Discovery Metals

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three-months ended March 31, 2018

and

February 28, 2017

(expressed in Canadian dollars)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

	Notes		March 31, 2018		December 31, 2017
ASSETS					
Current					
Cash and cash equivalents	**6**	**$**	**10,317,254**	$	12,234,811
Sales tax and other receivables			**411,238**		212,894
Prepaids and deposits			**28,609**		37,787
			10,757,101		12,485,492
Non-current					
Property and Equipment	**7**		**209,939**		156,517
Mineral properties	**8**		**1,170,196**		1,055,393
TOTAL ASSETS		**$**	**12,137,236**	$	13,697,402
LIABILITIES					
Current					
Accounts payable and accrued liabilities	**9**	**$**	**358,225**	$	442,391
TOTAL LIABILITIES			**358,225**		442,391
SHAREHOLDERS' EQUITY					
Share capital	**10(b)**		**23,539,388**		23,539,388
Contributed surplus			**3,819,807**		3,650,374
Warrants	**10(e)**		**8,010,367**		8,010,367
Accumulated other comprehensive loss			**(445,362)**		(346,429)
Accumulated deficit			**(23,145,189)**		(21,598,689)
TOTAL EQUITY			**11,779,011**		13,255,011
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**12,137,236**	$	13,697,402

Commitments and contractual obligations (Note 19)

Approved on Behalf of the Board on May 17, 2018:

"Jeff Parr"
Jeff Parr – Director

"Murray John"
Murray John – Director

See accompanying notes to the 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 March 31, 2018		Three Months Ended February 28, 2017
Expenses (income)					
General office and other expenses	**12**	**$**	**437,511**	$	19,112
Interest income			**(34,308)**		-
Professional fees	**13**		**29,438**		18,429
Exploration and project evaluation expenses	**11**		**1,186,436**		94,529
Share-based compensation	**10(d)**		**169,433**		-
Foreign exchange (gain) loss			**(242,010)**		14,230
Net loss		**$**	**1,546,500**	$	146,300
Other comprehensive loss			**98,933**		-
Net loss and total comprehensive loss		**$**	**(1,645,433)**	$	(146,300)
Weighted average shares outstanding					
Basic and diluted	**10(b)**		**65,043,998**		32,669,998
Net loss per share					
Basic and diluted		**$**	**(0.02)**	$	-

See accompanying notes to the consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars) - Unaudited

	Notes		Three Months Ended March 31, 2018		Three Months Ended February 28, 2017
Operating Activities					
Net loss		**$**	**(1,546,500)**	$	(146,300)
Items not affecting cash:					
Depreciation			**9,865**		-
Share-based compensation	**10(d)**		**169,433**		-
Unrealized foreign exchange (gain) loss			**(263,023)**		14,230
Changes in non-cash operating working capital:					
Sales tax and other receivables			**(198,344)**		(5,229)
Prepaids and deposits			**9,178**		-
Accounts payable and accrued liabilities	**9**		**(84,166)**		36,183
Net cash used in operating activities		**$**	**(1,903,557)**	$	(101,116)
Investing Activities					
Acquisition of property and equipment	**7**		**(63,287)**		-
Net cash used in investing activities		**$**	**(63,287)**	$	-
Financing Activities					
Net cash provided by financing activities		**$**	**-**	$	-
Effect of exchange rates on cash and cash equivalents			**49,287**		-
Decrease in cash			**(1,917,557)**		(101,116)
Cash and cash equivalents, beginning of period	**6**		**12,234,811**		1,037,107
Cash and cash equivalents, end of period	**6**	**$**	**10,317,254**	$	935,991
Supplemental Cash Flow Inflow Information:					
Income tax expense paid		**$**	**-**	$	-
Interest paid		**$**	**-**	$	-

See accompanying notes to the 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, 2018		**65,043,998**	**$ 23,539,388**	**$ 8,010,367**	**$ 3,650,374**	**$ (346,429)**	**$ (21,598,689)**	**$ 13,255,011**
Share-based compensation	**10(d)**	**-**	**-**	**-**	**169,433**	**-**	**-**	**169,433**
Net loss and total comprehensive loss		**-**	**-**	**-**	**-**	**(98,933)**	**(1,546,500)**	**(1,645,433)**
At March 31, 2018		**65,043,998**	**$ 23,539,388**	**$ 8,010,367**	**$ 3,819,807**	**$ (445,362)**	**$ (23,145,189)**	**$ 11,779,011**

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At December 1, 2016		32,669,998	$ 15,881,039	$ -	$ 2,272,459	$ -	$ (17,130,236)	$ 1,023,262
Net loss and total comprehensive loss		-	-	-	-	-	(146,300)	(146,300)
At February 28, 2017		32,669,998	$ 15,881,039	$ -	$ 2,272,459	$ -	$ (17,276,536)	$ 876,962

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

The Company's Board of Directors authorized the issuance of the consolidated financial statements on May 17, 2018.

2. BASIS OF PREPARATION

As a result of the change in year-end from August 31 to December 31, the comparative period for the three months ended March 31, 2018 is the three months ended February 28, 2017. Certain of the comparative figures have been reclassified to conform with the current period presentation.

These condensed interim consolidated financial statements for the three months ended March 31, 2018 and February 28, 2017 ("interim financial statements"), 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 four-month period ended 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 March 31, 2018, the Company had working capital of $10,398,876 (December 31, 2017 – $12,043,100), shareholders' equity of $11,779,011 (December 31, 2017 – $13,255,011) and an accumulated deficit of $23,145,189 (December 31, 2017 – $21,598,689).

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Measurement

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.

b) Basis of Consolidation

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

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

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

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

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

c) Currency of Presentation

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

d) Foreign currency translation

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

4. CHANGES IN ACCOUNTING POLICIES

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

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

i. *IFRS 9 – Financial Instruments* (“IFRS 9”)

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

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

The key requirements of IFRS 9 as they relate to the Company include the following:

- Subsequent to initial measurement at fair value, all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost in subsequent periods. Financial assets that have a business model whose objective is achieved by both collecting the contractual cash flows and selling financial assets are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at fair value through profit and loss (“FVTPL”) in subsequent accounting periods. In addition, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s FVTOCI, with only dividend income generally recognized in profit or loss. Transaction costs for financial assets held at FVTPL are expensed, for all other financial assets, they are recognized at fair value at initial measurement less any directly attributable transaction costs.

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

- For the impairment of financial assets, IFRS 9 requires an 'expected credit loss' model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- None of the Company's financial instrument classification has changed significantly as a result of the adoption of the new standard. The adoption was made on retrospective basis without the restatement of the comparative period.

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

- There are no transitional impacts regarding financial liabilities with regards to classification and measurement.

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

On December 8, 2016, the IASB issued IFRIC 22 which clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt.

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

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

The Company is currently evaluating the impact the following standards are expected to have on its consolidated financial statements.

i. *IFRS 16 – Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, replacing *IAS 17 - Leases*. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the impact of the adoption of IFRS 16 but does not anticipate there to be a material impact on its consolidated financial statements.

(Expressed in Canadian dollars, except where otherwise noted)

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 months ended March 31, 2018 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.

6. CASH AND CASH EQUIVALENTS

		March 31, 2017		December 31, 2017
Cash	**$**	**10,227,254**	$	12,144,811
Cash equivalents [1]		**90,000**		90,000
	$	**10,317,254**	$	12,234,811

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

7. PROPERTY AND EQUIPMENT

		Equipment		**Vehicles**		**Furniture**		**Computer**		**Total**
Cost										
Balance at January 1, 2018	$	47,806	$	44,001	$	19,500	$	51,721	$	163,028
Additions		**15,213**		**39,587**		**6,247**		**2,240**		**63,287**
Balance at March 31, 2018	**$**	**63,019**	**$**	**83,588**	**$**	**25,747**	**$**	**53,961**	**$**	**226,315**
Accumulated depreciation										
Balance at January 1, 2018	$	-	$	(2,062)	$	(556)	$	(3,893)	$	(6,511)
Additions		**(1,408)**		**(3,147)**		**(975)**		**(4,335)**		**(9,865)**
Balance at March 31, 2018	**$**	**(1,408)**	**$**	**(5,209)**	**$**	**(1,531)**	**$**	**(8,228)**	**$**	**(16,376)**
Carrying amount at January 1, 2018	$	47,806	$	41,939	$	18,944	$	47,828	$	156,517
Carrying amount at March 31, 2018	**$**	**61,611**	**$**	**78,379**	**$**	**24,216**	**$**	**45,733**	**$**	**209,939**

(Expressed in Canadian dollars, except where otherwise noted)

8. MINERAL PROPERTIES

		Amount
Balance at August 31, 2017	$	1,164,406
Currency translation adjustment		(109,013)
Balance at December 31, 2017	$	1,055,393
Currency translation adjustment		**114,803**
Balance at March 31, 2018	**$**	**1,170,196**

(1) Option Agreements for Jemi Rare, Santa Rosa and Monclova Properties did not require cash or share payments. Refer to note 9c of the consolidated financial statements for the four months ended December 31, 2017.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		March 31, 2017		December 31, 2017
Trade payables	**$**	**192,833**	$	146,201
Sales tax payable		**46,602**		16,811
Accrued liabilities		**118,790**		279,379
	$	**358,225**	$	442,391

10. SHARE CAPITAL AND WARRANTS

a) Authorized

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

b) Shares issued and outstanding

	Common Shares		Amount
As at August 31, 2017	65,043,998	$	23,539,388
As at December 31, 2017	65,043,998	$	23,539,388
As at March 31, 2018	**65,043,998**	**$**	**23,539,388**

c) Stock Options

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

(Expressed in Canadian dollars, except where otherwise noted)

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

	Outstanding	Weighted Average Exercise Price
As at August 31, 2017	4,800,000	$ 0.56
Options granted	900,000	0.68
Options forfeited or cancelled	(266,667)	0.81
As at December 31, 2017	5,433,333	$ 0.57
Options granted	**300,000**	**0.53**
Options forfeited or cancelled	**(100,000)**	**0.81**
As at March 31, 2018	**5,633,333**	**$ 0.56**

The share-based compensation expense for the three months ended March 31, 2018 was $169,433 (three months ended February 28, 2017 - $nil).

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

	Options Outstanding			Options Exercisable		
Exercise Price	Number	Weighted average remaining life	Weighted average exercise price	Number	Weighted average remaining life	Weighted average exercise price
$0.45	650,000	3.51 years	$0.45	650,000	3.51 years	$0.45
$0.45	550,000	0.38 years	$0.45	550,000	0.38 years	$0.45
$0.60	3,600,000	4.38 years	$0.60	2,366,667	4.38 years	$0.60
$0.81	183,333	4.47 years	$0.81	183,333	4.47 years	$0.81
$0.475	350,000	4.62 years	$0.475	116,667	4.62 years	$0.475
$0.53	300,000	4.78 years	$0.53	100,000	4.78 years	$0.53
	5,633,333	**3.93 years**	**$0.56**	**3,966,667**	**3.70 years**	**$0.56**

d) Warrants

There were no warrant transactions during the three months ended March 31, 2018 or the three months ended February 28, 2017. Warrants outstanding as at March 31, 2018 and December 31, 2017 are summarized as follows:

	Number	Amount
As at December 31, 2017	32,908,960	$ 8,010,367
As at March 31, 2018	**32,908,960**	**$ 8,010,367**

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

Weighted average exercise price	Number of Warrants	Weighted average remaining life
$1.00	31,664,500	1.38 years
$0.60	1,244,460	0.88 years
$0.98	**32,908,960**	**1.36 years**

(Expressed in Canadian dollars, except where otherwise noted)

11. EXPLORATION AND PROJECT EVALUATION

	Three Months Ended March 31, 2018								
	Puerto Rico	**La Kika**	**Minerva**	**Monclova**	**Jemi Rare**	**Renata**	**Santa Rosa**	**Project Evaluation**	**Total**
Permitting	**$ 477,624**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 477,624**
Mining duties	**7,712**	**2,727**	**6,200**	**19,100**	**1,202**	**69**	**90**	**-**	**37,100**
Surface access	**-**	**1,342**	**24,649**	**40,518**	**-**	**-**	**-**	**-**	**66,509**
Site access	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Drilling	**-**	**149,862**	**-**	**-**	**-**	**-**	**-**	**-**	**149,862**
Assays	**43,301**	**-**	**38,314**	**46,464**	**-**	**-**	**-**	**-**	**128,079**
Salaries and benefits	**2,127**	**17,064**	**30,336**	**30,336**	**-**	**-**	**-**	**-**	**79,863**
Travel	**6,700**	**5,136**	**12,718**	**12,718**	**-**	**-**	**-**	**-**	**37,272**
Administrative and other	**63,326**	**31,735**	**56,531**	**58,535**	**-**	**-**	**-**	**-**	**210,127**
Total	**$ 600,790**	**$ 207,866**	**$ 168,748**	**$ 207,671**	**$ 1,202**	**$ 69**	**$ 90**	**$ -**	**$ 1,186,436**

	Three Months Ended February 28, 2017								
	Puerto Rico	La Kika	Minerva	Monclova	Jemi Rare	Renata	Santa Rosa	Project Evaluation	Total
Project evaluation	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 94,529	$ 94,529
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 94,529	$ 94,529

12. GENERAL OFFICE AND OTHER EXPENSES

	Three Months Ended March 31, 2018	Three Months Ended February 28, 2017
Travel	**$ 24,069**	$ -
Salaries and benefits	**284,381**	-
Shareholder communication and investor relations	**23,366**	-
Business development	**27,996**	-
General office and other	**77,699**	19,112
	$ 437,511	$ 19,112

13. PROFESSIONAL FEES

	Three Months Ended March 31, 2018	Three Months Ended February 28, 2017
Legal	**$ 13,620**	$ 18,429
Audit and accounting	**15,057**	-
Consulting	**761**	-
	$ 29,438	**$** 18,429

(Expressed in Canadian dollars, except where otherwise noted)

14. INCOME TAXES

		Three Months Ended March 31, 2018		Three Months Ended August 31, 2017
Loss before tax at statutory rate of 27% (2017 – 26%)	$	**402,090**	$	38,038
Effect on taxes of:				-
Non-deductible expenses		**(47,329)**		-
Change in deductible temporary differences		**(354,761)**		(38,038)
Income tax expense	**$**	**-**	$	-

15. 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 March 31, 2018, the Company does not have any long-term debt outstanding and is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the three months ended March 31, 2018.

16. FINANCIAL INSTRUMENTS

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

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

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

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

(Expressed in Canadian dollars, except where otherwise noted)

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

a) IFRS 9 transition adjustments

The adoption of IFRS 9 did not impact the carrying value of any financial asset or financial liability on the transition date. The table below outlines the change in classification of the Company's financial assets and liabilities from IAS 9 to IFRS 9.

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

There was no cumulative effect on the Company's consolidated statement of financial position at January 1, 2018 and no current period effect on the condensed interim statement of financial position at March 31, 2018. There was no effect on the Company's condensed interim statement of loss and total comprehensive loss for the three months ended March 31, 2018.

17. 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 March 31, 2018, the Company had a cash balance of $10,317,254 (December 31, 2017 - $12,234,811) to settle current liabilities of $358,225 (December 31, 2017 - $442,392). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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

b) Credit risk

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

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

		March 31, 2018		December 31, 2017
Cash and cash equivalents	**$**	**10,317,254**	$	12,234,811
Sales tax and other receivables		**411,238**		212,894
Prepaids and deposits		**28,609**		37,787
	$	**10,757,101**	**$**	12,485,492

c) Market Risks

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

i. Interest rate risk

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

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. At December 31, 2017, 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 March 31, 2018 and December 31, 2017, the Company had the following foreign currency denominated trade payables

		March 31, 2018		December 31, 2017
United States dollar	**$**	**113,539**	$	33,970
Mexican Peso		**79,293**		20,584
	$	**192,832**	$	54,554

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss for the three months ended March 31, 2018 by approximately $28,726 (December 31, 2017: $8,231).

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

iii. Price risk

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

18. SEGMENTED INFORMATION

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

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

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

(Expressed in Canadian dollars, except where otherwise noted)

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

		Three Months Ended March 31, 2017		Three Months Ended February 28, 2017
Canada	$	(677,352)	$	(146,300)
Mexico		(968,081)		-
Net loss and total comprehensive loss	**$**	**(1,645,433)**	$	(146,300)

19. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

a) Puerto Rico Property

On completion of the permitting for the Puerto Rico Property, expected in the second half of 2018, the Company will have to pay USD$300,000 and issue 500,000 shares of the Company to the Vendors.

Please refer to Note 9 of the consolidated financial statements for the four months ended December 31, 2017 for a full description of the terms necessary to exercise the options on the exploration properties.

b) Other commitments

The Company has a five-year operating lease for premises and certain office equipment in Canada. Total payments made during the three-months ended March 31, 2018 totalled $23,446 (three months ended February 28, 2017 - $nil). There have been no material changes to the total future minimum lease payments, under non-cancellable operating leases during the three months ended March 31, 2018. For details refer to note 20(b) of the consolidated financial statements for the four-months ended December 31, 2017.

20. 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, Oxygen Capital Corp. (“Oxygen”), provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. Oxygen does not charge a fee to the Company, allocating all expenses at cost. Reimbursed expenses to Oxygen for the three months ended March 31, 2018 totalled $19,204 (three months ended February 28, 2017 - $nil). The Company also had $4,875 in expenses payable to Oxygen as at March 31, 2018 (December 31, 2017 - $34,431). These expenses are not included in the table below.

(Expressed in Canadian dollars, except where otherwise noted)

Similar to the arrangement with Oxygen, the Company reimbursed expenses of USD$756 (three months ended February 28, 2017 - $nil) to a company which has a Director in common. There were no expenses payable at March 31, 2018 (December 31, 2017 - of USD$4,958). These expenses are not included in the table below.

Transaction Type	**Nature of Relationship**		**Three Months Ended March 31, 2018**		Three Months Ended February 28, 2017
Share-based payments	Directors, officer and a company with a former director/officer in common	**$**	**108,337**		-
General and administrative	A company with a Director/officer in common with the Company		**-**		14,250
Salaries and benefits	Officers		**136,059**		-
Directors fees	Directors		**43,750**		-
		$	**288,146**	$	14,250

Summary of amounts due to related parties:

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