

Discoverymetals

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

(expressed in Canadian dollars)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

	Notes	September 30, 2019	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents	7	\$ 9,974,045	\$ 4,691,676
Sales tax and other receivables	8	106,544	984,547
Prepays and deposits		80,721	36,873
Investments		75,291	-
		10,236,601	5,713,096
Non-current			
Property and Equipment	9	357,094	239,611
Reclamation deposits		32,629	-
Mineral properties	10	28,448,352	1,264,007
TOTAL ASSETS		\$ 39,074,676	\$ 7,216,714
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	\$ 469,884	\$ 230,090
Current portion of lease liabilities	12	44,530	-
		\$ 514,414	\$ 230,090
Non-current			
Lease liabilities	12	99,279	-
TOTAL LIABILITIES		\$ 613,693	\$ 230,090
SHAREHOLDERS' EQUITY			
Share capital	13(b)	\$ 58,016,954	\$ 23,539,388
Contributed surplus		7,095,740	4,169,144
Warrants	13(d)	7,717,190	8,010,367
Accumulated other comprehensive loss		(261,422)	(102,958)
Accumulated deficit		(34,107,479)	(28,629,316)
TOTAL EQUITY		\$ 38,460,983	\$ 6,986,625
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 39,074,676	\$ 7,216,714

Commitments and contractual obligations (Note 22). Events after the reporting period (Note 25)

Approved on Behalf of the Board on November 27, 2019:

“Jeff Parr”

Jeff Parr – Director

“Murray John”

Murray John – Director

See accompanying notes to the condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF LOSS AND TOTAL COMPREHENSIVE LOSS**

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

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Expenses (income)					
General office and other expenses	15	\$ 453,295	\$ 231,708	\$ 1,059,226	\$ 1,049,139
Interest income		(26,145)	(26,295)	(63,447)	(92,265)
Interest expense	12	1,050	-	4,957	-
Professional fees	16	83,237	98,355	206,444	217,034
Exploration and project evaluation expenses	14	798,360	1,544,467	1,554,863	4,062,518
Share-based compensation	13(c)	1,614,616	142,367	1,718,504	439,818
Other income		(11,660)	-	(11,660)	-
Impairment of IVA receivable	8	1,000,710	-	1,000,710	-
Foreign exchange (gain) loss		(36,881)	(6,903)	8,565	(30,201)
Net loss		\$ (3,876,582)	\$ (1,983,699)	\$ (5,478,163)	\$ (5,646,043)
Other comprehensive loss (gain)		141,099	(48,902)	158,464	(38,045)
Net loss and total comprehensive loss		\$ (4,017,681)	\$ (1,934,797)	\$ (5,636,627)	\$ (5,607,998)
Weighted average shares outstanding					
Basic and diluted	13(b)	134,258,418	65,043,998	88,200,293	65,043,998
Net loss per share					
Basic and diluted		\$ (0.03)	\$ (0.03)	\$ (0.06)	\$ (0.09)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars) - Unaudited

Notes	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Operating Activities				
Net loss	\$ (3,876,582)	\$ (1,983,699)	\$ (5,478,163)	\$ (5,646,043)
Items not affecting cash:				
Depreciation	40,792	13,831	97,734	35,476
Share-based compensation	13(c) 1,614,616	142,367	1,718,504	439,818
Impairment of IVA receivable	1,000,710	-	1,000,710	-
Unrealized foreign exchange (gain) loss	(36,572)	(5,101)	11,644	(50,691)
Changes in non-cash operating working capital:				
Sales tax and other receivables	8 (125,952)	(244,982)	(122,707)	(650,153)
Prepays and deposits	1,683	(4,135)	(43,848)	(6,678)
Accounts payable and accrued liabilities	11 (39,995)	36,909	(93,691)	(187,406)
Net cash used in operating activities	\$ (1,421,300)	\$ (2,044,810)	\$ (2,909,817)	\$ (6,065,677)
Investing Activities				
Cash from acquisition of Levon Resources	193,358	-	193,358	-
Transaction costs	6 (594,795)	-	(594,795)	-
Acquisition of property and equipment	9 (28,049)	(48,939)	(29,824)	(120,749)
Acquisition of mineral properties	10 -	(41,126)	-	(113,305)
Net cash provided by (used in) investing activities	\$ (429,486)	\$ (90,065)	\$ (431,261)	\$ (234,054)
Financing Activities				
Issuance of shares, net of costs	7 8,987,270	-	8,987,270	-
Issuance of shares on exercise of options	29,036	-	29,036	-
Principal payment on lease liability	(10,861)	-	(32,264)	-
Net cash provided by financing activities	\$ 9,005,445	\$ -	\$ 8,984,042	\$ -
Effect of exchange rates on cash and cash equivalents	(319,893)	3,349	(360,595)	(6,528)
Increase (decrease) in cash	6,834,766	(2,131,526)	5,282,369	(6,306,259)
Cash and cash equivalents, beginning of period	7 3,139,279	8,060,078	4,691,676	12,234,811
Cash and cash equivalents, end of period	7 \$ 9,974,045	\$ 5,928,552	\$ 9,974,045	\$ 5,928,552
Supplemental Cash Flow Information:				
Income tax expense paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 1,050	\$ -	\$ 4,957	\$ -

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share information) - Unaudited

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2019		65,043,998	\$ 23,539,388	\$ 8,010,367	\$ 4,169,144	\$ (102,958)	\$ (28,629,316)	\$ 6,986,625
Share-based compensation	13(c)	-	-	-	1,718,504	-	-	1,718,504
Expiration of warrants issued under non-brokered private placement	13(d)	-	-	(346,993)	346,993	-	-	-
Shares issued under non-brokered private placement	13(b)	39,151,174	9,004,770	-	-	-	-	9,004,770
Finders' fees for private placement	13(b)	-	(17,500)	-	-	-	-	(17,500)
Replacement shares issued on close of Plan of Arrangement	13(b)	64,412,942	25,443,112	-	-	-	-	25,443,112
Replacement options issued on close of Plan of Arrangement	13(c)	-	-	-	879,247	-	-	879,247
Replacement warrants issued on close of Plan of Arrangement	13(d)	-	-	53,816	-	-	-	53,816
Shares issued on exercise of options	13(c)	100,000	47,184	-	(18,148)	-	-	29,036
Net loss and total comprehensive loss for the period		-	-	-	-	(158,464)	(5,478,163)	(5,636,627)
At September 30, 2019		168,708,114	\$ 58,016,954	\$ 7,717,190	\$ 7,095,740	\$ (261,422)	\$ (34,107,479)	\$ 38,460,983

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2018		65,043,998	\$ 23,539,388	\$ 8,010,367	\$ 3,650,374	\$ (346,429)	\$ (21,598,689)	\$ 13,255,011
Share-based compensation	13(c)	-	-	-	439,818	-	-	439,818
Net loss and total comprehensive loss		-	-	-	-	38,045	(5,646,043)	(5,607,998)
At September 30, 2018		65,043,998	\$ 23,539,388	\$ 8,010,367	\$ 4,090,192	\$ (308,384)	\$ (27,244,732)	\$ 8,086,831

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted) - Unaudited
For the Three and Nine Months Ended September 30, 2019 and 2018

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

The Company’s Board of Directors authorized the issuance of these unaudited condensed interim consolidated financial statements (the “interim financial statements”) on November 27, 2019.

2. BASIS OF PREPARATION

These interim financial statements for the three and nine months ended September 30, 2019 and 2018, have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). As such, certain disclosures required by IFRS have been condensed or omitted. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto as at and for the year ended December 31, 2018, the four-month period ending December 31, 2017 and the year ended August 31, 2017 (“consolidated financial statements”). The Company’s interim results are not necessarily indicative of its results for a full year.

These interim 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 September 30, 2019, the Company had working capital (defined as current assets less current liabilities) of \$9,722,187 (December 31, 2018 – \$5,483,006), shareholders’ equity of \$38,460,983 (December 31, 2018 – \$6,986,625) and an accumulated deficit of \$34,107,479 (December 31, 2018 – \$28,629,316).

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

a) Basis of Measurement

These interim financial statements have been prepared using the same accounting policies and methods of application as those disclosed in note 3 to the Company's consolidated financial statements except for those disclosed in Note 4 below.

b) Basis of Consolidation

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

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

The Company's principal subsidiaries and their geographic locations at September 30, 2019 were as follows:

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

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

c) Currency of Presentation

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

d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in foreign currencies are not re-translated. Total foreign exchange gains and losses are recognized in the income statement

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

and the unrealized portion is reported separately in the consolidated statement of cash flows. The foreign exchange differences arising from the translation of the subsidiary with functional currency different than the consolidated functional currency are recognized as currency translation adjustments in other comprehensive income (loss) in the consolidated statement of loss and total comprehensive income (loss).

4. CHANGES IN ACCOUNTING POLICIES

a) Application of new or amended standards effective January 1, 2019

i. IFRS 16 – Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, replacing *IAS 17 – Leases*. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity’s lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The transitional adjustments arising from the adoption are recognized in the opening balance sheet (refer to note 24).

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration. If the determination is made that the contract is, or contains, a lease, the Company recognizes a lease liability and a right-of-use asset (“ROU asset”) at the lease commencement date.

The Company has elected to apply certain exemptions and does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net earnings on a straight-line basis over the term of the lease.

Lease liability

The lease liability is initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Company’s incremental borrowing rate which is the rate which the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset, over a similar term and in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise the following (if applicable):

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

- Payments of penalties for terminating the lease, if the Company expects to exercise an option to terminate the lease.

The lease liability is subsequently measured by:

- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect the lease payments made; and
- Remeasuring the carrying amount to reflect any reassessment or lease modifications.

Right-of-use asset

The ROU asset is initially measured at cost, which comprises the following (if applicable):

- The amount of the initial measurement of the liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the Company; and
- An estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The ROU asset is subsequently measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. It is depreciated in accordance with the Company's accounting policy for property and equipment, from the commencement date to the earlier of the end of its useful life or the end of the lease term.

Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to net earnings over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

On the statement of financial position, the ROU assets are presented in 'Property and equipment' and the lease liabilities are presented in 'Lease liabilities'.

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

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

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company determined there to be no impact on the interim financial statements upon adoption.

b) Adoption of accounting policies as a result of the acquisition of Levon Resources Ltd.

i. Reclamation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore mineral properties in the period in which the obligation is incurred. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and restoration, reclamation and revegetation of affected areas.

The fair value of the liability for a rehabilitation provision is recorded when it is incurred. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related exploration and evaluation assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability, which is accreted over time through periodic charges to profit or loss. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

At September 30, 2019, the Company is not aware of any existing environmental problems related to any of its current or former properties that may result in a material liability to the Company.

5. CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements for the three and nine months ended September 30, 2019 are consistent with those applied and disclosed in note 5 of the consolidated financial statements. The Company's interim results are not necessarily indicative of its results for a full year.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

6. ACQUISITION OF LEVON RESOURCES LTD.

On August 2, 2019, the Company announced the closing of the acquisition of Levon Resources Ltd (“Levon”) by way of a statutory plan of arrangement, as previously announced on May 30, 2019. Pursuant to the Acquisition, Levon shareholders exchanged all issued and outstanding common shares, warrants and options for common shares, warrants and options of Discovery at a ratio of 0.55 Discovery common share, warrant or option for one common share, warrant or option of Levon. The total transaction consideration paid to securityholders of Levon was \$26,376,175 in aggregate value of common shares of Discovery and replacement warrants and options, based on the opening price of Discovery common shares on the Toronto Venture Stock Exchange (“TSXV”) of \$0.395 on August 2, 2019.

The activity of Levon does not constitute a business, as defined by IFRS 3, and consequently, Discovery has accounted for the acquisition of Levon as an asset acquisition. A summary of the fair value estimates of the equity consideration issued for the acquired assets is as follows:

Fair value estimate of the Discovery share consideration	\$	25,443,112
Fair value estimate of the consideration for warrants		53,816
Fair value estimate of the consideration for options		879,247
Total equity consideration	\$	26,376,175
Transaction costs ⁽¹⁾		594,795
Total cost of acquisition	\$	26,970,970

⁽¹⁾ Transaction costs totaling \$928,280 were paid by the Company during the three months ended September 30, 2019 of which \$594,795 were capitalized to mineral properties and \$333,485 were accrued by Levon but paid by the Company after closing of the Acquisition.

The fair values of the warrants and options were determined using the Black-Scholes valuation model. Model assumptions used in the calculations were as follows:

	Replacement options	Replacement warrants
Exercise price	\$ 0.291	\$ 0.909
Share price	\$ 0.395	\$ 0.395
Expected life (years)	1.00	0.53
Risk free interest rate	1.51%	1.51%
Expected volatility	92.1%	112.1%
Fair Value	\$ 0.182	\$ 0.038
Total number of replacement instruments issued	4,909,300	1,414,167
Total fair value	\$ 879,247	\$ 53,816

The equity consideration reflects the number of outstanding Levon commons shares and Levon common shares issuable upon the exercise of outstanding Levon options and warrants as at August 2, 2019. All issued and outstanding warrants and options (vested and unvested) of Levon at the Acquisition date were deemed converted into warrants and options of Discovery.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

The equity consideration has been allocated to the acquired assets, net of the assumed liabilities based on their relative fair value as follows:

	Purchase Price Allocation
Cash and cash equivalents	\$ 193,358
VAT receivables and other	41,211
Other current assets	81,366
Exploration and Evaluation assets	27,226,224
Other long-term assets	38,627
Total Assets assumed	27,580,786
Accounts payable and accrued liabilities	(609,816)
Net assets assumed	\$ 26,970,970

7. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018
Cash	\$ 9,884,045	\$ 4,601,676
Cash equivalents ⁽¹⁾	90,000	90,000
	\$ 9,974,045	\$ 4,691,676

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

On July 25, the Company announced it had closed a non-brokered private placement raising \$9,004,770 through the issuance of 39,151,174 common shares at a price of \$0.23 per common share. Discovery paid finders fees totalling \$17,500 to arms' length parties who introduced Discovery to investors.

8. SALES TAX AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018
Sales tax receivable	\$ 1,099,383	\$ 950,053
Impairment of sales tax receivable	(1,000,710)	-
Other receivables	7,871	34,494
	\$ 106,544	\$ 984,547

At September 30, 2019, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of \$2,743,721 including \$1,743,011 acquired in the Levon transaction. The Company does not have a history of collection of Mexican IVA recoverable amounts due to the recent commencement of operations in Mexico. In addition, there is a high degree of uncertainty regarding the timing of repayment of IVA amounts by the Mexican government.

As a result, on acquisition of Levon, no value was allocated to the IVA receivable balance and at September 30, 2019, the Company established a provision in full for the IVA receivable balance of \$1,000,710. The Company will continue to provide for 100% of the IVA recoverable balance until such time as there are sufficient indicators of recoverability.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

9. PROPERTY AND EQUIPMENT

	Equipment	Vehicles	Office & Furniture	Computer	Total
Cost					
Balance at December 31, 2018	\$ 68,151	\$ 83,827	\$ 37,929	\$ 107,670	\$ 297,577
IFRS 16 transition (note 24)	-	-	176,073	-	176,073
Balance at January 1, 2019	68,151	83,827	214,002	107,670	473,650
Additions ¹	22,763	4,398	-	2,663	29,824
Disposals	-	-	-	-	-
Currency translation adjustment	(2,913)	(876)	(272)	(851)	(4,912)
Balance at September 30, 2019	\$ 88,001	\$ 87,349	\$ 213,730	\$ 109,482	\$ 498,562
Accumulated depreciation					
Balance at January 1, 2019	\$ (6,441)	\$ (20,641)	\$ (5,324)	\$ (25,560)	\$ (57,966)
Additions ¹	(14,442)	(10,508)	(38,409)	(21,281)	(84,640)
Disposals	-	-	-	-	-
Currency translation adjustment	978	(14)	8	166	1,138
Balance at September 30, 2019	\$ (19,905)	\$ (31,163)	\$ (43,725)	\$ (46,675)	\$ (141,468)

Carrying amount	Equipment	Vehicles	Office & Furniture	Computer	Total
At December 31, 2018	\$ 61,710	\$ 63,186	\$ 32,605	\$ 82,110	\$ 239,611
At January 1, 2019	\$ 61,710	\$ 63,186	\$ 208,678	\$ 82,110	\$ 415,684
At September 30, 2019	\$ 68,096	\$ 56,186	\$ 170,005	\$ 62,807	\$ 357,094

(1) As part of the acquisition of Levon Resources Ltd., the Company acquired certain property and equipment including vehicles, machinery and computer hardware. Depreciation has been calculated for the period from acquisition date of August 2, 2019 to September 30, 2019 and based on the combined acquisition date fair values of \$5,998.

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

Carrying amount	Equipment	Vehicles	Office & Furniture	Computer	Total
At January 1, 2018	\$ 47,806	\$ 41,939	\$ 18,944	\$ 47,828	\$ 156,517
At December 31, 2018	\$ 61,710	\$ 63,186	\$ 32,605	\$ 82,110	\$ 239,611

The Company following table summarizes the changes in right-of-use assets within plant and equipment:

Leased assets	Total
At December 31, 2018	\$ -
IFRS 16 transition	176,073
At January 1, 2019	\$ 176,073
Depreciation	(34,450)
At September 30, 2019	\$ 141,623

10. MINERAL PROPERTIES

Balance at January 1, 2018	\$ 1,055,393
Acquisition of mineral properties ⁽¹⁾	113,305
Currency translation adjustment	95,309
Balance at December 31, 2018	\$ 1,264,007
Acquisition of mineral properties⁽²⁾	27,226,224
Currency translation adjustment	(41,879)
Balance at September 30, 2019	\$ 28,448,352

⁽¹⁾ During the year ended December 31, 2018, the Company purchased mineral concessions adjacent to the Minerva Project (\$72,179), La Kika Project (\$27,302) and Puerto Rico (\$13,824).

⁽²⁾ On August 2, 2019, the Company acquired Levon Resources Ltd. and the 100%-owned Cordero Project (note 6).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trade payables	\$ 434,371	\$ 228,536
Accrued liabilities	35,513	1,554
	\$ 469,884	\$ 230,090

12. LEASE LIABILITIES

	September 30, 2019	January 1, 2019
IFRS 16 transition (note 24)	\$ -	\$ 176,073
Lease liabilities	143,809	176,073
Less: current portion	44,530	43,232
Non-current portion	\$ 99,279	\$ 132,841

⁽¹⁾ As a result of the adoption of IFRS 16, the Company recognized a lease liability of \$176,073 on January 1, 2019 related to the long-term lease contract for office space, with a remaining term of 3.5 years at an incremental borrowing rate of 3.95%.

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Interest expense for the three and nine months ended September 30, 2019 related to the lease liability was \$1,492 and \$4,794, respectively, (three and nine Months ended September 30, 2018 - \$nil).

13. SHARE CAPITAL AND WARRANTS

a) Authorized

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

b) Shares issued and outstanding

	Common Shares	Amount
As at December 31, 2018	65,043,998	\$ 23,539,388
Shares issued on Acquisition of Levon Resources Ltd.	64,412,942	25,443,112
Shares issued on Private placement	39,151,174	9,004,770
Finders' fees on Private placement	-	(17,500)
Shares issued on exercise of options	100,000	47,184
As at September 30, 2019	168,708,114	\$ 58,016,954

During the three months ended September 30, 2019, the Company completed the acquisition of Levon Resources Ltd. and issued 64,412,942 common shares (note 6). In addition, the Company closed a non-brokered private placement and issued 39,151,174 common shares for gross proceeds of 9,004,770 (note 7).

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.

During the three and nine months ended September 30, 2019, an aggregate 5,300,000 options were granted to certain management, directors, consultants and employees with an exercise price of \$0.48 and a five-year expiry from the date of grant (three and nine months ended September 30, 2018 – 700,000 options granted with a weighted average exercise price of \$0.51 and five-year term to expiry). Options granted to directors vested immediately while options granted to officers and employees vested 1/3 immediately, and 1/3 on each subsequent anniversary of grant date. Options issued to consultants have a vesting schedule of 1/8 each quarter beginning three months after grant date.

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In addition, an aggregate 4,909,300 replacement options were issued on completion of the acquisition of Levon Resources on August 2, 2019 at an exercise price of \$0.2909 with a one-year term to expiry from the acquisition date. The fair value of these options was determined using the Black-Scholes model for option valuation (note 6). During the three months ended September 30, 2019, 100,000 of these options were exercised for gross proceeds of \$29,036.

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

	Outstanding	Weighted Average Exercise Price
As at January 1, 2018	5,433,333	\$ 0.57
Options granted	700,000	0.51
Options expired	(550,000)	0.45
Options forfeited or cancelled	(483,333)	0.81
As at December 31, 2018	5,100,000	\$ 0.56
Replacement options issued	4,909,300	0.29
Options granted	5,300,000	0.48
Options exercised	(100,000)	0.29
Options expired	(133,333)	0.48
Options forfeited or cancelled	(16,667)	0.48
As at September 30, 2019	15,059,300	\$ 0.45

The share-based compensation expense for the three and nine months ended September 30, 2019 was \$1,614,616 and \$1,718,504, respectively (three and nine months ended September 30, 2018 - \$142,367 and \$439,818, respectively).

As at September 30, 2019, the options outstanding and exercisable are as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number	Weighted average remaining life	Weighted average exercise price	Number	Weighted average remaining life	Weighted average exercise price
\$0.45	650,000	2.01	\$0.45	650,000	2.01	\$0.45
\$0.60	3,300,000	2.88	\$0.60	3,266,667	2.88	\$0.60
\$0.48	300,000	3.13	\$0.48	200,000	3.13	\$0.48
\$0.53	300,000	3.27	\$0.53	200,000	3.27	\$0.53
\$0.50	400,000	3.78	\$0.50	266,667	3.78	\$0.50
\$0.29	4,534,300	0.84	\$0.29	4,534,300	0.84	\$0.29
\$0.71	275,000	0.84	\$0.71	275,000	0.84	\$0.71
\$0.48	5,300,000	4.88	\$0.48	3,233,333	4.88	\$0.48
	15,059,300	1.44	\$0.45	12,625,967	1.36	\$0.45

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The fair values of the option grants have been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three and Nine months Ended September 30, 2019	Three and Nine months Ended September 30, 2018
Exercise price	\$ 0.48	\$ 0.53
Share price	\$ 0.48	\$ 0.53
Expected life (years)	5	5
Risk free interest rate	1.13%	1.97%
Expected volatility	86%	100%
Expected forfeiture rate	13%	-
Dividend yield	-	-
Fair Value	\$ 0.32	\$ 0.40

Refer to note 6 for valuation assumptions used for replacement options.

d) Warrants

During the three and nine months ended September 30, 2019, an aggregate 1,414,168 replacement warrants were issued on completion of the acquisition of Levon Resources Ltd. on August 2, 2019 with an exercise price of \$0.91 and an expiry date under the original terms of February 13, 2020. The fair value of these replacement options was determined using the Black-Scholes valuation model (note 6).

On July 8, 2019, the warrants issued as part of the 2017 private placement were extended 18 months to February 17, 2021. During the nine months ended September 30, 2019, 1,244,460 warrants with an exercise price of \$0.60 expired unexercised.

Warrants outstanding as at September 30, 2019 and December 31, 2018 are summarized as follows:

	Term	Expiry Date	Exercise Price	Number	Value	Amount
As at December 31, 2018	1.5 and 2 years	2/17/2019 and 8/17/2019	\$0.60 and \$1.00	32,908,960	\$0.24 to \$0.28	\$ 8,010,367
Replacement warrants	1 years	2/13/2020	\$0.91	1,414,168	\$0.91	\$ 53,816
Warrants expired	1.5 years	2/17/2019	\$0.60	(1,244,460)	\$0.28	\$ (346,993)
As at September 30, 2019	1 to 2 years	2/13/2020 and 2/17/2021	\$0.91-\$1.00	33,078,668	\$0.24	\$ 7,717,190

The remaining contractual lives of Warrants outstanding as at September 30, 2019 are as follows:

Number of Warrants	Weighted average remaining life	Weighted average exercise price
33,078,668	1.34 years	\$1.00

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14. EXPLORATION AND PROJECT EVALUATION

Three Months Ended September 30, 2019								
	Puerto Rico	La Kika	Minerva	Monclova	Cordero	Other ⁽¹⁾	Project Evaluation	Total
Permitting	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -
Mining duties	26,658	4,251	7,256	17,319	-	2,275	-	57,759
Surface access	-	-	3,257	-	65,111	-	-	68,368
Site access	11,979	-	-	14,284	-	-	-	26,263
Drilling	-	-	-	-	317,503	-	-	317,503
Mapping, Sampling & Assays	-	-	-	-	-	-	-	-
Geophysics	-	-	-	-	128,990	-	-	128,990
Salaries and benefits	28,050	-	25,293	24,702	65,813	-	-	143,858
Travel	1,571	-	591	3,746	2,832	-	-	8,740
Administrative and other	5,428	-	3,266	3,045	8,378	-	-	20,117
Project Evaluation	-	-	-	-	-	-	26,762	26,762
Total	\$ 73,686	\$ 4,251	\$ 39,663	\$ 63,096	\$ 588,627	2,275	\$ 26,762	\$ 798,360

Nine Months Ended September 30, 2019								
	Puerto Rico	La Kika	Minerva	Monclova	Cordero	Other ⁽¹⁾	Project Evaluation	Total
Permitting	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -
Mining duties	58,969	9,403	25,812	38,310	-	5,034	-	137,528
Surface access	-	-	24,294	-	65,111	-	-	89,405
Site access	11,979	-	-	41,735	-	-	-	53,714
Drilling	-	-	-	-	317,503	-	-	317,503
Mapping, Sampling & Assays	7,000	-	-	-	-	-	-	7,000
Geophysics	-	-	10,998	-	128,990	-	-	139,988
Salaries and benefits	137,504	-	91,871	92,966	65,814	-	-	388,155
Travel	28,133	-	13,290	15,986	2,832	-	-	60,241
Administrative and other	42,142	-	34,922	13,499	8,378	-	-	98,941
Project Evaluation	-	-	-	-	-	-	262,388	262,388
Total	\$ 285,727	\$ 9,403	\$ 201,187	\$ 202,496	\$ 588,628	5,034	\$ 262,388	\$ 1,554,863

1) Other includes Jemi Rare, Renata and Santa Rosa

Three Months Ended September 30, 2018								
	Puerto Rico	La Kika	Minerva	Monclova	Other ⁽¹⁾	Project Evaluation	Total	
Permitting	\$ 447,373	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 447,373	
Mining duties	40,219	2,740	7,455	25,653	2,152	-	78,219	
Surface access	6,834	1,077	-	-	3,219	-	11,130	
Site access	-	-	-	34,407	-	-	34,407	
Drilling	-	-	-	-	-	-	-	
Mapping, Sampling & Assays	131,629	-	245,448	182,463	-	-	559,540	
Geophysics	-	-	-	-	-	-	-	
Salaries and benefits	135,145	-	40,320	22,991	-	-	198,456	
Travel	51,567	-	14,273	18,692	-	-	84,532	
Administrative and other	47,206	-	43,544	40,060	-	-	130,810	
Project Evaluation	-	-	-	-	-	-	-	
Total	\$ 859,973	\$ 3,817	\$ 351,040	\$ 324,266	\$ 5,371	\$ -	\$ 1,544,467	

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For the Three and Nine months ended September 30, 2019 and 2018

Nine Months Ended September 30, 2018							
	Puerto Rico	La Kika	Minerva	Monclova	Other ⁽¹⁾	Project Evaluation	Total
Permitting	\$ 1,455,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,445,273
Mining duties	47,931	5,467	13,723	45,072	4,266	-	116,461
Surface access	6,834	2,419	24,479	40,240	3,219	-	77,191
Site access	-	-	-	34,407	-	-	34,407
Drilling	-	149,862	-	-	-	-	149,862
Mapping, Sampling & Assays	359,350	-	397,067	409,121	-	-	1,165,538
Geophysics	-	-	-	-	-	-	-
Salaries and benefits	283,492	17,064	85,375	68,046	-	-	453,977
Travel	85,933	5,136	48,255	52,674	-	-	191,998
Administrative and other	137,916	31,735	138,255	119,905	-	-	427,811
Project Evaluation	-	-	-	-	-	-	-
Total	\$ 2,366,729	\$ 211,683	\$ 707,154	\$ 769,465	\$ 7,487	\$ -	\$ 4,062,518

1) Other includes Jemi Rare, Renata and Santa Rosa

a) Puerto Rico

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

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

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

PAYMENT TYPE	ORIGINAL TERM	AMENDED TERM
Drill Permit milestone	- 500,000 common shares - US\$300,000 cash in lump sum payment	- US\$300,000 cash in 15 equal monthly instalments
Drill Permit milestone	- Four tranches of 500,000 common shares issued annually beginning August 17, 2019	- Four tranches of 500,000 common shares issued annually beginning the latter of August 17, 2019 or receipt of Drill Permit
Purchase Option work required	- US\$12,500,000 minimum spend over five (5) years	- 12,000 meters of drilling over three (3) years

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Purchase Option consideration	- Higher of 30% of fair market value of the Project or US\$10,000,000. - Payment in common shares and cash	- Higher of 20% of fair market value of the Project or 18,000,000 common shares. - Payment all in common shares
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In addition to the amendment of the Agreement, the Company signed a 30-year agreement with the Boquillas del Carmen Ejido which grants full access for all exploration and mining activities both surface and underground. Consideration of 200,000MXP (approximately \$13,500) was paid on signing with additional annual payments of 200,00MXP over the term of the agreement.

15. GENERAL OFFICE AND OTHER EXPENSES

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Travel	\$ 11,916	\$ 22,995	\$ 23,698	\$ 60,616
Salaries and benefits	194,825	97,667	564,773	648,473
Shareholder communication and investor relations	39,125	9,197	55,239	40,804
Filing and transfer agent fees	64,039	8,833	84,552	27,414
Business development	-	2,633	16,587	36,877
Rent	25,693	44,400	59,007	127,635
Depreciation	40,792	13,831	97,734	35,476
General office and other	76,905	32,152	157,636	71,844
	\$ 453,295	\$ 231,708	\$ 1,059,226	\$ 1,049,139

16. PROFESSIONAL FEES

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Legal	\$ 51,454	\$ 78,806	\$ 78,178	\$ 124,794
Audit and accounting	15,129	19,549	111,612	86,913
Consulting	16,654	-	16,654	5,327
	\$ 83,237	\$ 98,355	\$ 206,444	\$ 217,034

17. INCOME TAXES

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Loss before tax at statutory rate of 28% (2018 – 27%)	\$ 1,124,951	\$ 535,599	\$ 1,557,378	\$ 1,524,432
Effect on taxes of:				
Non-deductible expenses	(455,647)	(40,241)	(487,845)	(123,194)
Change in deductible temporary differences	(669,304)	(495,358)	(1,069,533)	(1,401,238)
Income tax expense	\$ -	\$ -	\$ -	\$ -

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18. CAPITAL MANAGEMENT

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

The Company manages its capital structure to maximize its financial flexibility to enable the Company to respond to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As at September 30, 2019, aside from the long-term portion of the lease liability (note 12), 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 three and nine months ended September 30, 2019.

19. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, other receivable and deposits, investments in marketable securities, accounts payable and accrued liabilities and lease liabilities.

Cash and cash equivalents, accounts receivable and deposits are classified as receivables and are measured at amortized cost using the effective interest method. Investments are classified as receivables and are measured at fair value through profit and loss. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These financial instruments approximate their fair value due to their short-term nature.

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

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

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

As at September 30, 2019 the Company had no financial instruments classified as Level 2 or 3.

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20. FINANCIAL RISK MANAGEMENT

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

a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2019, the Company had a cash and cash equivalents balance of \$9,974,045 (December 31, 2018 – \$4,691,676) to settle current liabilities of \$514,414 (December 31, 2018 – \$230,090). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

As at September 30, 2019, the Company has no sources of revenue to fund its operating expenditures. Since inception the Company has relied solely on the gross proceeds of \$15,618,500 received through a non-brokered private placement of 31 million common shares at a price of \$0.50 per share during the year ended December 31, 2017 to fund its operating expenditures. On July 25, 2019, the Company announced a non-brokered private placement through which gross proceeds of \$9,004,770 were raised at a price of \$0.23 per share (refer to note 13b). On November 4, 2019, the Company announced another non-brokered private placement through which gross proceeds of \$19,000,000 were raised at a price of \$0.45 (refer to note 25).

Management believes these financings will fund the Company's initial exploration work on the properties in Coahuila and Chihuahua, Mexico as well as the existing administrative needs for the near term. However, the Company will require additional financing to accomplish the Company's long-term strategic objectives. Future funding may be obtained by means of issuing share capital, or debt financing. If the Company is unable to continue to finance itself through these means, it is possible that the Company will be unable to continue as a going concern. Consequently, the Company is currently exposed to a moderate to low level of liquidity risk.

b) Credit risk

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

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

	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 9,974,045	\$ 4,691,676
Other receivables	7,871	34,494
Deposits	10,589	10,693
	\$ 9,992,505	\$ 4,736,863

c) Market Risks

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

i. Interest rate risk

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

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. At September 30, 2019, cash balances were held primarily in Canadian dollars. Foreign currency risk is the risk that the value of the Company's financial instruments denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. Changes in the exchange rate between foreign currencies and the Canadian Dollar could have a significant impact on the Company's financial position, results of operations, and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and MXP.

As at September 30, 2019 and December 31, 2018, the Company had the following foreign currency denominated trade payables:

	September 30, 2019	December 31, 2018
United States dollar	\$ 395	\$ 38,077
Mexican Peso	9,773	108,625
	\$ 10,168	\$ 146,702

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It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss at September 30, 2019 by approximately \$4,721 (December 31, 2018: \$19,035).

As at September 30, 2019, Management has determined the Company's exposure to foreign currency risk to be at an acceptable level.

iii. Price risk

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

As at September 30, 2019 Management has determined the Company's exposure to price risk to be at an acceptable level.

21. SEGMENTED INFORMATION

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

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Canada	\$ (2,039,754)	\$ (224,156)	\$ (3,023,763)	\$ (1,233,216)
Mexico	(1,977,927)	(1,710,641)	(2,612,864)	(4,374,782)
Net loss and total comprehensive loss	\$ (4,017,681)	\$ (1,934,797)	\$ (5,636,627)	\$ (5,607,998)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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22. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

a) Puerto Rico project

On completion of the permitting for the Puerto Rico project, the Company will have to pay USD\$300,000 over 15 months, beginning 30 calendar days after the receipt of the permit (refer to note 14a)).

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

b) Monclova project

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

c) Other commitments

Effective January 1, 2019, the Company adopted IFRS 16 – Leases which brings operating leases onto the statement of financial position while allowing for certain exemptions based on duration of the lease and total dollar value of the contract. As a result of the adoption of IFRS 16, the Company determined that the office premise lease previously accounted for as an operating lease, matched the criteria under IFRS 16 for setting up a right-of-use asset and associated liability (note 24).

The Company has operating leases for rent and certain office equipment that fall within the IFRS exemption criteria. Total payments made during the three and nine months ended September 30, 2019 for these operating leases were \$5,370 and \$6,750 respectively (three and nine months ended September 30, 2018 - \$690 and \$2,070, respectively).

Total future minimum lease payments, under non-cancellable operating leases as at September 30, 2019 and December 31, 2018 are as follows:

Year	September 30, 2019	December 31, 2018
2019	\$ 7,710	\$ 2,760
2020	8,860	1,840
	\$ 16,570	\$ 4,600

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

23. 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.

A company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the three and nine months ended September 30, 2019 totaled \$1,917 and \$20,365, respectively (three and nine months ended September 30, 2018 – \$13,243 and \$44,865 respectively). The Company had \$1,939 in expenses payable to this company as at September 30, 2019 (December 31, 2018 – \$5,772). These expenses are not included in the table below.

Under similar arrangements, during the three and nine months ended September 30, 2019 the Company reimbursed expenses of \$145 and \$5,472 (three and nine months ended September 30, 2018 – \$nil and USD\$756) to other companies which have a Director in common. There was \$14,291 in expenses payable at September 30, 2019 (December 31, 2018 – USD\$707).

These expenses are not included in the tables below.

Transaction Type	Nature of Relationship	Three Months Ended September 30,	
		2019	2018
Share-based payments	Directors and officers	\$ 868,115	\$ 86,099
Salaries and benefits	Officers	162,451	156,231
Consulting fees	Director	26,162	-
Directors fees	Directors	43,750	43,750
		\$ 1,100,478	\$ 286,080

Transaction Type	Nature of Relationship	Nine months Ended September 30,	
		2019	2018
Share-based payments	Directors and officers	\$ 931,148	\$ 251,870
Salaries and benefits	Officers	494,675	422,051
Consulting fees	Director	26,162	-
Directors fees	Directors	148,333	131,250
		\$ 1,600,318	\$ 805,171

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

A summary of amounts due to related parties:

Transaction Type	Nature of Relationship	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	A director and a company with a director/officer in common with the Company	\$ 1,554	\$ 1,554
		\$ 1,554	\$ 1,554

A director of the Company is also party to the mineral exploration and option agreements and amendments thereto, entered into between the Company and the Vendors. Refer to the Company's management information circular dated June 5, 2019 for additional details.

24. IFRS TRANSITION ADJUSTMENTS

The Company has applied IFRS 16 using the modified retrospective approach which requires the cumulative effect of the initial application to be recognized in retained earnings at January 1, 2019. The Company determined the impact to opening retained earnings to be immaterial and no adjustment was made.

On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the applicable incremental borrowing rate as of January 1, 2019 of 3.95%. The company did not have any leases previously classified as finance leases under IAS 17.

The Company applied certain practical expedients and exemptions permitted under IFRS 16 as follows:

- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- The accounting for operating leases of low-value assets to remain as operating leases; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table summarizes the difference between operating lease commitments disclosed immediately preceding the date of initial application and the lease liabilities in the statement of financial position at the date of initial application:

Operating lease commitments at December 31, 2018	\$ 361,243
Less: short-term and low-value operating leases	(4,600)
Operating lease commitments subject to IFRS 16	\$ 356,643
Discounted using the incremental borrowing rate of 3.95%	176,073
Lease liabilities recognized at January 1, 2019	176,073
Less: current portion	43,232
Non-current portion	\$ 132,841

The associated ROU asset was measured at the amount equal to the lease liabilities and included in Property and equipment on the statement of financial position.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Three and Nine months ended September 30, 2019 and 2018

25. EVENTS AFTER THE REPORTING PERIOD

a) Non-brokered private placement

On November 5, the Company announced it had closed an oversubscribed non-brokered private placement raising \$19,000,000 through the issuance of 38,911,108 common shares at a price of \$0.45 per common share and 3,311,111 subscription receipts at a price of \$0.45 per subscription receipt. The Company paid cash finders fees totalling \$972,450 and issued 1,063,833 broker warrants with an exercise price of \$0.50 and a 24-month expiry to arms' length parties who introduced the Company to investors.