cash payments that are due.

(2) Consisting of legal fees, filing fees, accounting fees and other professional advisory fees related to the Proposed Transaction.

- (3) Based on an exchange rate of US\$1.25 for Cdn\$1.00.
- (4) In addition to the budgeted work program, this figure includes personnel costs of \$60,000.
- (5) Comprised of: \$36,020 (Renata Property); \$289,873 (La Minerva Property); \$242,325 (Monclova Property); \$88,738 (Jemi/ Rare Earth Property); \$36,020 (Santa Rosa Property) and \$505,775 (La Kika Property).
- (6) The Company has budgeted the following cash payments, upon the Company exercising its option under each applicable option agreement: \$60,000 (Monclova Property); \$87,500 (La Minerva Property); \$125,000 (Renata Property); and \$56,250 (La Minerva Property).
- (7) Comprised of: \$774,550 (management and employee wages and benefits); \$300,000 (director and advisory board fees); \$384,000 (investor relations and communication costs); \$406,463 (general office, rent and insurance costs); \$113,000 (accounting, audit and legal fees); \$49,614 (transfer agent, listing and filing fees); and \$73,000 (travel and entertainment).

Based on current projections, Discovery Metals' working capital available for funding ongoing operations is expected to meet its expenses for a minimum period of approximately 12 months commencing immediately after the completion of the Proposed Transaction.

Any proceeds received from the exercise of incentive stock options or any warrants will be added to the general working capital of Discovery Metals.

Notwithstanding the foregoing, there may also be circumstances where, for sound business reasons, a reallocation of funds may be necessary for Discovery Metals to achieve its objectives. Discovery Metals may require additional funds in order to fulfill all of Discovery Metals' expenditure requirements to meet its objectives, in which case Discovery Metals expects to either issue additional shares or incur indebtedness. There is no assurance that additional funding required by Discovery would be available if required.

Dividends

There will be no restrictions in the Discovery Metals' articles or elsewhere which would prevent Discovery Metals from paying dividends subsequent to the completion of the Proposed Transaction. However, it is not contemplated that any dividends will be paid on Discovery Metals Shares in the immediate future following the completion of the Proposed Transaction, as it is anticipated that all available funds will be invested to finance the growth of Discovery Metals' business. The directors of Discovery Metals will determine if, and when, dividends will be declared and paid in the future from funds properly applicable to the payment of dividends based on Discovery Metals' financial position at the relevant time. All of Discovery Metals Shares are entitled to an equal share in any dividends declared and paid.

Principal Securityholders

To the knowledge of the directors and senior officers of Discovery Metals as of the date hereof, there are no shareholders (other than securities depositories) which are anticipated to own of record or beneficially, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of Discovery Metals after giving effect to the Change of Business and the issuance of common shares, upon conversion of the Subscription Receipts, and pursuant to the Concurrent Financing, other than as set out below:

Name and Municipality of Residence	Discovery Metals Shares After Giving Effect to the Proposed Transaction	Percentage of Total After Giving Effect to the Proposed Transaction⁽¹⁾
Cal Everett ⁽²⁾ Vancouver, B.C. Canada	7,000,000 common shares	10.77%

(1) Based on 64,982,699 Discovery Metals Shares issued and outstanding upon completion of the Proposed Transaction and the Concurrent Financing (upon conversion of the Subscription Receipts).

(2) Mr. Everett will own, directly and indirectly, an aggregate of 3,900,000 common shares and will have direction and control over an additional 3,100,000 common shares.

Directors and Officers

Upon completion of the Proposed Transaction, the Board of Directors and Senior Officers of Discovery Metals will be as follows:

Name and Municipality of Residence	Principal Occupation⁽¹⁾	Position with Discovery Metals After Giving Effect to the Proposed Transaction	Director Since	Number of Voting Securities Owned or Over Which Control or Direction is Exercised⁽²⁾
Taj Singh Milton, Ontario, Canada	President and Chief Executive Officer of the Company	Director, President & CEO	N/A	1,700,000 common shares
Orest Zajcew Toronto, Ontario Canada	Chief Financial Officer of the Company	Chief Financial Officer and Corporate Secretary	N/A	300,000 common shares
Mark O'Dea⁽³⁾ Vancouver, B.C. Canada	CEO of Oxygen Capital Corp.; a private fully integrated mining house; since 2012	Independent Director	June 27, 2017	6,400,000 ⁽⁴⁾ common shares
Murray John⁽³⁾ Mill Bay, B.C. Canada	<p>Managing Director and Portfolio Manager of Goodman & Company Investment Counsel from October 2012 until December 2014.</p> <p>President and CEO of Dundee Resources Ltd. from August 2004 to December 2014.</p> <p>President and CEO of Corona Gold Corporation from March 2005 to August 2015.</p> <p>President and CEO of Ryan Gold Corporation from November 2013 to December 2014.</p> <p>Director of Dundee Precious Metals Inc. from May 2005 to May 4, 2017.</p> <p>Director of Osisko Mining Inc. (formerly Oban Mining Corporation), since August 2015.</p>	Chairman and Director	June 27, 2017	1,500,000 common shares
Jesus Miguel Hernandez Garza Múzquiz Coah, Mexico	Principal of Revi Minerals S.A. de C.V., a company dedicated to open pit mining of coal and zinc deposits in Mexico.	Director	N/A	250,000 common shares
Jose Alberto Vizquerra-Benavides⁽³⁾ Toronto, Ontario Canada	Executive Vice President of Strategic Development and Director of Osisko Mining Inc.	Independent Director	N/A	272,000 common shares

(1) See biographies below for additional information with respect to each individual's principal occupation for the past five years.

(2) The number of shares disclosed in this column assumes completion of the Proposed Transaction.

(3) To be appointed to the audit committee of the Resulting Issuer upon completion of the Proposed Transaction.

(4) Big Fish Enterprises Ltd., a company controlled by Mr. O'Dea, will beneficially own, and exercise control or direction over 6,400,000 of Discovery Metals Shares, representing 9.85% of the Company's issued and outstanding common shares.

Following completion of the Proposed Transaction, 10,422,000 Discovery Metals Shares will be beneficially owned, directly or indirectly, or control or direction will be exercised by, the directors and officers of Discovery Metals in aggregate, representing approximately 16.04% of the Discovery Metals Shares anticipated to be then outstanding.

Below is a description of the experience of the proposed directors and officers of Discovery Metals upon completion of the Proposed Transaction.

Taj Singh (age: 36)

Mr. Singh is a mining executive with over 17 years of experience in corporate development, capital markets, project development, engineering and operations. In his last role, he was Vice-President of Engineering & Project Development, and Vice-President of Business Development for Mexican gold producer Timmins Gold Corp., (“**Timmins Gold**”, now Alio Gold Inc. (“**Alio Gold**”)) where he also served as the company’s Qualified Person. During his five-year tenure with Timmins Gold, Mr. Singh was responsible for overseeing the capital markets and mergers and acquisitions strategies of the company, leading the execution of numerous merger and acquisition transactions, including the acquisition of Newstrike Capital Inc. (Ana Paula Project), the acquisition of the Caballo Blanco Project and the acquisition of the El Sauzal process plant from Goldcorp Inc.. Most recently Mr. Singh oversaw the completion of the pre-feasibility study for the Ana Paula Project, the primary growth project for Alio Gold. Mr. Singh also has experience with Macquarie Capital Markets as a sell-side gold analyst, with Inco Limited and Vale Limited in operations and is the author of US and European patents in the field of base metal processing. Mr. Singh is a Professional Engineer (P.Eng), a Chartered Professional Accountant (CPA), and holds a Bachelor of Engineering (Metallurgical) from the University of Toronto and a Master of Engineering (Metallurgical) from McMaster University.

In his capacity as director, President and CEO, Mr. Singh will devote approximately 100% of his time to the business and affairs of Discovery Metals.

Orest Zajcew (age: 55)

Mr. Zajcew has over ten years experience as a Chief Financial Officer and Corporate Secretary for a number of TSX, TSXV and CSE listed exploration companies. From 2005 to 2015 he was CFO for Ryan Gold Corp. and Corona Gold Corporation until these companies, along with Eagle Hill Exploration Corp., were acquired by Oban Mining Corp. to form what is now known as Osisko Mining Inc. He was also CFO for a number of other companies such as Odyssey Resources Limited, Cogitore Resources Inc. and AgriMarine Holdings Inc. Mr. Zajcew received his doctorate in Political Science from the University of Toronto in 1998. He has been a CFA charterholder since 2001.

In his capacity as CFO, Mr. Zajcew will devote approximately 100% of his time to the business and affairs of Discovery Metals.

Dr. Mark O’Dea, PhD., P. Geo. (age: 49)

Dr. O’Dea has played leadership roles in founding, financing and building numerous mining companies, creating over \$3 billion in shareholder value. As co-founder, CEO and Director, he grew Fronteer Gold Inc. (“**Fronteer Gold**”) from start-up to its sale in 2011 to Newmont Mining, which included the spin-out of Pilot Gold. Dr. O’Dea also co-founded and served as CEO and Director of Aurora Energy which was sold to Paladin in 2011. He co-founded True North Nickel, which was sold to Royal Nickel in 2014, and most recently co-founded and served as Executive Chairman of True Gold Mining, which built the Karma Gold Mine in Burkina Faso. True Gold was sold to Endeavour Mining in 2016. He is the founder of Oxygen Capital, and currently serves as Chairman of Pilot Gold and as Director of Pure Gold Mining and NexGen Energy. He has received numerous business and industry awards, including the Globe and Mail’s Top 40 Under 40, winner of the EY Entrepreneur Of The Year™ 2014 Pacific mining and metals category, and the AMEBC’s Murray Pezim Award for perseverance and success in financing mineral exploration.

In his capacity as an independent director, Mr. O’Dea will devote approximately 10% of his time to the business and affairs of Discovery Metals.

Murray John (age: 58)

Prior to his retirement in December 2014, Mr. John was President and Chief Executive Officer of Dundee Resources Limited, a private resource-focused investment company, and Managing Director and a Portfolio Manager with Goodman Investment Counsel, where he was responsible for managing resource and precious metals focused mutual funds and flow-through limited partnerships. Mr. John is a former President and Chief Executive Officer of Corona Gold Corporation and Ryan Gold Corp. He is also a lead director of Osisko Mining Inc., formerly Oban Mining Corp., and a former director of Dundee Precious Metals Inc. and several other public companies. He has been involved with the resource investment industry since 1992 and has worked as an investment banker, buy-side mining analyst, sell-side mining analyst and portfolio manager. Mr. John graduated from the Camborne School of Mines in 1980 with a B. Sc (Hons) in mining engineering and has extensive industry experience working as a mining engineer for Strathcona Mineral Services Ltd., Nanisivik Mines Ltd. and Eldorado Nuclear Limited. He also received a Master of Business Administration from the University of Toronto in 1992.

In his capacity as director, Mr. John will devote approximately 10% of his time to the business and affairs of Discovery Metals.

Jesus Miguel Hernandez Garza (age: 48)

Mr. Garza holds a degree in Industrial Engineering from the University Regiomontana located in Monterrey Nuevo León, Mexico, and holds a Masters degree in Environment and Administration. He is a principal of Revi Minerals S.A. de C.V., a company dedicated to open pit mining of coal and zinc deposits in Mexico. He has also been involved in the mining of gravel, fluorite and barite in Mexico and has held positions in state and municipal governments where he maintains a number of key government relationships. He is a former employee of Freeport McMoran at the Puerto Rico Project, where he also held the title of Manager of Social Management. Mr. Garza is a resident of the local Ejido which owns surface rights around the Puerto Rico Project.

In his capacity as director, Mr. Garza will devote approximately 10% of his time to the business and affairs of Discovery Metals.

Jose Alberto Vizquerra-Benavides (age: 37)

Mr. Vizquerra is currently Executive Vice President of Strategic Development & Director at Osisko Mining. For over four years, Mr. Vizquerra served as the President & CEO of Oban Mining Corp. (“**Oban**”), where he led the successful change of business strategy that resulted in Oban’s acquisition of Corona Gold, Eagle Hill Exploration Corp. and Ryan Gold to form what is now Osisko Mining. Mr. Vizquerra previously worked as Head of Business Development for Compania de Minas Buenaventura, prior to which he worked as production and exploration geologist at the Red Lake gold mine. He is currently a board member of Alio Gold Inc. Mr. Vizquerra holds a M.Sc. from Queens University in MINEX, and is a Qualified Person (AIGP).

In his capacity as director, Mr. Vizquerra-Benavides will devote approximately 10% of his time to the business and affairs of Discovery Metals.

Advisory Committee

On completion of the Proposed Transaction, Arturo Bonillas, Cal Everett, Craig Roberts, Moira Smith and Sean Tetzlaff will be appointed to the Company’s advisory committee. Mr. Bonillas will serve as Chairman of the advisory committee.

Arturo Bonillas, Eng.

Mr. Bonillas has been involved in the Mexican mining and exploration sector for over 35 years. Most recently, he was President of Timmins Gold, where over his 10-year tenure he oversaw the transition of the company from exploration and development to a mid-tier gold producer. Prior to Timmins Gold, Mr. Bonillas spent three years with Mexican silver developer Silvermex Resources Inc., where he was Co-Founder and President. He also spent three years as the General Manager of Latin America for Continuum Resources Ltd. and oversaw the development of the San Jose del Progreso project in Oaxaca, Mexico which was later sold to Fortuna Silver Mines Inc. Mr. Bonillas has also had operational and financial roles with Compania Minera de Cananea (now owned by Grupo Mexico) and Minera de Real de Angeles (Placer Dome Inc. / Empresas Frisco joint venture). Mr. Bonillas has

extensive experience in corporate social responsibility and government relations as it pertains to Mexican mining and he has an impeccable track record in community relations over his career. In 2017, Mr. Bonillas was awarded the prestigious Ostotakani Award, which is given to distinguished leaders in the Mexican mining industry. Mr. Bonillas holds a B.Sc. degree in Industrial Engineering from the University of Arizona.

Cal Everett, B.Sc. Economic Geology

Mr. Everett is President and Chief Executive Officer of Liberty Gold. He is a geologist with more than 14 years of surface and underground exploration experience with senior mining companies. Mr. Everett moved to the financial sector in 1990, and spent 12 years with BMO Nesbitt Burns focused on resource equities, and seven years with PI Financial Corp. in senior resource institutional sales and capital markets. From 2008 to 2015, he was President and Chief Executive Officer of Axemen Resource Capital. Mr. Everett holds a Bachelor of Science degree in Economic Geology from the University of New Brunswick.

Craig Roberts, B.A.Sc. Mining Engineering, M.Phil. Management Studies, P.Eng.

Mr. Roberts is a mining engineer with 35 years of operations, consulting, and investment banking experience. For the last 20 years Mr. Roberts has worked as a mining investment banker with First Marathon Securities, National Bank Financial, PI Financial, and Axemen Resource Capital, focused on institutional equity financing and merger and acquisition advisory mandates in the mining sector. Previous to this Mr. Roberts worked 7 years with Wright Engineers/Fluor Corporation, focused on feasibility studies of various mining projects worldwide. Prior to this Mr. Roberts held senior management positions for the construction and 5 years of operation of a new underground coal mine in British Columbia. Mr. Roberts holds a B.A.Sc. degree in Mining Engineering from UBC, an M.Phil. in Management Studies from Oxford University, and is registered as a Professional Engineer (Mining) in British Columbia. Mr. Roberts has taught Mineral Economics and Mine Services courses at UBC and is former Chair of the Mineral Economics Society of the Canadian Institute of Mining, Metallurgy, and Petroleum.

Moira Smith, Ph.D., P.Geo.

Dr. Smith is Vice-President Exploration and Geoscience with Liberty Gold. Formerly Chief Geologist, Nevada, for Fronteer Gold, Dr. Smith was instrumental in the successful advancement of Long Canyon, Fronteer Gold's flagship project. She developed an understanding of the geology and controls on mineralization at Long Canyon, and built the geological model for ongoing exploration and resource growth. Prior to Fronteer Gold, she served as U.S. Exploration Manager, Senior Geologist and Project Manager for Teck Resources Ltd., where she managed exploration programs for several high-profile, advanced-stage projects throughout the Americas, including the 5.5 million ounce Pogo gold deposit, now in production; the 1.5 billion tonne Petaquilla Cu-Mo-Au porphyry deposit in Panama; and the 3.5 million ounce El Limon gold deposit in Mexico. Dr. Smith has a Ph.D. in geology from the University of Arizona and is a P.Geo. (British Columbia). She has held board or executive positions with numerous industry associations and was formerly a Councilor and Fellow of the Society of Economic Geologists.

Sean Tetzlaff, CPA, CA

Mr. Tetzlaff is an experienced financial professional with over 25 years of experience in the mining industry. He has been responsible for the successful execution of numerous equity investments, asset divestitures and merger and acquisitions transactions over his career. Mr. Tetzlaff currently serves as Chief Financial Officer and Corporate Secretary of Pure Gold Mining Inc. and is a director of Liberty Gold. He served as Chief Financial Officer and Corporate Secretary of Blue Gold Mining Inc., which merged with Riverstone Resources Inc. in 2012 to become True Gold Mining Inc., which was sold to Endeavour Mining Corporation in 2016. He served as CFO, VP Finance and Corporate Secretary of Fronteer Gold from 2005 to 2011, when it was sold to Newmont for \$2.3 billion. Mr. Tetzlaff also served as CFO of Aurora Energy from 2006 to 2008, helping the company grow from initial public offering through to the advancement of one of the world's largest undeveloped uranium deposits. Mr. Tetzlaff has a tax background, having worked with KPMG LLP from 2000 through 2004.

Promoter Consideration

No person or company will be a promoter of Discovery Metals, or has been within the two years immediately preceding the date of this Filing Statement, a promoter of Discovery Metals or a subsidiary.

Members of the Discovery Metals Board will also be eligible for the grant of Discovery Metals Options, as and when appropriate.

Corporate Cease Trade Orders or Bankruptcies

During the past ten years, none of the proposed directors, officers and promoters of Discovery Metals or a securityholder anticipated to hold a sufficient number of securities of Discovery Metals to affect materially control of Discovery Metals were directors, officers or promoters of any person or company that, while that person was acting in that capacity, was the subject of a cease trade order or similar order or an order that denied the other issuer access to any exemptions under applicable securities law for a period of more than 30 consecutive days, or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

Other than as disclosed below, none of the proposed directors, officers or promoters of Discovery or a securityholder anticipated to hold a sufficient number of securities of Discovery to affect materially control of Discovery Metals has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable securityholder.

Murray John remains a director of African Minerals Limited, a company that appointed an Administrator in Insolvency in March 2015.

Personal Bankruptcies

None of the proposed directors, officers or promoters of Discovery Metals, or a securityholder anticipated to hold a sufficient number of securities of Discovery Metals to affect materially control of Discovery Metals or a personal holding company of any such persons has, within the preceding ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Conflicts of Interest

There are no existing material conflicts of interest between Discovery Metals and a proposed director, officer or promoter of Discovery Metals. All of the directors, officers and promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of Discovery Metals. Accordingly, any conflicts of interest between a director, officer and/or promoters and Discovery Metals which may arise, if any, will be subject to the procedures and remedies as provided under the BCBCA.

Other Resulting Issuer Experience

The following table sets out the proposed directors and officers of Discovery Metals that are, or have been, within the last five years, directors, officers or promoters of other issuers that are or were reporting issuers:

Name	Name of Reporting Issuer	Trading Market	Position	From	To
Taj Singh	Alio Gold Inc. (formerly, Timmins Gold Corp.)	TSX, NYSE	Officer	September, 2012	June 2017

Name	Name of Reporting Issuer	Trading Market	Position	From	To
Taj Singh	GT Gold Corp.	TSXV	Director	November, 2016	Current
	Nevada Iron Ltd.	TSXV, ASX	Director	April, 2013	July, 2016
Orest Zajcew	AgriMarine Holdings Inc.	N/A	Director	February, 2013	June, 2015
	Ryan Gold Corp.	N/A	Officer	June, 2005	August, 2015
	Corona Gold Corporation (formerly Blue Echo Ventures Inc.)	N/A	Officer	June, 2005	August., 2015
Mark O'Dea	Liberty Gold Corp.	TSX	Director	April, 2011	Present
	Pure Gold Mining Inc.	TSXV	Director	March, 2013	Present
	NexGen Energy Ltd.	TSX, AMEX	Director	November, 2016	Present
	True Gold Mining Inc.	N/A	Director	December, 2012	April, 2016
	Blue Gold Mining Inc.	TSXV	Director	July, 2011	December, 2012
Murray John	African Minerals Limited	N/A	Non-executive Director	August, 2009	Present
	Osisko Mining Inc.	TSX	Director	August, 2015	Present
	Corona Gold Corporation	CSE	President, CEO, and Director	March, 2005	August, 2015
	Dundee Precious Metals Inc.	TSX	Director	June, 2005	May, 2017
	Ryan Gold Corporation	TSXV	Chairman & Director	December, 2010	November, 2013

Name	Name of Reporting Issuer	Trading Market	Position	From	To
Murray John	Ryan Gold Corporation	TSXV	President, CEO and Director	November, 2013	December, 2014
			Director	December, 2014	August, 2015
	CMP 2013 Resource Limited Partnership	N/A	Director, President, CEO of the General Partner	October, 2012	December, 2014
	Sprott Resource Lending Corp	TSX	Director and Compensation Committee Member	August, 2010	July, 2013
Jose Alberto Vizquerra-Benavides	Alio Gold Inc. (formerly, Timmons Gold Corp.)	TSX, NYSE	Independent Director	November, 2013	Current
	Osisko Mining Inc.	TSX	Director	October, 2012	Current
	Palamina Corp.	TSXV	Director	December, 2015	Current

Executive Compensation

In accordance with National Instrument Form 51-102F6V - *Statement of Executive Compensation*, the following is the anticipated compensation, as known, for each of the Resulting Issuer's directors and executive officers for the 12 month period after giving effect to the Proposed Transaction.

Summary Compensation Table

<i>Table of Compensation Excluding Compensation Securities</i>							
Name and position	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites	Pension value (\$)	Value of all other compensation (\$)	Total compensation (\$)
Taj Singh Director, President and CEO	\$275,000	Nil ⁽¹⁾	Nil	Nil	Nil	Nil	\$275,000
Orest Zajcew CFO	\$170,000	Nil ⁽²⁾	Nil	Nil	Nil	Nil	\$170,000
Mark O'Dea Director	\$35,000	Nil	Nil	Nil	Nil	Nil	\$35,000
Murray John Director	\$45,000	Nil	Nil	Nil	Nil	Nil	\$45,000
Jesus Miguel Hernandez Garza Director	\$25,000	Nil	Nil	Nil	Nil	Nil	\$25,000
Jose Alberto Vizquerra-Benavides Director	\$35,000	Nil	Nil	Nil	Nil	Nil	\$35,000

(1) A bonus representing 70% of Mr. Singh's annual salary will be payable upon the Resulting Issuer achieving agreed objectives.

(2) A bonus representing 50% of Mr. Zajcew's annual salary will be payable upon the Resulting Issuer achieving agreed objectives.

<i>Compensation Securities</i>							
Name and position	Type of compensation security	Number of compensation securities, number of underlying securities, and percentage of class	Date of issue or grant	Issue, conversion or exercise price (\$)	Closing price of security or underlying security on date of grant (\$)	Closing price of security or underlying security at year end (\$)	Expiry date
Taj Singh Director, President and CEO	Options	500,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing
Orest Zajcew CFO	Options	300,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing
Mark O'Dea Director	Options	400,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing
Murray John Director	Options	600,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing
Jesus Miguel Hernandez Garza Director	Options	300,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing
Jose Alberto Vizquerra-Benavides Director	Options	300,000	TBD ⁽¹⁾	\$0.60	\$0.60	\$0.40	5 years from closing

(1) The date of grant will be the effective date of the Proposed Transaction.

Indebtedness of Directors and Officers

No director or officer of Discovery Metals or person proposed to be a director or officer of Discovery Metals or person who was a director or officer of Discovery Metals in the most recently completed financial year of Discovery Metals, or any Associate of any such individual, is indebted to Discovery Metals or has any indebtedness to another entity which is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Discovery Metals, other than in connection with the Loans.

Investor Relations Arrangements

No written or oral agreement or understanding has been reached with any outside person or firm to provide any promotional or investor relations activities for Discovery Metals following completion of the Proposed Transaction.

Options to Purchase Securities

The following table sets forth all options of Discovery Metals to be outstanding, as of the completion of the Proposed Transaction and conversion of the Subscription Receipts:

Persons who have received Options (as a group)	Designation and Number of Securities Under Option	Purchase Price of Securities Under Option	Date of Grant	Market Value of Securities Under Option on the Date of Grant	Expiry Date
Directors and Officers of Discovery Metals (6 persons)	2,400,000	\$0.60	TBD ⁽¹⁾	\$0.60 per share	5 years from closing
Consultants and Employees of Discovery Metals (6 persons)	900,000	TBD ⁽¹⁾	TBD ⁽¹⁾	\$0.60 per share	5 years from closing
Any other person or company ⁽²⁾	650,000	\$0.45 per share	October 3, 2016	\$0.45 per share	October 3, 2021
	550,000	\$0.45 per share	October 3, 2016	\$0.45 per share	1 year from closing

(1) The date of grant will be the effective date of the Proposed Transaction.

(2) An aggregate of 1,800,000 currently outstanding options will be cancelled on closing of the Proposed Transaction.

Stock Option Plan

The Stock Option Plan of Discovery Metals upon completion of the Proposed Transaction will be Discovery Metals' Option Plan. For a description of the Option Plan, see Part II: "Information Concerning the Company – Stock Option Plan".

Escrowed Securities

As at the date of this Filing Statement, there are no Discovery Metals Shares in escrow. 9,350,000 Discovery Metals Shares will be subject to TSXV Tier 2 Value Escrow requirements on closing of the Proposed Transaction.

The following table lists the names of Discovery Metals Shareholders who will hold Escrowed Shares following the completion of the Proposed Transaction.

Name and Municipality of Residence of Securityholder	Designation of class	Prior to Giving Effect to the Transaction		After Giving Effect to the Transaction	
		Number of securities held in escrow	Percentage of class	Number of securities to be held in escrow	Percentage of class ⁽¹⁾
Taj Singh Milton, Ontario, Canada	Common Shares	Nil	Nil	1,600,000	2.46%
Orest Zajcew Toronto, Ontario Canada	Common Shares	Nil	Nil	300,000	0.46%
Mark O’Dea Vancouver, B.C. Canada	Common Shares	Nil	Nil	6,000,000	9.23%
Murray John Mill Bay, B.C. Canada	Common Shares	Nil	Nil	1,000,000	1.54%
Jesus Miguel Hernandez Garza Múzquiz Coah, Mexico	Common Shares	Nil	Nil	250,000	0.38%
Jose Alberto Vizquerra-Benavides Toronto, Ontario Canada	Common Shares	Nil	Nil	200,000	0.31%
Total:				9,350,000	14.39%

(1) Based on 64,982,699 Discovery Metals Shares issued and outstanding upon completion of the Proposed Transaction and the Concurrent Financing (upon conversion of the Subscription Receipts).

The Escrowed Shares will be released from escrow as follows:

10%	at the time of the Final Exchange Bulletin
15%	6 months from the Final Exchange Bulletin
15%	12 months from the Final Exchange Bulletin
15%	18 months from the Final Exchange Bulletin
15%	24 months from the Final Exchange Bulletin
15%	30 months from the Final Exchange Bulletin
15%	36 months from the Final Exchange Bulletin

Auditors

Upon completion of the Proposed Transaction, Discovery’s auditor will continue to be K.R. Margetson Ltd., Chartered Accounts of Suite 210 – 905 West Pender Street, Vancouver, British Columbia.

Transfer Agent and Registrar

Upon completion of the Proposed Transaction, Discovery’s registrar and transfer agent will continue to be AST Trust Company (Canada) at its office in Vancouver, British Columbia.

PART V: RISK FACTORS

Risk Factors Related to the Proposed Transaction

Failure to obtain all Regulatory Requirements for completion of the Proposed Transaction

Completion of the Proposed Transaction is subject to, among other things, the acceptance of the Exchange and the receipt of all necessary regulatory approvals. There can be no certainty, nor can either party provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. The requirement to take certain actions or to agree to certain conditions to satisfy such requirements or obtain any such approvals may have a material adverse effect on the business and affairs of Discovery Metals or the trading price of Discovery Metals Shares after completion of the Proposed Transaction. Unless the failure to obtain required regulatory or third party approvals or consents would have a material adverse effect on either Discovery Metals or, upon completion of the Proposed Transaction, Discovery Metals, the parties will be required to complete the Proposed Transaction notwithstanding the failure to receive such consents and approvals.

Political Risk

The Company's principal assets are located in Mexico are therefore subject to Mexican federal and state laws and regulations. The risks normally associated with the conduct of business in foreign countries include various levels of political, regulatory, economic, social and other risks and uncertainties. Such risks may include, but are not limited to: local economic instability, high rates of inflation, emerging resource nationalism, restrictions on foreign ownership and activities, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits and contracts, limitations on repatriation of earnings or other currency controls, limitations on gold exports, labour unrest, invalidation of governmental orders and permits, corruption, sovereign risk, war (including neighbouring states), military repression, civil disturbances, terrorist activity, hostage taking, unanticipated changes in laws or policies, the failure of foreign parties to honour contractual relations, foreign taxation, delays or inability to obtain necessary governmental permits, and opposition to mining from environmental or other non-governmental organizations.

Mexico's legal and regulatory requirements in connection with companies conducting mineral exploration and mining activities, banking system and controls as well as local business culture and practices are, in particular, different from those in Canada. While the Company believes its exploration and development activities are currently carried out in material compliance with all applicable rules and regulations, the officers and directors of the Company must rely, to a great extent, on the Company's Mexican legal counsel and local consultants retained by the Company in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Company's business operations, and to assist the Company with its governmental relations. The Company also must rely, to some extent, on those members of management and the Board who have previous experience working and conducting business in Mexico in order to enhance its understanding of and appreciation for the local business culture and practices in Mexico. The Company also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing and tax matters in Mexico. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in Mexico are beyond the control of the Company and may adversely affect its business.

Following Completion of the Proposed Transaction, Discovery Metals may Issue Additional Equity Securities

Following completion of the Proposed Transaction, Discovery Metals may issue equity securities to finance its activities, including in order to finance acquisitions. If Discovery Metals were to issue Discovery Metals Shares, existing holders of such shares may experience dilution in Discovery Metals. Moreover, if Discovery Metals' intention to issue additional equity securities becomes publicly known, Discovery Metals' share price may be materially adversely affected.

General Risks

Limited Operating History

Discovery Metals has no history of earnings or profitability. The likelihood of success of Discovery Metals must be considered in light of the problems, expenses, difficulties, complication and delays frequently encountered in

connection with the establishment of any business. Discovery Metals will have limited financial resources and there is no assurance that additional funding will be available to it for further operations or to fulfill its obligations under applicable agreements. There is no assurance that Discovery Metals will be able to generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its plans.

Negative Operating Cash Flow and Dependence on Third Party Financing

Discovery Metals does not have a source of operating cash flow and there can be no assurance that Discovery Metals will ever achieve profitability. Accordingly, it is dependent on third party financing to continue exploration activities, maintain capacity and satisfy contractual obligations. The amount and timing of expenditures will depend on a number of factors, including in material part the progress of ongoing exploration, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the entering into of any strategic partnerships and the acquisition of additional property interests. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the Company's properties or require it to sell, one or more of its properties.

Uncertainty of Additional Funding

As stated above, Discovery Metals will be dependent on third party financing, whether through debt, equity, or other means. There is no assurance that it will be successful in obtaining required financing in the future or that such financing will be available on terms acceptable to Discovery Metals. Volatile gold markets, a claim against Discovery Metals, a significant event disrupting Discovery Metals' business, or other factors may make it difficult or impossible to obtain financing through debt, equity, or other means on favourable terms, or at all. In addition, any future financing may also be dilutive to existing shareholders of Discovery Metals.

Competitive Conditions

Discovery Metals will actively compete for resource acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other mining companies, many of which have significantly greater financial resources than Discovery Metals. Discovery Metals' competitors will include major integrated mining companies and numerous other independent mining companies and individual producers and operators.

Reliance Upon Management

Discovery Metals will be dependent upon the continued support and involvement of its principals and management. Should Discovery Metals lose the services of one or more of the principals or management, the ability of Discovery Metals to achieve its objectives could be adversely affected.

Title to Properties

Discovery Metals will diligently investigate all title matters concerning the ownership of all mining claims and plans to do so for all new claims and rights to be acquired. Discovery Metals' options to acquire mining properties may be affected by undetected defects in title, such as the reduction in size of the mining titles and other third party claims affecting the Company's interests. Maintenance of such interests is subject to ongoing compliance with the terms governing such mining titles. Mining properties sometimes contain claims or transfer histories that examiners cannot verify. Upon the exercise of its option, a successful claim that Discovery Metals does not have title to any of its mining properties could cause Discovery Metals to lose any rights to explore, develop and extract any ore on that property, without compensation for its prior expenditures relating to such property.

Conflicts of Interest

Discovery Metals Directors may become directors of other reporting companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which Discovery Metals may participate, the Discovery Metals Directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Discovery Metals and the Discovery Metals Directors will attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the Discovery Metals Directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases Discovery Metals will establish a special committee of

independent directors to review a matter in which several directors, or management, may have a conflict. Conflicts, if any, will be subject to the procedures and remedies as provided under the BCBCA. The provisions of the BCBCA require a director or officer of a corporation who has a material interest in a contract or transaction of the corporation, or a director or officer of a corporation who is a director or officer of or has a material interest in a person who has a material interest in a contract or transaction with the corporation, to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless permitted under the BCBCA, as the case may be. Other than as indicated, Discovery Metals has no other procedures or mechanisms to deal with conflicts of interest.

Permits and Licences

The operations of Discovery Metals will require licences and permits from various governmental and non-governmental authorities. Discovery Metals will obtain all necessary licences and permits required to carry on with activities which it proposes to conduct under applicable laws and regulations. However, such licences and permits are subject to changes in regulations and in various operating circumstances. There can be no assurance that Discovery Metals will be able to obtain all necessary licences and permits required to carry out exploration, development and extraction operations on its mining properties. See Part III: *“Information concerning the Puerto Property and Additional Properties”*.

Environmental and other Regulatory Requirements

Upon the exercise of its options, environmental and other regulatory requirements will affect the future operations of Discovery Metals, including exploration and development activities and commencement of production on Discovery Metals’ mining properties. Such projects will require permits from various federal and local governmental authorities and such operations are and will be governed by laws and regulations governing exploration, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Discovery Metals believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. Companies engaged in the development and operation of mines and related facilities often experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, may be necessary prior to operation of Discovery Metals’ mining properties and there can be no assurance that Discovery Metals will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of ore extraction facilities at Discovery Metals’ mining properties on terms which enable operations to be conducted at economically justifiable costs. See Part III: *“Information concerning the Puerto Property and Additional Properties”*.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Discovery Metals and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Political Regulatory Risks

Any changes in government policy may result in changes to laws affecting ownership of assets, exploration policies, monetary policies, taxation, rates of exchange, environmental regulations, labour relations and return of capital. This may affect both Discovery Metals’ ability to undertake exploration and development activities in respect of present and future properties in the manner currently contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has obtained exploration and

development rights to date. The possibility that future governments may adopt substantially different policies, which might extend to expropriation of assets, cannot be ruled out.

Competition

Significant competition exists for mining opportunities. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than Discovery Metals, Discovery Metals may be unable to acquire additional attractive mining properties on terms it considers acceptable.

Volatility of Share Price

In recent years, the securities markets in the United States and Canada, and the Exchange in particular, have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for Discovery Metals' shares will be subject to market trends and conditions generally, notwithstanding any potential success of Discovery Metals in creating revenues, cash flows or earnings.

Liquidity

Discovery Metals cannot predict at what prices the Discovery Metals Shares will trade upon completion of the Proposed Transaction, and there can be no assurance that an active trading market in the Discovery Metals Shares will develop or be sustained. Acceptance of the Exchange has not yet been obtained. There is a significant liquidity risk associated with an investment in the Discovery Metals Shares.

Dividends

At the present time it is unlikely shareholders will receive a dividend on the Discovery Metals Shares.

Mining Related Risks

No Known Mineral Reserves or Mineral Resources

There are no known bodies of commercial minerals on the Puerto Rico Property. The exploration programs undertaken and proposed constitute an exploratory search for mineral resources and mineral reserves or programs to qualify identified mineralization as mineral reserves. There is no assurance that Discovery Metals will be successful in its search for mineral resources and mineral reserves.

Exploration Risks

Discovery Metals' option to acquire the Puerto Rico Property is in early exploration stages and are without a known body of commercially exploitable ore. Exploration for mineral resources involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The risks and uncertainties inherent in exploration activities include but are not limited to: general economic, market and business conditions, the regulatory process and actions, failure to obtain necessary permits and approvals, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and management's capacity to execute and implement its future plans. The discovery of mineral deposits is dependent upon a number of factors, not the least of which are the technical skills of the exploration personnel involved and the capital required for the programs. The cost of conducting exploration programs may be substantial and the likelihood of success is difficult to assess. There is no assurance that Discovery Metals' mineral exploration activities will result in any discoveries of new bodies of commercial ore. There is also no assurance that even if commercial quantities of ore are discovered that a new ore body will be developed and brought into commercial production. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, most of which factors are beyond the control of Discovery Metals and may result in Discovery Metals not receiving adequate return on investment capital.

PART VI: GENERAL MATTERS

Sponsorship Waiver

The Company has requested a waiver from the sponsorship requirements of Exchange Policy 2.2 – *Sponsorship and Sponsorship Requirements* on the basis that a waiver would not be contrary to public interest.

Experts

The Company engaged SRK Consulting (Canada) Inc. to prepare the Technical Report. Anna Fonseca, PGeo is a “qualified person” and considered “independent”, as such terms are defined in NI 43-101. All of the scientific and technical mining disclosure contained in this Filing Statement regarding the Property has been reviewed and approved by Ms. Fonseca. The material under the heading Part III: “*Information Concerning the Puerto Rico Property*” is an extract from the Technical Report.

K.R. Margetson Ltd., Chartered Professional Accountant, prepared the audit reports for the Company relating to the financial statements of the Company for the financial years ended August 31, 2016, 2015 and 2014, and the nine-month unaudited interim period ended May 31, 2017, which are attached as Appendix “A”.

Other than as described above, no person or company who is named above as having prepared or certified a part of this Filing Statement or prepared or certified a report or valuation described or included in this Filing Statement has, or will have immediately following completion of the Proposed Transaction, any direct or indirect interest in the property or securities of Discovery Metals or any Associate or Affiliate thereof.

ADDITIONAL INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com. The Company’s shareholders can obtain copies of the Company’s financial statements and management discussion and analysis of financial results by sending a request in writing to the Company at Suite 1600 – 609 Granville Street, Vancouver, British Columbia V7Y 1C3. Financial information regarding the Company is provided in Company’s audited financial statements for the financial years ended August 31, 2016, 2015, and 2014, and for the nine-month interim period ended May 31, 2017, which are available on SEDAR at www.sedar.com and attached hereto as Appendix “A.”

CERTIFICATE OF DISCOVERY METALS CORP.

July 31, 2017

The foregoing document constitutes full, true and plain disclosure of all material facts relating to the securities of the Company assuming completion of the Proposed Transaction.

“Taj Singh”

Proposed CEO
Taj Singh

“Orest Zajcew”

Proposed CFO
Orest Zajcew

On behalf of Discovery Metals’ Board
of Directors

“Mark O’Dea”

Director
Mark O’Dea

“Murray John”

Director
Murray John

ACKNOWLEDGEMENT – PERSONAL INFORMATION

July 31, 2017

“Personal Information” means any information about an identifiable individual, and includes information in any Items in the attached Filing Statement that are analogous to Items 4.2, 11, 13.1, 16, 18.2, 19.2, 24, 25, 27, 32.3, 33, 34, 35, 36, 37, 38, 39, 41 and 42 of Form 3B2 – *Information Required in an Filing Statement for a Change of Business*, as applicable.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to Form 3B2 – *Information Required in an Filing Statement for a Change of Business*; and
- (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.

“Taj Singh”

Taj Singh

Proposed Chief Executive Officer

APPENDIX "A"
FINANCIAL STATEMENTS OF THE COMPANY

See attached.

AYUBOWAN CAPITAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

(Stated in Canadian dollars)

FOR THE YEARS ENDED

August 31, 2015 and August 31, 2014

210 -905 West Pender Street
Vancouver BC V6C 1L6
Tel: 604.641.4450
Fax: 1.855.603.3228

Independent Auditor's Report

To the Shareholders of Ayubowan Capital Ltd.:

We have audited the accompanying consolidated financial statements of Ayubowan Capital Ltd. which comprise the consolidated statements of financial position as at August 31, 2015 and 2014 and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayubowan Capital Ltd. as at August 31, 2015 and 2014 and the results of its operations, changes in deficit and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to these consolidated financial statements, which describes conditions and matters that indicated the existence of a material uncertainty that may cast significant doubt about Ayubowan Capital Ltd.'s ability to continue as a going concern.



Chartered Accountants
Vancouver, Canada
December 30, 2015

Ayubowan Capital Ltd.
Consolidated Statements of Financial Position
As at August 31, 2015 and August 31, 2014
Expressed in Canadian dollars

	August 31 2015 \$	August 31 2014 \$
ASSETS		
Cash	387	3,608
	387	3,608
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities (Note 4 e)		
- Related	494,924	357,765
- Unrelated	2,020,273	1,630,165
Debt (Note 4)		
- Related	450,000	450,000
- Unrelated	2,255,000	2,255,000
Total Liabilities	5,220,197	4,692,930
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	14,306,039	14,306,039
Equity portion of convertible debt (Note 4 b)	301,230	301,230
Contributed surplus	971,279	971,279
Deficit	(20,798,357)	(20,267,870)
Total Shareholders' Equity	(5,219,810)	(4,689,322)
	387	3,608

Nature of operations and going concern (Note 1)

Approved on behalf of the Board of Directors

/s/ "David G. Nelson" Director
David G. Nelson

/s/ "Gordon J Herdman" Director
Gordon J. Herdman

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

Ayubowan Capital Ltd.
Consolidated Statement of Operations and Comprehensive Income (Loss)
For the years ended August 31, 2015 and August 31, 2014
Expressed in Canadian dollars

	2015	2014
	\$	\$
Operating Expenses		
General and administrative	55,202	41,911
Interest on debt - Related	93,176	83,141
Interest on debt - Unrelated	382,108	431,461
	<u>530,487</u>	<u>556,513</u>
Operating Loss	(530,487)	(556,513)
Other Income		
Recovery of accounts receivable previously written off	-	1,197
Forgiveness of debt (Note 4 a)	-	682,356
	<u> </u>	<u> </u>
Net income (loss) and comprehensive income (loss) for the year	<u>(530,487)</u>	<u>127,040</u>
Basic and diluted income (loss) per share	<u>(0.4534)</u>	<u>0.1086</u>
Weighted average number of shares outstanding		
Basic and diluted	<u>1,169,998</u>	<u>1,169,998</u>

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

Ayubowan Capital Ltd.
Consolidated Statements of Changes in Shareholders' Deficit
For the two year period from August 31, 2013 to August 31, 2015
Expressed in Canadian dollars

	Number of Shares	Amount \$	Equity portion of Convertible Debt \$	Contributed Surplus \$	Accumulated Deficit \$	Total \$
Balance at August 31, 2013	1,169,998	14,306,039	301,230	971,279	(20,394,910)	(4,816,362)
Net income and comprehensive income for the year					127,040	127,040
Balance at August 31, 2014	1,169,998	14,306,039	301,230	971,279	(20,267,870)	(4,689,322)
Net loss and comprehensive loss for the year					(530,487)	(530,487)
Balance as at August 31, 2015	1,169,998	14,306,039	301,230	971,279	(20,798,357)	(5,219,810)

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

Ayubowan Capital Ltd.
Consolidated Statements of Cash Flows
For the years ended August 31, 2015 and August 31, 2014
Expressed in Canadian dollars

	2015	2014
	\$	\$
Cash Flows from (used in) Operating Activities:		
Net income (loss) for the year	(530,487)	127,040
Items not affecting cash:		
Accrued interest on debt	475,285	514,602
Forgiveness of debt	-	(682,356)
Changes in non-cash working capital items		
Accounts Receivable	-	1,877
Accounts payable and accrued liabilities		
- Related	43,981	4,064
- Unrelated	8,000	37,500
<hr/>		
Net cash used in operating activities	(3,221)	2,727
<hr/>		
Cash Flows from Financing activities:	-	-
<hr/>		
Cash Flows from Investing activities	-	-
<hr/>		
Increase (decrease) in cash	(3,221)	2,727
Cash - beginning of period	3,608	881
<hr/>		
Cash - end of period	387	3,608
<hr/>		
Supplementary cash flow information:		
Income taxes paid	-	-
<hr/>		
Interest paid	-	-
<hr/>		

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

1. Nature of Operations and Going Concern

Ayubowan Capital Ltd. (ACL or "the Company") was incorporated on October 10, 1986 under the laws of British Columbia and was listed on the TSX Venture Exchange (the "Exchange") in Canada. ACL's primary business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC") a national sales, marketing, underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels.

Prior to November 30, 2009 ACL initiated and funded mortgages with the goal of securitizing and selling its mortgages, resulting in a gain/loss from sale of mortgages. Origination fees were charged to customers to initiate mortgages. During the period between initiation and sale of mortgages, ACL earned a spread or interest differential between the cost of funds obtained and interest revenue earned on mortgages. On November 30, 2009 ACL announced AMC's inability to carry on a proper business due to the withdrawal of the warehouse facility and whole loan purchasing agreement by the Canadian office of an international bank. The Company then carried out a plan whereby all funded loans and other liabilities relating to the funded loans and commitments were either extinguished or taken over by an independent third party. This effectively ended all operations associated with the mortgage business. AMC permanently closed its mortgage operation on March 4, 2010.

ACL has not had an operating business after that date.

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 August 31, 2015, the Company had a working capital deficiency of \$5,219,810 (August 31, 2014 – working capital deficiency of \$4,689,322) and an accumulated deficit of \$20,798,357 (August 31, 2014 - \$20,267,870). The increase in working capital deficit resulted from accrued interest payable and was not cash related. The ability of the Company to continue as a going concern will depend upon its ability to develop a new business model or find an operating opportunity which to incorporate into its existing corporate structure, as well as its ability to secure additional financing. Although management intends to actively pursue new operational opportunities and secure additional financing as may be required, there can be no assurance that management will be successful in either of those efforts. These factors indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Statement of Compliance

These audited annual consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are prepared using IFRS in effect as at August 31, 2015 using the going concern assumption. Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in Note 3.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

These financial statements were authorized for issue on December 30, 2015, by the Board of Directors of the Company.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3. Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of ACL and its wholly-owned subsidiary, AMC. All intercompany transactions and balances have been eliminated.

b) Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These and other estimates are subject to measurement uncertainty and the effect on the consolidation financial statements of changes in these estimates and judgements could be material. Estimates and underlying assumptions and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are the critical estimates that management has made in applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements. There were no significant judgements.

(i) Taxation

Income tax on the profit or loss for the periods is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case it is recognized in other comprehensive income or in equity, respectively. Management periodically uses its judgement to evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The calculation of deferred taxes is based on a number of management's judgements including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the statement of financial position date and the likelihood of deferred tax assets being realized.

(ii) Debt

Measurement of convertible debentures uses management's estimate of cost of capital in the calculation of the equity component of the debt. Further details regarding the measurements used in the convertible debentures are provided in Note 4(b).

c) Financial Instruments – recognition and measurement

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale.

The carrying values of the Company's financial instruments are classified into the following categories:

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held-to-maturity (“HTM”)

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company’s management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other Financial Liabilities

Other financial liabilities are financial assets or liabilities with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale (“AFS”)

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company has classified its financial instruments as follows:

- (a) Cash and cash equivalents are classified as fair value through profit or loss.
- (b) Accounts payable and accrued liabilities and debt are classified as other financial liabilities.

In identifying the appropriate level of fair value, the Corporation performs a detailed analysis of the financial assets and liabilities. The inputs used to measure fair value determine different levels of the fair value hierarchy categorized as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3: Values based on valuation techniques for which any significant input is not based on observable market data.

d) Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Company does not have any other comprehensive income (loss) components and as such, comprehensive income (loss) is equal to net income (loss).

e) Convertible debenture and loans

The Company accounts for its convertible debentures/loans as financial instruments with both elements of debenture/loan and equity accounted for in accordance with the substance of the contractual arrangement on initial recognition. The debenture/loan is valued using an appropriate market rate of interest, assuming it had no conversion feature. The excess of the net proceeds

received from the debenture/loan over the fair value of the debenture/loan is allocated to the conversion feature. The estimated fair value of the conversion is recorded as components of shareholders' equity. The carrying value of the liability component is being accreted to the principal face amount as additional interest expense over the term of the liability using the effective interest rate method. As the derivative can be settled only by the issuer exchanging a fixed amount of cash or another financial assets for a fixed number of its own equity instruments, the "fixed for fixed" criteria under IFRS has been met for equity classification under IFRS. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity.

f) Stock-based compensation

Obligations for issuance of common shares under the Company's stock-based compensation plan are accrued over the vesting period using fair values. Fair values are determined at issuance using the Black-Scholes option-pricing model, taking into account a nominal forfeiture rate, and are recognized as share-based compensation with a corresponding credit to contributed surplus. As is allowed under IFRS 1, the Company has elected not to retrospectively apply IFRS 2, *Share based payments*, to equity-settled share-based payments vested prior to September 1, 2010. Further details regarding the assumptions used in the option pricing model are provided in Note 5(b).

g) Basic and diluted loss per common share

Earnings (loss) per common share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per common share is calculated using the treasury stock method, which assumes that stock options and warrants are exercised and convertible debt is converted to shares when the exercise price is below the average market price during the period, and that the Company will use any proceeds to purchase its common shares at their average market price during the period. Existing share options and share purchase warrants (consolidated as per Note 5(d)) have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share is the same for both periods presented.

a) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probably that future taxable profits will be available against which the assets can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Changes in Accounting Policies

The following IFRS standards were adopted by the Company during the year ended August 30, 2015 and had no effect on the Company's consolidated financial statements:

- a) IFRS 2, Share-based Payment ("IFRS 2"):
Amended to clarify the definition of a vesting condition and separately define performance and service conditions. The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014.
- b) IFRS 3, Business Combinations ("IFRS 3"):
Amended to clarify that an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as a financial liability or as equity on the basis of the definitions in IAS 32. Non-equity consideration is measured at fair value at each reporting date, with changes recognized in the results of operations. As well, the amendment clarifies that IFRS 3 does not apply to the formation of any joint arrangement and that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment is effective for business combinations for which the acquisition date is on or after July 1, 2014.
- c) IFRS 13, Fair Value Measurement ("IFRS 13"):
Amended to clarify that the portfolio exception in IFRS 13, which allows fair value measurement of a group of financial assets and liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.
- d) IAS 24, Related Party Disclosures ("IAS 24"):
Amended to include as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity. The amendment is effective for annual periods beginning on or after July 1, 2014.
- e) IAS 32, Financial Instruments: Presentation ("IAS 32"):
Amended to provide further clarity around details relating to the right to offset and the application of offsetting under certain circumstances. The amendment is effective for annual periods beginning on or after January 1, 2014.
- f) IAS 36 – Impairment of Assets ("IAS 36")
The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal.

Future accounting policy changes issued but not yet in effect

The following amendments to existing standards were issued by the IASB and are effective for annual periods beginning on or after January 1, 2015. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

- a) IFRS 7 – Financial Instruments: Disclosure
Applies to additional disclosures required on transition from IAS 39 to IFRS 9. The effective date of IFRS 7 is January 1, 2015. The Company is assessing the impact of this new standard, if any, on the financial statements.
- b) IFRS 9 – Financial Instruments: Classification and Measurement
Applies to classification and measurement of financial assets and liabilities as well as derecognition of financial instruments. IFRS 9 will replace IAS 39. The effective date of IFRS 9 is

January 1, 2018. The Company is assessing the impact of this new standard, if any, on the financial statements.

4. Debt

	August 31, 2015 \$	August 31, 2014 \$
Unsecured convertible loans (Notes b, b(i), b(ii), b(iii), b(iv))	2,405,000	2,405,000
Promissory notes (Note (c))	300,000	300,000
	<u>2,705,000</u>	<u>2,705,000</u>

- a) On July 21, 2008, the Company entered into a \$900,000 term loan for general and specific working capital purposes. The loan bore interest at 12% per annum and matured on January 31, 2009. In addition, the Company paid \$90,000 in the form of common shares at a price equal to a 10% discount of the 10 day volume weighted trading price of the shares at inception of the term loan. The share costs have been included in the amortized cost of the term loan. The Company extended this facility, until January 30th, 2010. Under the major terms of the agreement the Company would be required to repay the facility on or before January 30, 2010, and will be required to pay 18% compounded monthly interest rate on the outstanding balance in addition to a requirement to repay \$50,000 per month. On August 31, 2014 the holder of the debt released the Company from all liabilities relating to this loan with no exchange of assets.
- b) Convertible debenture and unsecured convertible loans include an equity component and a liability component. During the year ended August 31, 2008, the Company received total proceeds from issuances of unsecured convertible loans of \$2,405,000, of which the estimated fair value of the equity component was \$301,230 and of the liability component was \$2,103,770. The liability portion was accreted over the life of the loan notes for the face value with a charge to operations and included in interest on debt. A summary of the transaction affecting convertible debentures and unsecured convertible debt is as follows:

	Liability \$	Equity \$
Issuance of \$1,575,000 of unsecured convertible loans (Note (i))	1,377,729	197,271
Issuance of \$580,000 of unsecured convertible loans (Note (ii))	507,354	72,646
Issuance of \$250,000 of unsecured convertible loans (Note (iii))	218,687	31,313
Issuance of \$300,000 promissory notes (Note (c))	300,000	-
Accretion on unsecured convertible loans	301,230	-
	<u>2,705,000</u>	<u>301,230</u>

- (i) On May 30, 2008, the Company issued unsecured convertible loans of \$1,575,000 maturing on May 30, 2010. The total proceeds received from the issue were \$875,000 in cash and the exchange of \$700,000 matured convertible debentures previously subscribed. The unsecured convertible loans bear interest at a rate of 10% per annum and are convertible into common shares of the Company for as long as the debt remains unpaid at the election of the holder, at a conversion price of either \$0.15 per share for insiders or \$0.12 per share for other subscribers. After May 30, 2009, the unsecured convertible loans

are subject to accelerated expiry of 30 days in the event the closing trading price of the common shares of the Company is \$0.40 per share or higher over a period of 20 consecutive trading days. The unsecured convertible loans, and any shares issued upon exercise of the loans are subject to a hold period and may not be traded until October 1, 2008 except as permitted by the applicable securities law, the rules made there under, and the Exchange.

(ii) On July 21, 2008, the Company issued a second tranche of unsecured convertible loans for \$580,000 maturing on July 21, 2010. The unsecured convertible loans bear interest at a rate of 10% per annum and are convertible into common shares of the Company as long as the debt remains unpaid at the election of the holder, at a conversion price of \$0.12 per share. After July 21, 2009, the unsecured convertible loans are subject to accelerated expiry of 30 days in the event the closing trading price of the common shares of the Company is \$0.40 per share or higher over a period of 20 consecutive trading days. At any time on 30 days' notice to the note holder, during which period the holder may still elect to convert its unsecured convertible loans into common shares, the Company may prepay the whole of the outstanding principal and accrued interest thereon. The unsecured convertible loans, and any shares issued upon exercise of the loans are subject to a hold period and may not be traded until November 24, 2008 except as permitted by the applicable securities law, the rules made there under, and the Exchange.

(iii) On August 15, 2008, the Company issued a third tranche of unsecured convertible loans for \$250,000 maturing on August 15, 2010. The unsecured convertible loans bear interest at a rate of 10% per annum and are convertible into common shares of the Company as long as the debt remains unpaid at the election of the holder, at a conversion price of \$0.12 per share. After August 15, 2009, the unsecured convertible loans are subject to accelerated expiry of 30 days in the event the closing trading price of the common shares of the Company is \$0.40 per share or higher over a period of 20 consecutive trading days. At any time on 30 days' notice to the note holder, during which period the holder may elect to convert its unsecured convertible loans into common shares, the Company may prepay the whole of the outstanding principal and accrued interest thereon.

- c) On August 20, 2009 the Company issued \$300,000 of promissory notes, maturing on the earlier of February 20, 2010 or a refinancing of the Company. A condition of the promissory notes is that without the prior written consent of the term loan holder, no principal payment will be made to the holders until the term loan has been paid in full. The promissory notes bear interest at a rate of 12% per annum which is accrued but unpaid.
- d) Interest on the unsecured convertible loans, term loan and promissory notes is accrued but unpaid since November 1, 2009. The total unpaid amount as at August 31, 2015 is \$2,196,389 (2014: \$1,721,104) and is included in accounts payable.
- e) Related Party Debt

During the year ending August 31, 2015 the Company accrued interest on related party debt, which remains unpaid of \$93,176 (2014: \$83,141).

Unsecured convertible loans advanced for the business purpose of providing working capital as referred to above in Note 4(b)(i),(ii) and (iii) and promissory note as referred to in Note 4(c) above include loans from related parties who were directors and/or officers of the Company at the date of or subsequent to the date the debt was incurred and are recorded at actual value:

In addition, accounts payable and accrued liabilities included amounts owing to related parties as above as at August 31, 2015. These amounts related to unpaid interest on convertible debt and/or miscellaneous minor administrative expenses such as annual filings and Exchange fees and are recorded at actual value:

Ayubowan Capital Ltd.
Notes to Consolidated Financial Statements
For the years ended August 31, 2015 and August 31, 2014

A summary of amounts due related parties represent amounts owing to Mr. D.G. Nelson, Director and CEO or companies controlled by him is as follows:

	August 31, 2015	August 31, 2014
	\$	\$
Accounts Payable and accrued liabilities	494,924	357,765
Unsecured convertible debt	150,000	150,000
Promissory note payable	300,000	300,000
	<u>944,924</u>	<u>807,765</u>

5. Capital Stock

a) Authorized

Unlimited common voting shares with no par value
Unlimited preferred voting shares with no par value

b) Stock based compensation plan

Under its stock option plan, the Company may grant options to any director, officer, employee or consultant. The maximum number of shares which may be issuable pursuant to options granted under the Plan shall be fixed at 227,413 (2013: 227,413) (both figures have been adjusted due to the share consolidation (Note 5(d)) shares of the Company) which can be allocated to directors, officers, employees and consultants with a maximum of 5% of the issued and outstanding shares being reserved to any one person on a yearly basis. The exercise price of each option is the greater of the exercise price determined in accordance with the pricing policies of the exchange for stock options or such exercise price determined by the board. The vesting period of options granted under the plan is between 18 months and 3 years. An option's maximum term is 5 years from the date of grant. All options were fully vested by November 30, 2010 and all options expired as at April 29, 2014.

The Changes in stock options issued and outstanding during the two years ended August 31, 2015 and August 31, 2014 was as follows:

	August 31, 2015		August 31, 2014	
	Number of shares	Weighted average Exercise Price \$	Number of shares	Weighted average Exercise Price \$
Options outstanding - Beginning of year	-	-	17,000	0.10
Expired			(17,000)	
Options outstanding - End of year	-	-	-	-

At August 31, 2015 there were no stock options outstanding and exercisable.

c) Warrants

The Company has not issued any warrants.

6. Risk Management

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 are exposed to credit risk. The Company has assessed the credit risk on its cash as low as its funds are held in highly rated Canadian financial institutions.

Financial/liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. ACL has no revenues or opportunities for revenues and is reliant on cash injections from third parties to fund its operations. The Company continues to seek new investors and opportunities but if it is unsuccessful, it will cease to exist.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Management considers the interest rate risk to be minimal as at and for the year ended August 31, 2015 and 2014.

Foreign exchange risk

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not believe that it is subject to foreign exchange risk, and does not hold any funds in foreign currencies as at August 31, 2015 (August 31, 2014 – \$Nil).

7. Segmented Information

The Company operated in and management evaluated the performance of the Company as one segment. All assets were located in and all revenues earned in Canada.

8. Value of Financial Instruments

The following table illustrates the categories of the Company's financial instruments as at August 31, 2015 and August 31, 2014:

As at August 31, 2015	Fair Value Hierarchy	FVPL at fair value \$	Loans & Receivables at amortized cost \$	Other Liabilities at amortized cost \$
Cash	Level 1	387		
Accounts payable & accrued liabilities				
- related	N/A		494,924	
- unrelated	N/A		1,934,096	86,177
Debt				
- related	N/A		450,000	
- unrelated	N/A		2,255,000	

Ayubowan Capital Ltd.
Notes to Consolidated Financial Statements
For the years ended August 31, 2015 and August 31, 2014

As at August 31, 2014	Fair Value Hierarchy	FVPL at fair value \$	Loans & Receivables at amortized cost \$	Other Liabilities at amortized cost \$
Cash	Level 1	3,608		
Accounts payable & accrued liabilities				
- related	N/A		357,765	
- unrelated	N/A		1,544,488	85,677
Debt				
- related	N/A		450,000	
- unrelated	N/A		2,255,000	

The fair value of the Company's accounts payable & accrued liabilities and debt approximate their carrying values because of the short-term nature of these instruments.

9. Income Taxes

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

	2015 \$	2014 \$
Net income (loss) for the year	(530,488)	127,040
Expected income tax (recovery)	(138,000)	33,000
Permanent Difference	-	(73,000)
Adjustment for prior year's	-	311,000
Change in unrecognized deductible temporary	138,000	(271,000)
Total income tax expense (recovery)	-	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2015 \$	2014 \$
Deferred Tax Assets (liabilities)		
Canadian eligible capital (CEC)	23,000	25,000
Allowable capital losses	83,000	83,000
Non-capital losses available for future period	3,712,000	3,572,000
	3,818,000	3,680,000
Unrecognized deferred tax assets	(3,818,000)	(3,680,000)
Net deferred tax assets	-	-

The significant components of the Company's temporary timing differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	2015	Expiry Date Range	2014	Expiry Date Range
	\$		\$	
Temporary Differences				
Property and equipment	-	No expiry date	-	No expiry date
Canadian eligible capital (CEC)	90,000	No expiry date	96,000	No expiry date
Allowable capital losses	318,000	No expiry date	318,000	No expiry date
Non-capital losses available for future periods	14,277,000	2016 to 2035	13,328,000	2016 to 2034

10. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue new operational opportunities and to maintain flexible capital structure for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As at August 31, 2015, the Company had a working capital deficiency of \$5,219,810 (August 31, 2014 – working capital deficiency of \$4,689,322) and an accumulated deficit of \$20,798,357 (August 31, 2014 - \$20,267,870). The increase in working capital deficit resulted from accrued interest payable and was not cash related.

11. Management Remuneration

During the year ended August 31, 2015, \$12,000 was accrued for management fees to a company controlled by Mr. D. G. Nelson, director and CEO. No other compensation has been paid to management or directors since the Company ceased active operations on November 30, 2009. Professional fees have been incurred and paid to third parties.

AYUBOWAN CAPITAL LTD.

Consolidated Financial Statements
(Expressed in Canadian Dollars)

As at and for the years ended August 31, 2016 and 2015

K. R. MARGETSON LTD.

#210 - 905 West Pender Street
Vancouver BC V6C 1L6
Canada

Chartered Professional Accountant

Tel: 604.641.4450
Fax: 1.855.603.3228

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Ayubowan Capital Ltd.:

I have audited the accompanying consolidated financial statements of Ayubowan Capital Ltd., which comprise the consolidated statements of financial position as at August 31, 2016 and 2015 and the consolidated statements of income (loss) and comprehensive income (loss), consolidated changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ayubowan Capital Ltd. as at August 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, I draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicated the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

R.P. Macgibbon Ltd.

Chartered Professional Accountant

Vancouver, Canada
December 23, 2016

AYUBOWAN CAPITAL LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at August 31,

	2016	2015
Assets		
Current Assets		
Cash	\$ 1,059,933	\$ 387
Total Assets	\$ 1,059,933	\$ 387
Liabilities and Shareholders' Equity (Deficiency)		
Current Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 15,434	\$ 2,020,273
Amounts payable to related parties (Note 6)	-	494,924
Debt owed to unrelated parties (Notes 3 and 6)	-	2,255,000
Debt owed to related parties (Notes 3 and 6)	-	450,000
	15,434	5,220,197
Shareholders' Equity (Deficiency)		
Share capital (Note 5)	15,881,039	14,306,039
Equity portion of convertible debt (Note 3 (a))	-	301,230
Contributed Surplus	1,272,509	971,279
Deficit	(16,109,049)	(20,798,358)
	1,044,499	(5,219,810)
Total Liabilities and Shareholders' Equity (Deficiency)	\$ 1,059,933	\$ 387

Nature of Operations and Going Concern (Note 1)

Subsequent Event (Note 12)

Approved on Behalf of the Board on December 23, 2016:

"Scott Ackerman"

Scott Ackerman – Director

"Doug McFaul"

Doug McFaul – Director

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

AYUBOWAN CAPITAL LTD.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

For the years ended August 31,

	2016	2015
Expenses (Recovery)		
General and administrative (Note 4)	\$ 69,465	\$ 55,204
Interest to related parties	93,916	93,176
Interest to unrelated parties	382,255	382,108
Forgiveness of debt (Note 7)	(5,234,945)	-
Net income (loss) and comprehensive income (loss)	\$ 4,689,309	\$ (530,488)
Weighted average number of shares outstanding - basic and diluted	2,292,949	1,169,998
Basic and diluted income (loss) per share	\$ 2.05	\$ (0.45)

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

AYUBOWAN CAPITAL LTD.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Equity portion of Convertible Debt	Contributed Surplus	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
Balance, August 31, 2014	1,169,998	\$ 14,306,039	\$ 301,230	\$ 971,279	\$ (20,267,870)	\$ (4,689,322)
Loss for the year	-	-	-	-	(530,488)	(530,488)
Balance, August 31, 2015	1,169,998	14,306,039	301,230	971,279	(20,798,358)	\$ (5,219,810)
Shares issued for debt at \$0.05	1,500,000	75,000	-	-	-	75,000
Shares issued for debt At \$0.05	30,000,000	1,500,000	-	-	-	1,500,000
Debt settlement (Note 7(b))	-	-	(301,230)	301,230	-	-
Net income for the year	-	-	-	-	4,689,309	4,689,309
Balance, August 31, 2016	32,669,998	\$ 15,881,039	\$ -	\$ 1,272,509	\$ (16,109,049)	\$ 1,044,499

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

AYUBOWAN CAPITAL LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended August 31,

	2016	2015
Cash (used in) / provided by:		
Operating Activities:		
Net income (loss) for the year	\$ 4,689,309	\$ (530,488)
Item not affecting cash:		
Forgiveness of debt	(5,234,945)	-
Accrued interest on debt	476,171	475,285
Expenses paid by related party	20,576	-
Changes in non-cash working capital items:		
Accounts payables and accrued liabilities	8,434	8,000
Amounts payable to related parties	-	43,982
	(40,455)	(3,221)
Financing Activity:		
Share issuances	1,500,000	-
Payments on debt	(399,999)	-
	1,100,001	-
Change in cash for the year	1,059,546	(3,221)
Cash, beginning of the year	387	3,608
Cash, end of the year	\$ 1,059,933	\$ 387

Supplemental Disclosure of Cash Flow Information (Note 7)

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

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Ayubowan Capital Ltd. ("Ayubowan" or "the Company") was incorporated on October 10, 1986 under the laws of British Columbia and is listed on the TSX Venture Exchange (the "Exchange"). Ayubowan's original primary business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), a national sales, marketing, underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels. The Company's head office is located at Suite 1600, 609 Granville Street, Vancouver, British Columbia, V7Y 1C3, and its registered and records office is located at Suite 885 W Georgia St #2200, Vancouver, BC V6C 3E8.

Prior to November 30, 2009 ACL initiated and funded mortgages with the goal of securitizing and selling its mortgages, resulting in a gain/loss from the sale of mortgages. Origination fees were charged to customers to initiate mortgages. During the period between initiation and sale of mortgages, Ayubowan earned a spread or interest differential between the cost of funds obtained and interest revenue earned on mortgages. On November 30, 2009 Ayubowan announced AMC's inability to carry on a proper business due to the withdrawal of the warehouse facility and whole loan purchasing agreement by the Canadian office of an international bank. The Company then carried out a plan whereby all funded loans and other liabilities relating to the funded loans and commitments were either extinguished or taken over by an independent third party. This effectively ended all operations associated with the mortgage business. AMC permanently closed its mortgage operation on March 4, 2010.

Ayubowan has not had an operating business since that date.

On August 19, 2016, the Company completed a reorganization whereby new management was installed, \$1,500,000 was raised through a non-brokered private placement and \$5,234,945 in debt was eliminated through debt forgiveness and creditors' lack of ability to collect. See Debt Forgiveness – Note 6.

The Company is now in the process of searching for and evaluating new business opportunities.

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 August 31, 2016, the Company had working capital of \$1,044,499 (August 31, 2015 – working capital deficiency of \$5,219,810), Shareholder' Equity of \$1,044,499 (August 31, 2015 – Shareholders' Deficiency of \$5,219,810 and an accumulated deficit of \$16,109,049 (August 31, 2015 - \$20,798,358). The ability of the Company to continue as a going concern will depend upon its ability to develop a new business model or find an operating opportunity which to incorporate into its existing corporate structure, as well as its ability to secure additional financing. Although management intends to actively pursue new operational opportunities and secure additional financing as may be required, there can be no assurance that management will be successful in either of those efforts. These factors indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

(b) Basis of Preparation

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, AMC. All significant intercompany balances and transactions were eliminated on consolidation.

(c) Use of estimates and judgments

The preparation of the financial statements in conformity with International Financial Reporting Standards (“IFRS”) requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates

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

i. Deferred income tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

ii. Share-based payments

Determining the fair value of options and warrants requires the exercise of judgement 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

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Critical accounting estimates – continued

ii. Share-based payments - continued

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.

Critical accounting judgements

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

i. Going Concern

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in Note 1.

(d) Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

(e) Earnings per share

Basic earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted earnings represent 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.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)**(f) 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 taking into account 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 of 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.

(g) 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. The Company does not have any provisions for the years presented.

(h) Financial instrument measurement and valuation

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The measurement of the Company's financial instruments is disclosed in Note 9 to these financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(i) Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Company does not have any other comprehensive income (loss) components and as such, comprehensive income (loss) is equal to net income (loss).

(j) Income taxes

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 purpose. 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.

(k) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried on the statements of financial position at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(k) Financial assets - continued

when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized to profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized to profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – (“FVTPL”) This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried on the statements of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has classified its cash as FVTPL. The Company's accounts payable and accrued liabilities and amounts payable to related parties are classified as other financial liabilities.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(I) Recent Accounting Pronouncements

New standards adopted during the year

Effective September 1, 2015, the following standards were adopted but did not have a material impact on the financial statements:

IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9.

New standards and interpretations not yet adopted

IFRS 9: Financial instruments: Classification and Measurement: applied to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

3. DEBT

Year ended August 31	2016	2015
Unsecured convertible loans, bearing interest at 10%		
Unrelated	\$ -	\$ 2,255,000
Related	-	150,000
	-	2,415,000
Promissory note bearing interest at 12%- related	-	300,000
	\$ -	\$2,705,000

- a) Convertible debenture and unsecured convertible loans included an equity component and a liability component. During the year ended August 31, 2008, the Company received total proceeds from issuances of unsecured convertible loans of \$2,405,000, of which the estimated fair value of the equity component was \$301,230 and of the liability component was \$2,103,770. The liability portion was accreted over the life of the loan notes for the face value with a charge to operations and included in interest on debt.
- b) On August 20, 2009 the Company issued \$300,000 in promissory notes, which matured on February 20, 2010. A condition of the promissory notes was that without the prior written consent of the term loan holder, no principal payment was to be made to the holders until the term loan had been paid in full. The promissory notes bore interest at a rate of 12% per annum.
- c) Interest on the unsecured convertible loans and promissory note have been accrued annually but have not been paid since November 1, 2009.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

4. RELATED PARTY TRANSACTIONS

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.

Summary of amounts due to related parties:

Type of Service	Nature of Relationship	August 31, 2016	August 31, 2015
Promissory note payable	To an officer and director of the Company	\$ -	\$ 300,000
Unsecured convertible debt	To an officer and director of the Company	-	150,000
Accounts payable, accrued liabilities and accrued interest	To an officer and director of the Company	-	494,924
Accounts payable, accrued liabilities and accrued interest	To a company with officers and directors in common with the Company	5,250	-
Due to related parties		\$ 5,250	\$ 944,924

The remuneration of the Company's key management personnel for the years ended August 31, 2016 and 2015 is as follows:

For the year ended August 31	2016	2015
Management fees accrued to a company controlled by the former CEO and director		\$12,000
Management fees accrued to an entity of which the current CEO and director is a director of	\$5,250	

5. SHARE CAPITAL

(a) Authorized

Unlimited common shares with no par value
Unlimited preferred voting shares with no par value

(b) Shares issued

During the year ended August 31, 2016, the Company had the following share transactions:

On July 28, 2016, the Company issued 1,500,000 common shares at \$0.05 per share to settle outstanding indebtedness of \$75,000.

On August 19, 2016, the Company closed a non-brokered private placement of 30,000,000 common shares at \$0.05 per share for gross proceeds of \$1,500,000.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements
As at and for the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)

5. SHARE CAPITAL - (continued)

(b) Shares issued - continued

There were no share transactions for the year ended August 31, 2015.

(c) Stock Options

The Company has adopted a rolling 10% stock option plan ("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. Options are equity settled. 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. As at August 31, 2016, there were no stock options outstanding.

Subsequent to the year-end, on October 3, 2016, 3,000,000 stock options were granted, expiring on October 3, 2021 and exercisable at \$0.45.

6. DEBT FORGIVENESS

On August 19, 2016, the Company reorganized its debts by paying \$399,999 to creditors, who upon receipt agreed to release and forever discharge the Company from any and all indebtedness to them. The total debt forgiven was \$5,155,769 and included \$2,225,000 in convertible debt to unrelated parties, \$150,000 convertible debt payable to a previously related party, \$300,000 promissory note payable to a previously related party and \$2,880,768 in accounts payable and accrued charges, of which \$609,417 was to a previously related party.

Effective August 31, 2016, AMC reversed \$79,176 in previously recorded accounts payable and accrued charges as it no longer had a legal obligation to pay these creditors.

7. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

The significant non-cash investing or financing transactions for the year ended August 31, 2016 were as follows:

- (a) Settle amounts owing to creditors of \$75,000 by issuing 1,500,000 common shares. Of that amount, 435,000 shares, representing \$21,750, were issued to a former related party.
- (b) Equity on convertible debentures, recognized at the time the debt was issued, was reclassified as Contributed Surplus when the convertible debentures were extinguished.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

7. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - (continued)

- (c) The debt forgiveness, as per Note 7, did not require a cash payment, other than the \$399,999 noted at the outset. Accordingly the total debt extinguished during the reorganization was \$5,555,768.

There were no significant non-cash investing or financing transactions for the year ended August 31, 2015.

8. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholder's equity (comprised of issued share capital, share-based payment reserve and deficit). The Company's objectives when managing capital are to support the identification and acquisition of a new business opportunity and thus the creation of shareholder value as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response 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 August 31, 2016, 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 August 31, 2016.

9. FINANCIAL INSTRUMENTS

The fair value of the Company's accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying values due to the short term nature of the instruments. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

(a) Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENTS – (continued)

I. 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 August 31, 2016, the Company had a cash balance of \$1,059,933 to settle current liabilities of \$15,434. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at August 31, 2016, the Company has no sources of revenue to fund its operating expenditures but had closed a private placement of 30 million common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000. Management believes this financing will fund the Company's existing administrative needs for the foreseeable future. However, it may not be sufficient to fund any identified business acquisition and as such the Company will likely 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 as disclosed in Note 1. Consequently, the Company is currently exposed to a moderate level of liquidity risk.

II. 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 are exposed to credit risk. The Company has assessed the credit risk on its cash as low as its funds are held in highly rated Canadian financial institutions.

III. 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 considers it to have minimal exposure to interest rate risk as it has no interest-bearing investments or debt.

ii. Foreign currency risk

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not hold any funds in foreign currencies as at August 31, 2016 (2015 – \$Nil) and is not subject to foreign exchange risk.

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENTS – (continued)

iii. Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

10. INCOME TAXES

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

	2016	2015
Net income (loss) before taxes	\$ 4,689,309	\$ (530,488)
Expected tax (recovery) at statutory rate	1,219,000	(138,000)
Change in unrecognized deductible temporary differences	(1,219,000)	138,000
Income tax recovery	\$ -	\$ -

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2016	2015
Deferred Tax Assets (Liabilities)		
Canadian eligible capital (CEC)	\$ 22,000	\$ 23,000
Allowable capital losses	893,000	83,000
Non-capital losses available for future period	-	3,712,000
	915,000	\$ 3,818,000
Unrecognized deferred tax assets	(915,000)	(3,818,000)
Net deferred tax assets	-	-

AYUBOWAN CAPITAL LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

10. INCOME TAXES – (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	2016	2015
Temporary losses		
Canadian eligible capital (CEC) – no expiry	\$ 83,000	\$ 90,000
Allowable capital losses – no expiry	\$ 3,435,000	\$ 318,000
Non-capital losses available for future period Expire 2016 to 2035	\$ -	\$14,277,000

11. SEGMENTED INFORMATION

The Company operates in one segment being in Canada. It currently has no revenues as it investigates new business opportunities.

12. SUBSEQUENT EVENT

On October 3, 2016 3,000,000 stock options were granted; exercisable at \$0.45 per share up to and including October 3, 2021. The options vest on granting and were granted to directors and officers and a company of which a director and officers is a director.

DISCOVERY METALS CORP.
(formerly Ayubowan Capital Ltd.)

Condensed Consolidated Interim Financial Statements
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

As at and for the nine months ended May 31, 2017

Discovery Metals Corp. (formerly Ayubowan Capital Ltd.)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

As at,

	May 31, 2017	August 31, 2016
Assets		
Current Assets:		
Cash	\$ 451,522	\$ 1,059,933
GST receivable	13,129	-
Loans receivable (Note 10)	204,105	-
Total Assets	\$ 668,756	\$ 1,059,933
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 112,059	\$ 15,434
	112,059	15,434
Shareholders' Equity:		
Share capital (Note 6)	15,881,039	15,881,039
Contributed surplus (Note 6)	2,272,459	1,272,509
Deficit	(17,596,801)	(16,109,049)
	556,697	1,044,499
Total Liabilities and Shareholders' Equity	\$ 668,756	\$ 1,059,933

Nature of operations and going concern (Note 1)

Commitments and contractual obligations (Note 10)

Subsequent events (Note 11)

Approved on Behalf of the Board on July 11, 2017:

"Scott Ackerman"

Scott Ackerman – Director

"Doug McFaul"

Doug McFaul – Director

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Discovery Metals Corp. (formerly Ayubowan Capital Ltd.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the three months ended May 31,		For the nine months ended May 31,	
	2017	2016	2017	2016
Expenses				
Administration and bank charges	\$ 28,151	\$ 7,710	\$ 65,350	\$ 13,650
Interest to related parties	-	33,574	-	97,991
Interest to unrelated parties	-	99,705	-	291,822
Professional fees	129,751	-	148,180	-
Project evaluation	162,363	-	274,272	-
Share-based payments (Note 6)	-	-	999,950	-
Net loss and comprehensive loss	\$ (320,265)	\$ (140,989)	\$ (1,487,752)	\$ (403,463)
Weighted average number of shares outstanding – Basic and Diluted	32,669,999	1,169,999	32,669,999	1,169,999
Basic and diluted loss per share	\$ (0.01)	\$ (0.12)	\$ (0.05)	\$ (0.34)

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Discovery Metals Corp. (formerly Ayubowan Capital Ltd.)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Equity Portion of Convertible Debt	Contributed Surplus	Accumulated Deficit	Total Shareholders' Equity (Deficiency)
Balance, August 31, 2015	1,169,999	\$ 14,306,039	\$ 301,230	\$ 971,279	\$ (20,798,358)	\$ (5,219,810)
Net loss for the period	-	-	-	-	(403,463)	(403,463)
Balance, May 31, 2016	1,169,999	\$ 14,306,039	\$ 301,230	\$ 971,279	\$ (21,201,821)	\$ (5,623,273)
Balance, August 31, 2016	32,669,999	\$ 15,881,039	\$ -	\$ 1,272,509	\$ (16,109,049)	\$ 1,044,499
Shares based payments	-	-	-	999,950	-	999,950
Net loss for the period	-	-	-	-	(1,487,752)	(1,487,752)
Balance, May 31, 2017	32,669,999	\$ 15,881,039	\$ -	\$ 2,272,459	\$ (17,596,801)	\$ 556,697

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Discovery Metals Corp. (formerly Ayubowan Capital Ltd.)
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	For the nine months ended May 31,	
	2017	2016
Cash flows from operating activities:		
Net loss for the period	\$ (1,487,752)	\$ (403,463)
Items not involving cash:		
Share-based payments	999,950	-
Accrued interest on debt	-	389,813
Change in non-cash operating working capital:		
Accounts payable and accrued liabilities	96,625	13,374
GST receivable	(13,129)	-
	(404,306)	(276)
Cash flows from financing activities:		
Loans receivable	(204,105)	-
	(204,105)	-
Decrease in cash for the period	(608,411)	(276)
Cash, beginning of the period	1,059,933	387
Cash, end of the period	\$ 451,522	\$ 111
Supplementary information with respect to cash flows:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Discovery Metals Corp. (formerly Ayubowan Capital Ltd.) ("Discovery Metals" or the "Company") was incorporated on October 10, 1986 under the laws of British Columbia and is listed on the TSX Venture Exchange (the "Exchange") under the symbol "DSV.H". The Company's head office is located at Suite 1600, 609 Granville Street, Vancouver, British Columbia, V7Y 1C3, and its registered and records office is located at Suite 885 W Georgia St #2200, Vancouver, BC V6C 3E8.

Subsequent to the period end, on June 13, 2017 the Company's name was changed to Discovery Metals Corp. Its new trading symbol is DSV.H.

Discovery Metal's former business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), an underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels. AMC permanently closed its mortgage operation on March 4, 2010. Discovery Metals has not had an operating business since that date.

On August 19, 2016, the Company completed a reorganization whereby \$1,500,000 was raised through a non-brokered private placement and \$5,234,945 in debt was eliminated through debt forgiveness and creditors' lack of ability to collect.

On March 21, 2017 the Company incorporated a 100% wholly owned subsidiary in Mexico called Discovery Metals, S.A. de C.V. ("Discovery Mexico") to facilitate the transactions outlined in Notes 10 and 11.

Subsequent to period end, on June 8, 2017 the Company announced a non-brokered private placement (the "Offering") to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at a price of \$0.50 per subscription receipt. The proceeds of the Offering will be held in escrow pending the Company receiving all applicable regulatory approvals and completing its proposed Change of Business transaction as defined under the policies of the TSX Venture Exchange. See Note 10 and 11 for further details.

These condensed interim 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 May 31, 2017, the Company had working capital of \$556,697 (August 31, 2016 – \$1,044,499), shareholders' equity of \$556,697 (August 31, 2016 – \$1,044,499) and an accumulated deficit of \$17,596,801 (August 31, 2016 - \$16,109,049). The ability of the Company to continue as a going concern will depend upon its ability to develop a new business model or find an operating opportunity which to incorporate into its existing corporate structure, as well as its ability to secure additional financing. Although management intends to actively pursue new operational opportunities and secure additional financing as may be required, there can be no assurance that management will be successful in either of those efforts. These factors indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standard Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, using accounting policies that the Company expects to adopt in its annual consolidated financial statements for the year ended August 31, 2017. These condensed interim consolidated financial statements do not include all of the information required for the annual consolidated financial statements and should be read in conjunction with the Company’s most recent audited consolidated financial statements for the year ended August 31, 2016, which are available on www.sedar.com.

The condensed interim consolidated financial statements are presented in Canadian dollars.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on July 11, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim consolidated financial statements of the Company have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the statements of cash flows.

The accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the Company’s most recent audited annual consolidated financial statements as at and for the year ended August 31, 2016 which is available at www.sedar.com, except for those new, revised and/or amended standards adopted below, and reflect all the adjustments necessary for fair presentation in accordance with IAS 34. There has been no material impact on these financial statements from changes in accounting standards during the period.

4. RECENT ACCOUNTING PRONOUNCEMENTS

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the period ended May 31, 2017, and have not been applied in preparing these condensed interim consolidated financial statements. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

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

IFRS 16 - Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS**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.

Summary of expenses incurred:

Nature	Relationship	For the nine-month period ended May 31, 2017	For the nine-month period ended May 31, 2016
General and administrative	A company with a director/officer in common with the Company	\$ 45,000	\$ -
Share-based payments	Directors and a company with a director/officer in common with the Company	\$ 999,950	\$ -
Interest on debt	Loans from former director/officers of the Company	\$ -	\$ 97,991

Summary of amounts due to related parties:

Type of Service	Nature of Relationship	May 31, 2017	August 31, 2016
Accounts payable and accrued liabilities	To a company with a director/officer in common with the Company	-	5,250
Due to related parties		\$ -	\$ 5,250

6. SHARE CAPITAL**(a) Authorized**

Unlimited common shares with no par value

Unlimited preferred voting shares with no par value

(b) Shares issued

During the year ended August 31, 2016, the Company had the following share transactions:

On July 28, 2016, the Company issued 1,500,000 common shares at \$0.05 per share to settle outstanding indebtedness of \$75,000. On August 19, 2016, the Company closed a non-brokered private placement of 30,000,000 common shares at \$0.05 per share for gross proceeds of \$1,500,000.

There were no share transactions for the nine-month period ended May 31, 2017.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)**(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.

On October 3, 2016, the Company granted 3,000,000 options, which vested immediately, having an exercise price of \$0.45 each, exercisable at any time up until and including October 3, 2021. The fair value of the options so granted was determined to be \$999,950 using the Black-Scholes option pricing model under the following assumptions: risk-free interest rate - 0.65%; expected life - 5 years; expected volatility – 100% and expected dividends - nil.

A summary of the Company’s stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2015 and 2016	-	\$ -
Granted	3,000,000	0.45
Balance, May 31, 2017	3,000,000	\$0.45

As at May 31, 2017, outstanding options were as follows:

Expiry	Number of options outstanding	Weighted average exercise price per share	Average remaining life (years)
October 3, 2021	3,000,000	\$ 0.45	4.35
Fully vested and exercisable	3,000,000	\$ 0.45	4.35

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

7. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholder's equity (comprised of issued share capital, contributed surplus and deficit). The Company's objectives when managing capital are to support the identification and acquisition of a new business opportunity and thus the creation of shareholder value as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response 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 May 31, 2017, 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 nine-month period ended May 31, 2017.

8. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, GST receivable, loans receivable, trade payables and accrued liabilities.

GST Receivable and loans receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Trade payables and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These financial instruments approximate fair value due to their short-term nature. The Company's other financial instrument, cash, which is classified as fair value through profit or loss and is measured under the fair value hierarchy using level one inputs.

(a) Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

8. FINANCIAL INSTRUMENTS (continued)

(a) Financial Risk Factors (continued)

I. 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 May 31, 2017, the Company had a cash balance of \$451,522 to settle current liabilities of \$112,059. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at May 31, 2017, the Company has no sources of revenue to fund its operating expenditures. In the previous fiscal year, the Company closed a private placement of 30 million common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000. Subsequent to period-end, the Company announced its intention to complete the Offering to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at \$0.50 per subscription receipt (see Note 11). Management believes these financings will fund the Company's existing administrative needs for the foreseeable future and should be sufficient to fund the identified business acquisitions as described in Note 10. However, the Company will likely 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 as disclosed in Note 1. Consequently, the Company is currently exposed to a moderate level of liquidity risk.

II. 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 are exposed to credit risk. The Company has assessed the credit risk on its cash as low as its funds are held in highly rated Canadian financial institutions.

III. 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 considers it to have minimal exposure to interest rate risk as it has only a nominal amount of interest-bearing investments or debt.

8. FINANCIAL INSTRUMENTS (continued)

(a) Financial Risk Factors (continued)

III. Market Risks (continued)

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. 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.

The Company is mainly exposed to foreign currency risk on financial instruments denominated in the United States Dollar, consisting of trade payables.

As at May 31, 2017, the Company's financial instruments denominated in the United States Dollar, with the equivalent Canadian Dollar amounts are as follows:

	United States Dollars	Canadian Dollars
Financial liabilities		
Trade payables	\$ 9,779	\$ 13,306
	\$ 9,779	\$ 13,306

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.

It is estimated that a 10% fluctuation in the United States Dollar against the Canadian dollar would have an insignificant effect on net loss for the year.

iii. Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

9. SEGMENTED INFORMATION

The Company operates in one segment being in Canada. It currently has no revenues as it investigates new business opportunities.

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

- A. On April 7, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into a mineral exploration and option agreement (“Option Agreement”) with arm’s length parties, to acquire certain mineral concessions located in Coahuila, Mexico. The Company, through its wholly owned subsidiary, Discovery Mexico, also entered into a second mineral exploration and option agreement (Second Option Agreement”), also with the same vendors (the “Vendors”), providing an option to acquire a certain additional mineral concession, also located in Coahuila, Mexico.

Upon completion of the proposed transactions and meeting all the conditions of the Exchange, the Company will have its listing transferred from NEX to the Exchange. The proposed transactions will constitute a Change of Business under Exchange policies. Upon completion of the proposed transactions the Company will operate as a junior mining / exploration company.

The proposed transactions are subject to, among other things, receipt of all applicable regulatory approvals, the final approval of the Exchange and the satisfaction of customary closing conditions.

Pursuant to the terms of the Option Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise the option and acquire the mineral concessions from the vendors, on the following payments to the vendors:

- a) a cash payment of US\$300,000, on the latter of final Exchange approval and the Company, through its wholly owned subsidiary, Discovery Mexico, entering into certain land occupation agreements with and/or receiving consent from the local Ejido, duly registered at the National Agrarian Registry of Mexico;
- b) the issuance of an aggregate of 500,000 common shares upon Exchange approval;
- c) an additional cash payment of US\$300,000 and the issuance of a further 500,000 common shares upon the receipt of all necessary permits and approvals to conduct drilling activities on the mineral concessions from the applicable authorities;
- d) the issuance of four tranches of 500,000 common shares on each anniversary of the closing of the proposed transaction, with the first issuance occurring on the second anniversary of the closing; and
- e) the issuance of additional common shares, representing 30% of the Company’s then issued and outstanding share capital, taking into account any common shares already issued to the vendors.

DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

As at and for the nine months ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS (continued)

- A. In order to exercise the option, the Company, through its wholly owned subsidiary, Discovery Mexico, is required to complete exploration expenditures of not less than US\$12,500,000 on the mineral concessions within five years of receipt of the drilling approvals. The Company must complete not less than US\$2,000,000 of these expenditures within the first twelve months.

Pursuant to the terms of the Second Option Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise the option and acquire the additional mineral concessions on the following terms:

- a) an aggregate cash payment of US\$100,000 to the vendors three months from approval of the Second Option Agreement by the Exchange; and
- b) the Company, through its wholly owned subsidiary, Discovery Mexico, incurring exploration expenditures on the additional mineral concessions of not less than US\$2,000,000 within three years of the latter of the closing date and the entering into by the Company of any required land occupation or lease agreements on the subject lands.

On the execution of the Option Agreement and the Second Option Agreement, the Company advanced loans to the vendors in the aggregate amount of US\$150,000 (the "Loan"). The Loan will be credited towards the first cash payments required under the Option Agreement and the Second Option Agreement. In the event that the Option Agreements are terminated prior to closing, the Vendors shall repay the Loan within 30 days of demand by the Company. If not repaid within 30 days any unpaid amount shall accrue interest at the rate of 12% per annum, calculated and compounded monthly.

- B. On May 15, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into four additional mineral exploration and option agreements (the "Additional Option Agreements") with arm's length parties to acquire certain additional mineral concessions (the "Additional Mineral Concessions") located in the state of Coahuila, Mexico.

Pursuant to the terms of the Additional Option Agreements, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise its option and acquire the underlying concessions that are subject to each Option Agreement on the following terms:

- a) incurring exploration expenditures of not less than US\$2,000,000 per Additional Option Agreement within five years; and
- b) the issuance to the Vendors of an aggregated 1,000,000 common shares in respect to three of the Additional Option Agreements, and the issuance of 2,000,000 common shares in respect of the Additional Option Agreement governing the Monclova Property.

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10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS (continued)

- B. In addition, on approval of the Additional Option Agreements by the Exchange, the Company, through its wholly owned subsidiary, Discovery Mexico, has agreed to pay back taxes on one of the properties of approximately US\$48,000, and to make a cash payment to the Vendors of US\$70,000 with respect to another property. The Company, through its wholly owned subsidiary, Discovery Mexico, will be the operator of the Additional Minerals Concessions during the term of the Additional Option Agreements and is required to pay all mining duties to maintain the underlying concessions in good standing.
- C. In connection with the projects forming the proposed transaction, subject to Exchange approval, the Company has agreed to pay finder's fees of \$104,750, payable in common shares of the Company, issuable at the same price as the Company's proposed Offering; an additional 25,000 common shares on each of the four tranches of share issuances to the Vendors, on the second through fifth anniversaries of the closing of the proposed transaction; and, a number of common shares equal to 5% of any common shares issued by the Company on exercise of any of the Additional Option Agreements, and the La Kika Agreement.

11. SUBSEQUENT EVENTS

(a) Mineral exploration and option agreement ("La Kika Agreement")

On June 7, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into an additional mineral exploration and option agreement ("La Kika Agreement") with arm's length parties to acquire an additional mineral concession located in the state of Coahuila, Mexico.

Pursuant to the terms of the La Kika Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise its option and acquire the underlying La Kika concession on the following terms:

- a) reimbursing USD\$45,000 to the Vendors on closing;
- b) incurring exploration expenditures of not less than US\$2,000,000 within five years, half of which is a firm expenditure commitment; and
- c) the issuance to the Vendors of an aggregated 1,000,000 common shares.

In addition, the Company has agreed to pay the Vendors a royalty on the first 450,000 tonnes of ore extracted by the Company from the La Kika concession. The royalty will equal 30% of the operating profits in the event that the Company undertakes direct shipping operations, or a 2% net smelter return otherwise.

The Company, through its wholly owned subsidiary, Discovery Mexico, will be the operator of the La Kika concession during the term of the La Kika Agreement and is required to pay all mining duties to maintain the underlying concessions in good standing.

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11. SUBSEQUENT EVENTS (continued)

(b) Private placement financing

On June 8, 2017, the Company announced that it intends to complete the Offering to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at a price of \$0.50 per subscription receipt. The proceeds of the Offering will be held in escrow, pending the Company receiving all applicable regulatory approvals and completing its proposed Change of Business transaction as defined under the policies of the Exchange. Upon satisfaction of the escrow conditions, each subscription receipt will automatically convert into one unit of the Company for no additional consideration. Each Unit will consist of one common share and one share purchase warrant, with each share purchase warrant entitling the holder to acquire one additional common share at a price of \$1.00 per share for a period of 24 months from the date the warrants are issued. Finder's fees may be payable to arm's length parties who introduce the Company to subscribers, in accordance with the policies of the Exchange.

(c) Name change

On June 13, 2017, the Company changed its name to Discovery Metals Corp. The Company's trading symbol changed to DSV.H and the new CUSIP number is 25471U100.

(c) Additional loan

On June 29, 2017, the Company advanced an additional loan of US\$50,000 to the Vendors; this additional loan has identical terms as the previous loan.

**APPENDIX “B”
MANAGEMENT’S DISCUSSION AND ANALYSIS OF THE COMPANY**

See attached.

**AYUBOWAN CAPITAL LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED AUGUST 31, 2016**

Dated: December 23, 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of Ayubowan Capital Ltd. (the "Company" or "Ayubowan") for the year ended August 31, 2016 and is prepared as at December 23, 2016. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended August 31, 2016 and 2015 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS"). Other information contained in these documents has also been prepared by management and is consistent with the data contained in the Financial Statements.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

APPROVAL

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the periods reported. The Financial Statements together with the other financial information included in this MD&A fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in this MD&A. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board of Directors has approved the Financial Statements and MD&A, as well as ensured that management has discharged its financial responsibilities.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These forward looking statements include but are not limited to statements concerning:

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- The Company's success at completing future financings
- The Company's strategies and objectives
- The Company's cost reductions and other financial operating objectives
- The availability of qualified employees for business operations
- General business and economic conditions
- The Company's ability to meet its financial obligations as they become due
- The Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity
- The positive cash flows and financial viability of new business opportunities
- The Company's ability to manage growth with respect to a new business opportunity
- The Company's tax position, anticipated tax refunds and the tax rates applicable to the Company

Readers are cautioned that the preceding list of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by these forward looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements.

OVERVIEW AND OUTLOOK

Ayubowan was incorporated on October 10, 1986 under the laws of British Columbia and is listed on the TSX Venture Exchange (the "Exchange"). Ayubowan's original primary business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), a national sales, marketing, underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels. The Company's head office is located at Suite 1600, 609 Granville Street, Vancouver, British Columbia, V7Y 1C3, and its registered and records office is located at Suite 885 W Georgia St #2200, Vancouver, BC V6C 3E8.

Prior to November 30, 2009 ACL initiated and funded mortgages with the goal of securitizing and selling its mortgages, resulting in a gain/loss from the sale of mortgages. Origination fees were charged to customers to initiate mortgages. During the period between initiation and sale of mortgages, Ayubowan earned a spread or interest differential between the cost of funds obtained and interest revenue earned on mortgages. On November 30, 2009 Ayubowan announced AMC's inability to carry on a proper business due to the withdrawal of the warehouse facility and whole loan purchasing agreement by the Canadian office of an international bank. The Company then carried out a plan whereby all funded loans and other liabilities relating to the funded loans and commitments were either extinguished or taken over by an independent third party. This effectively ended all operations associated with the mortgage business. AMC permanently closed its mortgage operation on March 4, 2010.

Ayubowan has not had an operating business since that date.

On August 19, 2016, the Company completed a reorganization whereby new management was installed, \$1,500,000 was raised through a non-brokered private placement and \$5,234,945 in debt was eliminated through debt forgiveness and creditors' lack of ability to collect.

On July 28, 2016, the Company issued 1,500,000 common shares at \$0.05 per share to settle outstanding accounts payable of \$75,000.

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On August 19, 2016, the Company closed a non-brokered private placement of 30,000,000 common shares at \$0.05 per share for gross proceeds of \$1,500,000. As a condition of closing the private placement, the Company also negotiated the forgiveness of an aggregate of \$2,483,006 in principle indebtedness, plus all accrued interest.

The Company is now in the process of searching for and evaluating new business opportunities.

SELECTED ANNUAL FINANCIAL INFORMATION

	For the year ended August 31, 2016	For the year ended August 31, 2015	For the year ended August 31, 2014
Comprehensive income (loss):			
(i) total for the year	\$4,689,309	(\$530,488)	\$127,040
(ii) per share	\$2.05	(\$0.45)	\$0.11
Total assets	\$1,059,933	\$387	\$387
Total current liabilities	\$15,434	\$5,220,197	\$5,220,197
Total weighted average number of shares outstanding	\$ 2,292,949	\$ 1,169,998	\$ 1,169,998

As noted earlier, the Company ceased the operations of its wholly owned subsidiary, Abode Mortgage Corporation on March 4, 2010. Since that time the Company has not had an operating business. During the annual periods ending 2014 and 2015, changes in liabilities and gains (losses) related to accrued and unpaid interest payable on the outstanding convertible loans and promissory note in addition to adjustments related to payment of certain accounts payable by unrelated parties. In 2016, the Company settled \$75,000 of debt forgiveness at \$0.05 per share, closed a \$1,500,000 private placement from which it repaid \$399,999 in debt, and the Company negotiated the forgiveness of an aggregate of \$2,483,006 in principle indebtedness, plus all accrued interest. The resulting gain in 2016 was primarily due to a \$5,234,945 gain on the forgiveness of debt.

SUMMARY OF QUARTERLY RESULTS¹

	4 th Quarter Ended August 31, 2016	3 rd Quarter Ended May 31, 2016	2 nd Quarter Ended February 29, 2016	1 st Quarter Ended November 30, 2015
Total revenues	\$nil	\$nil	\$nil	\$nil
Comprehensive income (loss)	\$5,092,772	(\$140,990)	(\$133,909)	(\$128,564)
Income (loss) per share (basic and diluted)	\$0.95	(\$0.01)	(\$0.12)	(\$0.11)
Total assets	\$1,059,933	\$111	\$7	\$202
	4 th Quarter Ended August 31, 2015	3 rd Quarter Ended May 31, 2015	2 nd Quarter Ended February 28, 2015	1 st Quarter Ended November 30, 2014
Total revenues	\$nil	\$nil	\$nil	\$nil
Comprehensive loss	(\$166,092)	(\$124,828)	(\$121,449)	(\$118,119)
Loss per share (basic and diluted)	(\$0.14)	(\$0.11)	(\$0.10)	(\$0.10)
Total assets	\$387	\$567	\$3,248	\$3,428

Financial information prepared in accordance with IFRS

AYUBOWAN CAPITAL LTD.
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RESULTS OF OPERATIONS FOR THE THREE AND TWELVE MONTHS ENDED AUGUST 31, 2016

The following is an analysis of the Company's operating results for the three and twelve months ended August 31, 2016, and includes a comparison against the three and twelve months ended August 31, 2015.

Comprehensive income (loss) for the three and twelve months ended August 31, 2016 amounted to \$5,092,772 and \$4,689,309 or \$0.95 and \$2.05 per share respectively (2015 – (\$166,092) and (\$530,488) or (\$0.14) and (\$0.45) per share respectively). Comprehensive income is substantially higher in the current periods as compared to the previous periods as a result of the \$5,234,945 forgiveness of debt recorded in the current period.

Forgiveness of debt for the three and twelve months ended August 31, 2016 was \$5,234,945 (2015 – \$nil). After the repayment of \$399,999 of the Company's outstanding debt, all outstanding convertible loans, the outstanding promissory note and all accrued interest to date were forgiven as part of the conditions of closing the \$1.5 million private placement in August 2016.

General and administrative expenses for the three and twelve months ended August 31, 2016 were \$55,815 and \$69,465 respectively (2015 – \$42,693 and \$55,204, respectively). Included in this expense category were professional fees, administrative management fees and general office expenses. The amount is higher in the current period due to some additional legal expenses related to negotiating the forgiveness of debt and completing the two share issuances in July 2016 and August 2016.

Interest expenses for the three and twelve months ended August 31, 2016 were \$86,358 and \$476,171 compared to \$123,422 and \$475,284 for the same periods in the previous year. Interest expense in the current and previous year is comprised of accrued interest on the outstanding convertible debt and promissory note. All accrued interest has been forgiven as of August 31, 2016.

RISKS AND UNCERTAINTIES

Investors should be aware that an investment in the common shares of the Company involves a high degree of risk. In addition to the other information contained in this MD&A, investors should consider carefully the following risk factors with regard to an investment in the common shares of the Company:

Available Opportunities and Competition for Investments

The success of Ayubowan's operations will, among other things depend upon: (i) the availability of appropriate investment opportunities; (ii) Ayubowan's ability to identify, select, acquire, grow and exit those investments; and (iii) Ayubowan's ability to generate funds for future investments. Ayubowan can expect to encounter competition from other entities that have investment objectives similar to those of the Company, including investment funds, institutional investors and strategic investors. These groups may compete for the same investments as Ayubowan, may be better capitalized, have more personnel, have a longer operating history and have different return targets from Ayubowan. As a result, Ayubowan may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit Ayubowan's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to Ayubowan to invest in or that such

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investments can be made within a reasonable period of time. There can be no assurance that Ayubowan will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that Ayubowan is unable to find and make a sufficient number of investments.

Due Diligence

The due diligence process Ayubowan undertakes in connection with investments may not reveal all facts that may be relevant to making an investment. Before making investments, although Ayubowan conducts due diligence that management deems to be reasonable and appropriate based on the facts and circumstances applicable to each investment, there can be no assurance that the due diligence will identify all of the risks and perils associated with the investment. When conducting due diligence, Ayubowan may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. The assistance of outside consultants, legal advisors, accountants and investment banks may be required in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, Ayubowan will rely on the resources available to the Company, including information provided by the investee target company and, in some circumstances, third-party investigations. The due diligence investigation that Ayubowan completes with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation can be costly and will not necessarily result in the investment being successful.

Volatility of Share Price

The market price of Ayubowan's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's consolidated results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and prevailing market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of Ayubowan's common shares. The purchase of Ayubowan common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment.

Need for Additional Capital and Access to Capital Markets

Ayubowan anticipates that it has sufficient resources to meet its current obligations, however future investments by Ayubowan may require a significant infusion of additional funds. Further financing may dilute the current holdings of shareholders and may thereby result in a loss for shareholders.

There can be no assurance that Ayubowan will be able to obtain adequate financing, or financing on terms that are reasonable or acceptable for these or other purposes, or to fulfill the Company's future obligations as they become due. Failure to obtain such additional financing could result in delay or indefinite postponement of further investment or growth in Ayubowan's marketable securities portfolio.

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Reliance on Management's Expertise

Ayubowan is dependent upon the effort, skill and business contacts of key members of its management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, Ayubowan's continued success will depend upon the continued service of these individuals who are not obligated to remain employed with the Company. The loss of the services of any one or more of these individuals could have a material adverse effect on revenues, net income and cash flows and growth outlook including Ayubowan's ability to maintain or grow existing assets, raise additional funds or find new investment opportunities in the future. Ayubowan does not have any key person insurance in place for management.

No On-Going Active Business Operations

The Company's primary investment is cash. The Company is unlikely to generate any earnings or pay dividends until at least after its cash is more fully invested or in the alternative; a new business interest is secured. Further, no assurance can be provided that such new business interests can be secured or that any business interest that may be secured can be operated profitably or that the Company's investment activities in marketable and other securities held for trading will generate asset value growth that could result in positive cash flow, or that any future dividends could or would ever be paid.

Ayubowan Stock Liquidity and Trading Price of Common Shares Relative to Profit and/or Net Asset Value

No assurance can be provided that an active and liquid market for the Company's common shares will be sustained and that the market accurately reflects the value of the shares. Investors may find it difficult to resell their shares.

Highly Speculative

Under normal circumstances, as stated elsewhere herein, an investment in Ayubowan's common shares is highly speculative. Further, the nature of the Company's business activities makes an investment in the Company's shares that much more highly speculative.

Limited Resources

The Company has only a set amount of cash and management resources with which to identify and acquire any new potential business opportunities and there can be no assurance that the Company will be able to identify a suitable business opportunity. Further, even if such an opportunity is identified, there can be no assurance that the Company will be able to successfully complete the transaction and implement a profitable business plan.

While the Company currently has sufficient working capital available to it, the Company's ability to secure or operate any new business opportunity may require additional financing. The Company may not be able to secure financing on terms acceptable to it, if at all. Failure of the Company to secure sufficient financing could result in delays or prohibit the Company from securing a proposed business opportunity or proposed operations and could result in the Company going out of business.

AYUBOWAN CAPITAL LTD.
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Potential for Interest Dilution

A transaction for a new business opportunity may be financed in all or in part by the issuance of additional securities by the Company and this may result in dilution to a shareholder's interest, which dilution may be significant and which may also result in a change of control of the Company.

Ability to Secure Prerequisite Approvals

In the event that a suitable business or a marketable security investment opportunity is identified, the transaction may be subject to approvals by regulatory authorities and, in the case of a non-arm's length transaction, approval by the majority of any minority shareholders.

Shareholder rights

Unless a shareholder has a right to dissent and be paid fair value in accordance with applicable corporate or other law, a shareholder who votes against a proposed business marketable security investment opportunity for which a majority of minority shareholders have given approval, will have no rights of dissent and no entitlement to payment by the Company of fair value for the common shares.

Ability to retain a listing on a recognized stock exchange and possibility of trading halts or suspensions

Although the Company's shares now trade on the NEX, trading in the common shares of the Company may be halted or suspended from time-to-time for any number of reasons, including for failure by the Company to submit documents to the applicable regulatory authorities within required time periods.

Foreign operations and management residency

In the event that management of the Company resides outside of Canada or the Company identifies a foreign business opportunity, investors may find it difficult or impossible to effect service or notice to commence legal proceedings upon any management resident outside of Canada or upon the foreign business and may find it difficult or impossible to enforce any judgments obtained in Canadian courts against such persons or businesses.

Conflicts of interest

There are potential conflicts of interest to which some or all of the directors, officers, or insiders of the Company could be subject in connection with the operations of the Company. The directors and officers of the Company will not be devoting all of their time to the affairs of the Company. Some of the directors and officers of the Company are directors and officers of other companies. Some of the other companies are engaged in or could be engaged in the search for properties or business prospects that may be suitable business ventures or opportunities that could be of interest to the Company. Accordingly, situations may arise where some or all of the directors, officers or insiders of the Company could be in direct competition with the Company. The directors and officers of the Company are required by law to act in the best interest of the Company. They have the same obligations to other companies in respect of which they act as directors and officers. Discharge by the directors and officers of their obligations to the Company may result in a breach of their obligations to other companies, and in certain circumstances, this could expose the Company to liability to those companies. Similarly, discharge by the directors and officers of their obligations to the other companies could result in a breach of their obligation to act in the best interests of the Company. Such conflict in legal obligations may expose the Company

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to liability to others and impair its ability to achieve its business objectives. Conflicts will be subject to the procedures and remedies as provided under the British Columbia Business Corporations Act.

LIQUIDITY AND CAPITAL RESOURCES

The Company defines capital that it manages as cash and equity, consisting of issued common shares, share-based payment reserve and stock options. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, to fund existing operations and the search for new business opportunities in order to provide returns to its shareholders. The Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business. The Company manages and adjusts its capital structure as a result of changes in economic conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company 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 period ended August 31, 2016.

As at August 31, 2016, the Company had working capital of \$1,044,499 (August 31, 2015 – working capital deficiency (\$5,219,810)) including cash that totaled \$1,059,933 (August 31, 2015 - \$387). At this time management believes that this is sufficient to meet currently expected operating requirements over the next year and does not foresee any circumstances under which additional financing would be required.

A summary of the Company's cash flows during the year ended August 31, 2016 and 2015 is as follows:

	2016	2015
Cash flows used by operating activities	\$ (40,455)	\$ (3,221)
Cash flows provided by financing activities	1,100,001	-
Increase (decrease) in cash for the period	1,059,546	(3,221)
Cash, beginning of the period	387	3,608
Cash, end of the period	\$ 1,059,933	\$ 387

Cash flows used by operating activities were \$40,455 for the year ended August 31, 2016 compared to \$3,221 during the year ended August 31, 2015. The \$37,234 increase in cash used in 2016 as compared to the 2015 fiscal year was primarily the result of certain payables being partially paid as part of the closing conditions of the \$1.5-million-dollar private placement in August 2016.

Cash flows provided by financing activities was \$1,100,001 for the year ended August 31, 2016 compared to \$nil for the year ended August 31, 2015. The \$1,100,001 increase in cash provided by financing activities was the result of a \$1,500,000 private placement at \$0.05 per share (30,000,000 shares issued) in August 2016 offset by \$399,999 of these funds being used to pay outstanding debt.

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DEBT FORGIVENESS

On August 19, 2016, the Company reorganized its debts by paying \$399,999 to creditors, who upon receipt agreed to release and forever discharge the Company from any and all indebtedness to them. The total debt forgiven was \$5,155,769 and included \$2,225,000 in convertible debt to unrelated parties, \$150,000 convertible debt payable to a previously related party, \$300,000 promissory note payable to a previously related party and \$2,880,768 in accounts payable and accrued charges, of which \$609,417 was to a previously related party.

Effective August 31, 2016, AMC reversed \$79,176 in previously recorded accounts payable and accrued charges as it no longer had a legal obligation to pay these creditors.

SHARE CAPITAL

(a) Authorized

Unlimited common shares with no par value
Unlimited preferred voting shares with no par value

(b) Issued and Outstanding

As at August 31, 2016 and the date of this MD&A the total number of common shares issued and outstanding was 32,669,998.

(c) Shares issued

On July 28, 2016, the Company issued 1,500,000 common shares at \$0.05 per share to settle outstanding indebtedness of \$75,000.

On August 19, 2016, the Company closed a non-brokered private placement of 30,000,000 common shares at \$0.05 per share for gross proceeds of \$1,500,000.

(d) Stock Options

The Company has adopted a rolling 10% stock option plan ("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. Options are equity settled. 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. As at August 31, 2016, there were no stock options outstanding.

On October 3, 2016 3,000,000 stock options were granted, expiring on October 3, 2021 and exercisable at \$0.45.

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RELATED PARTY TRANSACTIONS

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.

Summary of amounts due to related parties:

Type of Service	Nature of Relationship	August 31, 2016	August 31, 2015
Promissory note payable ¹	To a former officer/current director (D.G. Nelson) of the Company	\$ -	\$ 300,000
Unsecured convertible debt ¹	To a former officer/current director (D.G. Nelson) of the Company	-	150,000
Accounts payable, accrued liabilities and accrued interest ¹	To a former officer/current director (D.G. Nelson), or companies controlled by him, of the Company	-	494,924
Accounts payable, accrued liabilities and accrued interest ¹	To a company, a director of which, is the current CEO of the Company	5,250	-
Due to related parties		\$ 5,250	\$ 944,924

¹Key management personnel

The remuneration of the Company's key management personnel for the years ended August 31, 2016 and 2015 is as follows:

For the year ended August 31	2016	2015
Management fees accrued to a company controlled by the former CEO/current director		\$12,000
Management fees accrued to an entity of which the current CEO and director is a director of	\$5,250	

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FINANCIAL INSTRUMENTS

The fair value of the Company's accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying values due to the short-term nature of the instruments. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

(a) Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

I. 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 August 31, 2016, the Company had a cash balance of \$1,059,933 to settle current liabilities of \$15,434. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at August 31, 2016, the Company has no sources of revenue to fund its operating expenditures but had closed a private placement of 30 million common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000. Management believes this financing will fund the Company's existing administrative needs for the foreseeable future. However, it may not be sufficient to fund any identified business acquisition and as such the Company will likely 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.

II. 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 are exposed to credit risk. The Company has assessed the credit risk on its cash as low as its funds are held in highly rated Canadian financial institutions.

III. 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 considers it to have minimal exposure to interest rate risk as it has no interest-bearing investments or debt.

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ii. Foreign currency risk

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not hold any funds in foreign currencies as at August 31, 2016 (2015 – \$Nil) and is not subject to foreign exchange risk.

iii. Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

MANAGEMENT OF CAPITAL

The Company defines capital as consisting of shareholder's equity (comprised of issued share capital, share-based payment reserve and deficit). The Company's objectives when managing capital are to support the identification and acquisition of a new business opportunity and thus the creation of shareholder value as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response 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 August 31, 2016, 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 August 31, 2016.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year included:

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i. Share-based payments

Determining the fair value of options and warrants requires the exercise of judgement 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.

ii. Deferred Income tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

(b) Critical accounting judgements

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

i. Going Concern

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements.

CHANGES IN ACCOUNTING POLICIES

There has been no material impact on these financial statements from changes in accounting standards during the year.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

The following standards and amendments to existing standards have been adopted by the Company effective September 1, 2015:

IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9.

The adoption of these standards did not have an impact on the financial statements.

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RECENT ACCOUNTING PRONOUNCEMENTS

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have an effect on the Company's financial statements:

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

OFF-BALANCE SHEET ARRANGEMENTS

Ayubowan has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

ADDITIONAL INFORMATION

Additional information relating to the Company is available at www.sedar.com.

**DISCOVERY METALS CORP. (formerly Ayubowan Capital Ltd.)
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Dated: July 11, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This interim management's discussion and analysis ("MD&A") reports on the operating results and financial condition of Discovery Metals Corp. (formerly Ayubowan Capital Ltd.) (the "Company" or "Discovery Metals") for the nine months ended May 31, 2017 and is prepared as at July 7, 2017. This interim MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended August 31, 2016 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"), together with the unaudited condensed interim consolidated financial statements as at and for the nine months ended May 31, 2017, which were prepared in accordance with IFRS and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting (collectively referred to as the "Financial Statements"). Other information contained in these documents has also been prepared by management and is consistent with the data contained in the Financial Statements.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

APPROVAL

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the periods reported. The Financial Statements together with the other financial information included in this MD&A fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in this MD&A. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board of Directors has approved the Financial Statements and MD&A, as well as ensured that management has discharged its financial responsibilities.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks,

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uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These forward-looking statements include but are not limited to statements concerning:

- The Company's success at completing future financings
- The Company's strategies and objectives
- The Company's cost reductions and other financial operating objectives
- The availability of qualified employees for business operations
- General business and economic conditions
- The Company's ability to meet its financial obligations as they become due
- The Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity
- The positive cash flows and financial viability of new business opportunities
- The Company's ability to manage growth with respect to a new business opportunity
- The Company's tax position, anticipated tax refunds and the tax rates applicable to the Company

Readers are cautioned that the preceding list of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by these forward-looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements.

OVERVIEW AND OUTLOOK

Discovery Metals was incorporated on October 10, 1986 under the laws of British Columbia and is listed on the TSX Venture Exchange (the "Exchange"). The Company's head office is located at Suite 1600, 609 Granville Street, Vancouver, British Columbia, V7Y 1C3, and its registered and records office is located at Suite 885 W Georgia St #2200, Vancouver, BC V6C 3E8.

Discovery Metal's former business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), an entity focused primarily on the origination and servicing of mortgages from various distribution channels. AMC permanently closed its mortgage operation on March 4, 2010.

Discovery Metals has not had an operating business since that date.

On August 19, 2016, the Company completed a reorganization whereby \$1,500,000 was raised through a non-brokered private placement and \$5,234,945 in debt was eliminated through debt forgiveness and creditors' lack of ability to collect.

On March 21, 2017, the Company incorporated a 100% wholly owned subsidiary in Mexico called Discovery Metals, S.A. de C.V. ("Discovery Mexico") to facilitate the transactions outlined in the Proposed Transactions and Commitments and Contractual Obligations sections below.

The Company is now in the process of searching for and evaluating new business opportunities. See Proposed Transactions.

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On June 8, 2017, the Company announced that it intends to complete a financing (the "Offering") to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at a price of \$0.50 per subscription receipt. The proceeds of the Offering will be held in escrow, pending the Company receiving all applicable regulatory approvals and completing its proposed Change of Business transaction as defined under the policies of the Exchange. Upon satisfaction of the escrow conditions, each subscription receipt will automatically convert into one unit of the Company for no additional consideration. Each Unit will consist of one common share and one share purchase warrant, with each share purchase warrant entitling the holder to acquire one additional common share at a price of \$1.00 per share for a period of 24 months from the date the warrants are issued. Finder's fees may be payable to arm's length parties who introduce the Company to subscribers, in accordance with the policies of the Exchange.

On June 13, 2017, the Company changed its name to Discovery Metals Corp. The Company's trading symbol changed to DSV.H and the new CUSIP number is 25471U100.

PROPOSED TRANSACTIONS

On April 7, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into a mineral exploration and option agreement ("Option Agreement") with arm's length parties, to acquire certain mineral concessions located in Coahuila, Mexico. The Company, through its wholly owned subsidiary, Discovery Mexico, also entered into a second mineral exploration and option agreement (Second Option Agreement"), also with the same vendors (the "Vendors"), providing an option to acquire a certain additional mineral concession, also located in Coahuila, Mexico.

Upon completion of the proposed transactions and meeting all the conditions of the Exchange, the Company will have its listing transferred from NEX to the Exchange. The proposed transactions will constitute a Change of Business under Exchange policies. Upon completion of the proposed transactions the Company will operate as a junior mining / exploration company.

The proposed transactions are subject to, among other things, receipt of all applicable regulatory approvals, the final approval of the Exchange and the satisfaction of customary closing conditions.

Pursuant to the terms of the Option Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise the option and acquire the mineral concessions from the vendors, on the following payments to the vendors:

- a) a cash payment of US\$300,000, on the latter of final Exchange approval and the Company, through its wholly owned subsidiary, Discovery Mexico, entering into certain land occupation agreements with and/or receiving consent from the local Ejido, duly registered at the National Agrarian Registry of Mexico;
- b) the issuance of an aggregate of 500,000 common shares upon Exchange approval;
- c) an additional cash payment of US\$300,000 and the issuance of a further 500,000 common shares upon the receipt of all necessary permits and approvals to conduct drilling activities on the mineral concessions from the applicable authorities;

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- d) the issuance of four tranches of 500,000 common shares on each anniversary of the closing of the proposed transaction, with the first issuance occurring on the second anniversary of the closing; and
- e) the issuance of additional common shares, representing 30% of the Company's then issued and outstanding share capital, taking into account any common shares already issued to the vendors.

In order to exercise the option, the Company, through its wholly owned subsidiary, Discovery Mexico, is required to complete exploration expenditures of not less than US\$12,500,000 on the mineral concessions within five years of receipt of the drilling approvals. The Company must complete not less than US\$2,000,000 of these expenditures within the first twelve months.

Pursuant to the terms of the Second Option Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise the option and acquire the additional mineral concessions on the following terms:

- a) an aggregate cash payment of US\$100,000 to the vendors three months from approval of the Second Option Agreement by the Exchange; and
- b) the Company, through its wholly owned subsidiary, Discovery Mexico, incurring exploration expenditures on the additional mineral concessions of not less than US\$2,000,000 within three years of the latter of the closing date and the entering into by the Company of any required land occupation or lease agreements on the subject lands.

As a condition to completing the proposed transactions the Company intends to complete a private placement financing. The terms of the financing have yet to be finalized.

On the execution of the Option Agreement and the Second Option Agreement, the Company advanced loans to the vendors in the aggregate amount of US\$150,000 (the "Loan"). The Loans will be credited towards the first cash payments required under the Option Agreement and the Second Option Agreement.

In the event that the Option Agreement and Second Option Agreement are terminated prior to closing, the vendors shall repay the Loans within 30 days of demand by the Company. If not repaid within 30 days any unpaid amount shall accrue interest at the rate of 12% per annum, calculated and compounded monthly.

On June 29, 2017, the Company advanced an additional loan of US\$50,000 to the Vendors; this additional loan has identical terms as the previous loan.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

On May 15, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into four additional mineral exploration and option agreements (the "Additional Option Agreements") with arm's length parties to acquire certain additional mineral concessions (the "Additional Mineral Concessions") located in the state of Coahuila, Mexico.

Pursuant to the terms of the Additional Option Agreements, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise its option and acquire the underlying concessions that are subject to each Option Agreement on the following terms:

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- a) incurring exploration expenditures of not less than US\$2,000,000 per Additional Option Agreement within five years; and
- b) the issuance to the Vendors of an aggregated 1,000,000 common shares in respect to three of the Additional Option Agreements, and the issuance of 2,000,000 common shares in respect of the Additional Option Agreement governing the Monclova Property.

In addition, on approval of the Additional Option Agreements by the Exchange, the Company, through its wholly owned subsidiary, Discovery Mexico, has agreed to pay back taxes on one of the properties of approximately US\$48,000, and to make a cash payment to the Vendors of US\$70,000 with respect to another property. The Company, through its wholly owned subsidiary, Discovery Mexico, will be the operator of the Additional Minerals Concessions during the term of the Additional Option Agreements and is required to pay all mining duties to maintain the underlying concessions in good standing.

On June 7, 2017, the Company, through its wholly owned subsidiary, Discovery Mexico, entered into an additional mineral exploration and option agreement ("La Kika Agreement") with arm's length parties to acquire an additional mineral concession located in the state of Coahuila, Mexico.

Pursuant to the terms of the La Kika Agreement, the Company, through its wholly owned subsidiary, Discovery Mexico, may exercise its option and acquire the underlying La Kika concession on the following terms:

- a) reimbursing USD\$45,000 to the Vendors on closing;
- b) incurring exploration expenditures of not less than US\$2,000,000 within five years, half of which is a firm expenditure commitment; and
- c) the issuance to the Vendors of an aggregated 1,000,000 common shares.

In addition, the Company has agreed to pay the Vendors a royalty on the first 450,000 tonnes of ore extracted by the Company from the La Kika concession. The royalty will equal 30% of the operating profits in the event that the Company undertakes direct shipping operations, or a 2% net smelter return otherwise.

The Company, through its wholly owned subsidiary, Discovery Mexico, will be the operator of the La Kika concession during the term of the La Kika Agreement and is required to pay all mining duties to maintain the underlying concessions in good standing.

In connection with the projects forming the proposed transaction, subject to Exchange approval, the Company has agreed to pay finder's fees of \$104,750, payable in common shares of the Company, issuable at the same price as the Company's proposed Offering; an additional 25,000 common shares on each of the four tranches of share issuances to the Vendors, on the second through fifth anniversaries of the closing of the proposed transaction; and, a number of common shares equal to 5% of any common shares issued by the Company on exercise of any of the Additional Option Agreements, and the La Kika Agreement.

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SELECTED ANNUAL FINANCIAL INFORMATION

	For the year ended August 31, 2016	For the year ended August 31, 2015	For the year ended August 31, 2014
Comprehensive income (loss):			
(a) total for the year	\$4,689,309	(\$530,488)	\$127,040
(b) per share	\$2.05	(\$0.45)	\$0.11
Total assets	\$1,059,933	\$387	\$3,608
Total current liabilities	\$15,434	\$5,220,197	\$4,692,930
Total weighted average number of shares outstanding	2,292,949	1,169,998	1,169,998

As noted earlier, the Company ceased the operations of its wholly owned subsidiary, AMC, on March 4, 2010. Since that time the Company has not had an operating business. During the annual periods ending 2014 and 2015, changes in liabilities and gains (losses) related to accrued and unpaid interest payable on the outstanding convertible loans and promissory note in addition to adjustments related to payment of certain accounts payable by unrelated parties. In 2016, the Company settled \$75,000 of debt at \$0.05 per share, closed a \$1,500,000 private placement from which it repaid \$399,999 in debt, and the Company negotiated the forgiveness of an aggregate of \$2,483,006 in principle indebtedness, plus all accrued interest. The resulting gain in 2016 was primarily due to a \$5,234,945 gain on the forgiveness of debt.

SUMMARY OF QUARTERLY RESULTS¹

	3 rd Quarter Ended May 31, 2017	2 nd Quarter Ended February 28, 2017	1 st Quarter Ended November 30, 2016	4 th Quarter Ended August 31, 2016
Total revenues	\$nil	\$nil	\$nil	\$nil
Comprehensive income (loss)	(\$320,265)	(\$146,300)	(\$1,021,187)	\$5,092,772
Income (loss) per share (basic and diluted)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.95
Total assets	\$668,756	\$941,220	\$1,037,107	\$1,059,933
	3 rd Quarter Ended May 31, 2016	2 nd Quarter Ended February 29, 2016	1 st Quarter Ended November 30, 2015	4 th Quarter Ended August 31, 2015
Total revenues	\$nil	\$nil	\$nil	\$nil
Comprehensive loss	(\$140,989)	(\$133,909)	(\$128,565)	(\$166,092)
Loss per share (basic and diluted)	(\$0.01)	(\$0.12)	(\$0.11)	(\$0.14)
Total assets	\$111	\$7	\$202	\$387

¹ Financial information prepared in accordance with IFRS

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2017

The following is an analysis of the Company's operating results for the three and nine months ended May 31, 2017, and includes a comparison against the three and nine months ended May 31, 2016.

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Comprehensive loss for the three and nine months ended May 31, 2017 amounted to (\$320,265) and (\$1,487,752) or (\$0.01) and (\$0.05) per share, respectively (2016 – (\$140,989) and (\$403,463) or (\$0.12) and (\$0.34) per share, respectively). Comprehensive loss is substantially higher in the current period as compared to the previous period because of the \$999,950 share-based payment that resulted from the granting of 3,000,000 options.

Administration and bank charges for the three and nine months ended May 31, 2017 were \$28,151 and \$65,350, respectively (2016 – \$7,710 and \$13,650, respectively). Included in this expense category were administrative management fees, general office expenses and bank administrative charges. The amount is higher in the current period due to a new management services contract initiated in August 2016. These management fees cover administrative, accounting and filing services required to maintain the Company's listing on the TSX.

Interest expense for the three and nine months ended May 31, 2017 was \$nil compared to \$133,279 and \$389,813, respectively during the same period in the previous year. Interest expense in the previous periods was comprised of accrued interest on outstanding convertible debt and a promissory note. All interest-bearing debt was forgiven in August 2016 of the previous fiscal year.

Professional fees for the three and nine months ended May 31, 2017 were \$129,751 and \$148,180, respectively, compared to \$nil during the same period in the previous year. Professional fees for the current period were comprised of legal fees incurred to assist in evaluating potential business opportunities.

Project evaluation expenses for the three and nine months ended May 31, 2017 were \$162,363 and \$274,272, respectively (2016 – \$nil). These expenses included due diligence and consulting costs involved in researching potential investment opportunities.

RISKS AND UNCERTAINTIES

Investors should be aware that an investment in the common shares of the Company involves a high degree of risk. In addition to the other information contained in this MD&A, investors should consider carefully the following risk factors with regard to an investment in the common shares of the Company:

Available Opportunities and Competition for Investments

The success of Discovery Metal's operations will, among other things depend upon: (i) the availability of appropriate investment opportunities; (ii) Discovery Metal's ability to identify, select, acquire, grow and exit those investments; and (iii) Discovery Metal's ability to generate funds for future investments. Discovery Metals can expect to encounter competition from other entities that have investment objectives similar to those of the Company, including investment funds, institutional investors and strategic investors. These groups may compete for the same investments as Discovery Metals, may be better capitalized, have more personnel, have a longer operating history and have different return targets from Discovery Metals. As a result, Discovery Metals may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit Discovery Metal's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to Discovery Metals to invest in or that such investments can be made within a reasonable period of time. There can be no assurance that Discovery Metals will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities

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is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that Discovery is unable to find and make a sufficient number of investments.

Due Diligence

The due diligence process Discovery Metals undertakes in connection with investments may not reveal all facts that may be relevant to making an investment. Before making investments, although Discovery Metals conducts due diligence that management deems to be reasonable and appropriate based on the facts and circumstances applicable to each investment, there can be no assurance that the due diligence will identify all of the risks and perils associated with the investment. When conducting due diligence, Discovery Metals may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. The assistance of outside consultants, legal advisors, accountants and investment banks may be required in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, Discovery Metals will rely on the resources available to the Company, including information provided by the investee target company and, in some circumstances, third-party investigations. The due diligence investigation that Discovery Metals completes with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation can be costly and will not necessarily result in the investment being successful.

Volatility of Share Price

The market price of Discovery Metal's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's consolidated results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and prevailing market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of Discovery Metal's common shares. The purchase of Discovery Metal's common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment.

Need for Additional Capital and Access to Capital Markets

Discovery Metals anticipates that it has sufficient resources to meet its current obligations, however future investments by Discovery Metals may require a significant infusion of additional funds. Further financing may dilute the current holdings of shareholders and may thereby result in a loss for shareholders.

There can be no assurance that Discovery Metals will be able to obtain adequate financing, or financing on terms that are reasonable or acceptable for these or other purposes, or to fulfill the Company's future obligations as they become due. Failure to obtain such additional financing could result in delay or indefinite postponement of further investment or growth in Discovery Metal's business pursuits.

Reliance on Management's Expertise

Discovery Metals is dependent upon the effort, skill and business contacts of key members of its management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, Discovery

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Metal's continued success will depend upon the continued service of these individuals who are not obligated to remain employed with the Company. The loss of the services of any one or more of these individuals could have a material adverse effect on revenues, net income and cash flows and growth outlook including Discovery Metal's ability to maintain or grow existing assets, raise additional funds or find new investment opportunities in the future. Discovery Metals does not currently have any key person insurance in place for management.

No On-Going Active Business Operations

The Company's primary investment is cash. The Company is unlikely to generate any earnings or pay dividends until at least after its cash is more fully invested or in the alternative; a new business interest is secured. Further, no assurance can be provided that such new business interests can be secured or that any business interest that may be secured can be operated profitably or that the Company's investment activities in marketable and other securities held for trading will generate asset value growth that could result in positive cash flow, or that any future dividends could or would ever be paid.

Discovery Metals Stock Liquidity and Trading Price of Common Shares Relative to Profit and/or Net Asset Value

No assurance can be provided that an active and liquid market for the Company's common shares will be sustained and that the market accurately reflects the value of the shares. Investors may find it difficult to resell their shares.

Highly Speculative

Under normal circumstances, as stated elsewhere herein, an investment in Discovery Metal's common shares is highly speculative. Further, the nature of the Company's business activities makes an investment in the Company's shares that much more highly speculative.

Limited Resources

The Company has only a set amount of cash and management resources with which to identify and acquire any new potential business opportunities and there can be no assurance that the Company will be able to identify a suitable business opportunity. Further, even if such an opportunity is identified, there can be no assurance that the Company will be able to successfully complete the transaction and implement a profitable business plan.

While the Company currently has sufficient working capital available to it, the Company's ability to secure or operate any new business opportunity may require additional financing. The Company may not be able to secure financing on terms acceptable to it, if at all. Failure of the Company to secure sufficient financing could result in delays or prohibit the Company from securing a proposed business opportunity or proposed operations and could result in the Company going out of business.

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Potential for Interest Dilution

A transaction for a new business opportunity may be financed in all or in part by the issuance of additional securities by the Company and this may result in dilution to a shareholder's interest. This dilution may be significant and may also result in a change of control of the Company.

Ability to Secure Prerequisite Approvals

In the event that a suitable business or a marketable security investment opportunity is identified, the transaction may be subject to approvals by regulatory authorities and, in the case of a non-arm's length transaction, approval by the majority of any minority shareholders.

Shareholder rights

Unless a shareholder has a right to dissent and be paid fair value in accordance with applicable corporate or other law, a shareholder who votes against a proposed business marketable security investment opportunity for which a majority of minority shareholders have given approval, will have no rights of dissent and no entitlement to payment by the Company of fair value for the common shares.

Ability to retain a listing on a recognized stock exchange and possibility of trading halts or suspensions

Although the Company's shares now trade on the NEX, trading in the common shares of the Company may be halted or suspended from time-to-time for any number of reasons, including for failure by the Company to submit documents to the applicable regulatory authorities within required time periods.

Foreign operations and management residency

In the event that management of the Company resides outside of Canada or the Company identifies a foreign business opportunity, investors may find it difficult or impossible to effect service or notice to commence legal proceedings upon any management resident outside of Canada or upon the foreign business and may find it difficult or impossible to enforce any judgments obtained in Canadian courts against such persons or businesses.

Conflicts of interest

There are potential conflicts of interest to which some or all of the directors, officers, or insiders of the Company could be subject in connection with the operations of the Company. The directors and officers of the Company will not be devoting all of their time to the affairs of the Company. Some of the directors and officers of the Company are directors and officers of other companies. Some of the other companies are engaged in or could be engaged in the search for properties or business prospects that may be suitable business ventures or opportunities that could be of interest to the Company. Accordingly, situations may arise where some or all of the directors, officers or insiders of the Company could be in direct competition with the Company. The directors and officers of the Company are required by law to act in the best interest of the Company. They have the same obligations to other companies in respect of which they act as directors and officers. Discharge by the directors and officers of their obligations to the Company may result in a breach of their obligations to other companies, and in certain circumstances, this could expose the Company to liability to those companies. Similarly, discharge by the directors and officers of their obligations to the other companies could result in a breach of their

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obligation to act in the best interests of the Company. Such conflict in legal obligations may expose the Company to liability to others and impair its ability to achieve its business objectives. Conflicts will be subject to the procedures and remedies as provided under the British Columbia Business Corporations Act.

LIQUIDITY AND CAPITAL RESOURCES

The Company defines capital that it manages as cash and equity, consisting of issued common shares, contributed surplus and stock options. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, to fund existing operations and the search for new business opportunities in order to provide returns to its shareholders. The Company does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business. The Company manages and adjusts its capital structure as a result of changes in economic conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company 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 period ended May 31, 2017.

As at May 31, 2017, the Company had working capital of \$556,697 (August 31, 2016 – \$1,044,499) including cash that totaled \$451,522 (August 31, 2016 - \$1,059,933). As at May 31, 2017, the Company has no sources of revenue to fund its operating expenditures. In the previous fiscal year, the Company closed a private placement of 30 million common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000. On June 8, 2017, the Company announced its intention to complete the Offering to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at \$0.50 per subscription receipt. Management believes these financings will fund the Company's existing administrative needs for the foreseeable future and should be sufficient to fund the identified business acquisitions as described in the Proposed Transactions and Commitments and Contractual Obligations sections above. However, the Company will likely 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.

A summary of the Company's cash flows during the period ended May 31 is as follows:

	2017	2016
Cash flows used by operating activities	\$ (404,306)	\$ (276)
Cash flows used by financing activities	(204,105)	-
Decrease in cash for the period	(608,411)	(276)
Cash, beginning of the period	1,059,933	387
Cash, end of the period	\$ 451,522	\$ 111

Cash flows used by operating activities were \$404,306 for the period ended May 31, 2017 compared to \$276 during the period ended May 31, 2016. The \$404,030 increase in cash used in 2017 as compared to the 2016 period was primarily the result of administrative expenses involved in the maintenance of the Company's reporting requirements and project evaluation expenses associated with finding new investment opportunities.

Cash flows used by financing activities were \$204,105 for the period ended May 31, 2017 compared to \$nil during the period ended May 31, 2016. The cash used in 2017 was for US\$150,000 in loans advanced to the Vendors involved in the Proposed Transaction detailed above.

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SHARE CAPITAL

(a) Authorized

Unlimited common shares with no par value
Unlimited preferred voting shares with no par value

(b) Issued and Outstanding

As at May 31, 2017 and the date of this MD&A the total number of common shares issued and outstanding was 32,669,999.

(c) Shares issued

On July 28, 2016, the Company issued 1,500,000 common shares at \$0.05 per share to settle outstanding indebtedness of \$75,000.

On August 19, 2016, the Company closed a non-brokered private placement of 30,000,000 common shares at \$0.05 per share for gross proceeds of \$1,500,000.

There were no share transactions for the nine-month period ended May 31, 2017, or to the date of this MD&A.

(d) 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.

On October 3, 2016, the Company granted 3,000,000 options, which vested immediately, having an exercise price of \$0.45 each, exercisable at any time up until and including October 3, 2021. The fair value of the options so granted was determined to be \$999,950 using the Black-Scholes option pricing model under the following assumptions: risk-free interest rate - 0.65%; expected life - 5 years; expected volatility - 100% and expected dividends - nil.

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A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2015 and 2016	-	\$ -
Granted	3,000,000	0.45
Balance, May 31, 2017 and the date of this MD&A	3,000,000	\$0.45

As at May 31, 2017, and the date of this MD&A, outstanding options are as follows:

Expiry	Number of options outstanding	Weighted average exercise price per share	Average remaining life (years)
October 3, 2021	3,000,000	\$ 0.45	4.35
Fully vested and exercisable	3,000,000	\$ 0.45	4.35

RELATED PARTY TRANSACTIONS

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.

Summary of expenses incurred:

Nature	Relationship	For the nine-month period ended May 31, 2017	For the nine-month period ended May 31, 2016
General and administrative	A company with a director/officer in common with the Company	\$ 45,000	\$ -
Share-based payments	Directors and a company with a director/officer in common with the Company	\$ 999,950	\$ -
Interest on debt	Loans from former director/officers of the Company	\$ -	\$ 97,991

Summary of amounts due to related parties:

	May 31,	August 31,

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Type of Service	Nature of Relationship	2017	2016
Accounts payable and accrued liabilities	To a company with a director/officer in common with the Company	-	5,250
Due to related parties		\$ -	\$ 5,250

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, GST receivable, loans receivable, trade payables and accrued liabilities.

GST Receivable and loans receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Trade payables and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These financial instruments approximate fair value due to their short-term nature. The Company's other financial instrument, cash, which is classified as fair value through profit or loss and is measured under the fair value hierarchy using level one inputs.

(a) Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

I. 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 May 31, 2017, the Company had a cash balance of \$451,522 to settle current liabilities of \$112,059. All the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at May 31, 2017, the Company has no sources of revenue to fund its operating expenditures. In the previous fiscal year, the Company closed a private placement of 30 million common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000. On June 8, 2017, the Company announced its intention to complete the Offering to raise up to \$10,000,000 through the issuance of up to 20,000,000 subscription receipts at \$0.50 per subscription receipt. Management believes these financings will fund the Company's existing administrative needs for the foreseeable future and should be sufficient to fund the identified business acquisitions as described above in Proposed Transactions and Commitments and Contractual Obligations. However, the Company will likely 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.

II. 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 are exposed to

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credit risk. The Company has assessed the credit risk on its cash as low as its funds are held in highly rated Canadian financial institutions.

III. 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 considers it to have minimal exposure to interest rate risk as it has no interest-bearing investments or debt.

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. 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.

The Company is mainly exposed to foreign currency risk on financial instruments denominated in the United States Dollar, consisting of trade payables.

As at May 31, 2017, the Company's financial instruments denominated in the United States Dollar, with the equivalent Canadian Dollar amounts are as follows:

	United States Dollars	Canadian Dollars
Financial liabilities		
Trade payables	\$ 9,779	\$ 13,306
	\$ 9,779	\$ 13,306

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.

It is estimated that a 10% fluctuation in the United States Dollar against the Canadian dollar would have an insignificant effect on net loss for the period.

iii. Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in

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individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

MANAGEMENT OF CAPITAL

The Company defines capital as consisting of shareholder's equity (comprised of issued share capital, contributed surplus and deficit). The Company's objectives when managing capital are to support the identification and acquisition of a new business opportunity and thus the creation of shareholder value as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response 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 May 31, 2017, 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 period ended May 31, 2017.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year included:

i. Share-based payments

Determining the fair value of options and warrants requires the exercise of judgement 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.

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ii. Deferred Income tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

(b) Critical accounting judgements

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

i. Going Concern

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements.

CHANGES IN ACCOUNTING POLICIES

There has been no material impact on these financial statements from changes in accounting standards during the year.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the period ended May 31, 2017, and have not been applied in preparing the condensed interim consolidated financial statements. None of these is expected to have an effect on the Company's financial statements:

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

IFRS 16 - Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

Discovery Metals has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

ADDITIONAL INFORMATION

Additional information relating to the Company is available at www.sedar.com.