

# Discoverymetals

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the years ended December 31, 2019 and 2018

Dated April 24, 2020

**DISCOVERY METALS CORP.**  
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**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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This Management's Discussion and Analysis ("MD&A") of Discovery Metals Corp. and its wholly-owned subsidiaries (together referred to as the "Company" or "Discovery Metals"), has been prepared to enable a reader to assess material changes in financial condition and results of operations as at and for the three and twelve months ended December 31, 2019. This MD&A, and the discussion of performance, financial condition and future prospects contained herein, should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019 and accompanying notes (the "consolidated financial statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"). The information provided herein supplements, but does not form part of, the consolidated financial statements and includes financial and operational information from the Company's subsidiary. This discussion also covers year ended December 31, 2018 and the subsequent period up to the date of this MD&A.

All dollar amounts are presented in Canadian dollars ("CAD"), the Company's functional currency, except where otherwise noted. References to United States dollars are denoted as "USD". Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

The Company's certifying officers, based on their knowledge and having exercised reasonable diligence, are also responsible to ensure that this MD&A and related consolidated financial statements do not contain any untrue statement of material fact and do not omit any required statement of material fact with respect to the periods reported. The consolidated financial statements, together with the other financial information included in this MD&A present fairly in all material respects the financial condition, results of operations and cash flows of the Company, as at the date of and for the periods presented in this MD&A. This MD&A contains forward looking information that is subject to risk factors set out in the cautionary note herein.

The Company's Board of Directors' (the "Board") review is accomplished principally through the Company's Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board has approved the consolidated financial statements and this MD&A, as well as ensured that the Company's management ("Management") has discharged its financial responsibilities. Information in this MD&A is prepared as at April 24, 2020.

**DESCRIPTION OF BUSINESS**

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Discovery Metals 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" and the OTCQX Market® under the symbol "DSVMF". The Company's head office is located at Suite 701 - 55 University Avenue, Toronto, Ontario, M5J 2H7.

Discovery Metals' former business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), an underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels. AMC permanently closed its mortgage operation on March 4, 2010. There were no operations from that date and until the completion of the change of business transaction (the

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"Transaction") on August 17, 2017. Refer to the Press Release dated August 17, 2017 available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com). During the year ended December 31, 2018, AMC was liquidated.

## **COVID-19 – DISCOVERY'S RESPONSE AND CONTINUITY PLANS**

On March 19 and March 31, 2020, the Company announced that it had begun implementing business continuity plans and procedures at its Mexican operations and corporate office in Toronto as a result of the global pandemic arising from the COVID-19 virus. Health and safety protocols were implemented, and the Company restricted international travel to site. The Company then began to decelerate exploration activity at Cordero to one drill rig in order to limit the number of employees at site. This was followed by a full temporary suspension of exploration activities due to the increased health and safety risks associated with the growing number of COVID-19 cases in Mexico. The decision to suspend exploration activity is also consistent with a published recommendation from the Mexican Federal Government on March 24, 2020, that all non-essential services be temporarily shut down until April 19, 2020, a date that has since been updated to April 30, 2020. The Company also took into account the closure of local exploration support businesses in response to COVID-19.

Discovery has already completed 48 holes totaling 17,500 metres of its planned 30,000 – 35,000 metre Phase 1 drill program. The Company will provide ongoing exploration updates for the 34 drill holes not previously press released once results have been received and validated.

The Company is committed to remaining engaged with our local stakeholders during this uncertain period. The Company will continue to closely monitor the directives of all levels of government in both Mexico and Canada as well as the relevant health authorities. The Company has put in place business continuity plans so that exploration activity can quickly ramp up once it is deemed safe to do so.

## **2019 HIGHLIGHTS**

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During the year ended December 31, 2019, the Company issued several news releases announcing results of exploration activities at its projects in addition to corporate developments.

### **PROJECT HIGHLIGHTS**

#### **Cordero**

On September 10, 2019, the Company announced the mobilization for a "Phase 1" diamond drilling program on its 100%-owned Cordero project ("Cordero"), acquired on August 2, 2019 as part of the Plan of Arrangement with Levon Resources Ltd. Cordero is located in Chihuahua State, Mexico. Discovery's plan is to drill approximately 30,000-35,000m over the next 12 months with the focus of: (1) delineating and discovering the highest-grade phases and domains of the mineralized system; and (2) testing new high priority areas.

During the period between October 24<sup>th</sup> and December 4<sup>th</sup>, 2019, a 5,175 line-km helicopter-borne geophysical survey was completed at 100m line spacing over the entire Cordero claim package. Electromagnetic (VTEM) and magnetic data was collected and subsequently integrated with the historical geophysical data already available for Cordero. Resultant anomalies provide support for exploration targets on the property outside of the known resource area.

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Refer to the Press Releases dated August 2, 2019 and September 10, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

At the date of this MD&A, the Company has completed approximately 17,500m in 48 drill holes focused along two northeast trending higher grade mineralized trends. A review of historical drilling has been underway resulting in the re-logging of 198 of the 292 drill holes previously completed on the project. The outcome of all the new work completed to date has resulted in a better understanding of the mineralizing systems, a new structural and geological model that is in progress, and the confirmation of a concentration of mineralization along northeast trending corridors. Additional results from the drilling are described in the press releases issued during 2020. Refer to the "Recent Developments" section of this MD&A for details on results.

### **Minerva**

Surface mapping and sampling as well as review of historical workings at Minerva during 2019 highlighted the great potential at the project for a carbonate replacement style deposit.

Highlight results from underground sampling at the Minerva project include:

- At the Mina Minerva area, 78 samples were taken; 53 samples (68%) returned grades greater than 500 g/t AgEq, averaging 1,804 g/t AgEq.

Highlights from surface samples from Minerva include:

- Results received from 273 surface channel samples and one grab surface outcrop, all part of a detailed mapping and sampling program on three high potential areas at the Minerva project returning values up to 997 g/t Ag, 30.9% Zn and 12.8% Pb.

Refer to the Press Release dated April 10, 2019 and August 8, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

### **Monclova**

Highlights from the results of surface and underground samples from Monclova include:

- Results from 41 underground channel samples include values of 1.0m breccia with 1,558 g/t AgEq, 1.2m breccia with 814 g/t AgEq and 1.0m breccia with 1,018 g/t AgEq at two of the historical workings.
- Results from 200 surface samples include channel sample values of 1.0m breccia with 248g/t AgEq, 1.5m fault breccia with 162 g/t AgEq, and dump samples of 2,645 g/t AgEq and 704 g/t AgEq.

On July 11, 2019, the Company announced it had been granted drilling permits for Monclova and that an exploration plan is currently being developed with multiple high-potential drill targets delineated for testing in 2019. This will be the first drilling ever carried out at Monclova.

Refer to the Press Releases dated April 23, 2019 and July 11, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com)

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**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 (also refer to the ‘Related Party Transaction’ section of this MD&A). A comparison of the key terms in the original and amendment agreements is shown in the table below:

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

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

Refer to the Press Releases dated April 3, 2019 and April 25, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.dsvmetals.com](http://www.dsvmetals.com).

**CORPORATE HIGHLIGHTS**

**Management Team**

On December 18, 2019, the Company announced the strengthening of the Management team with the appointment of Mr. Forbes Gemmell as VP Corporate Development and Investor Relations.

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Refer to the Press Release dated December 18, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**OTCQX® Best Market**

On November 18, 2019, the Company announced its common shares began trading on the OTCQX® Best Market in the United States under the symbol DSVMF.

Refer to the Press Release dated November 18, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**Non-brokered private placements**

On July 25, 2019, the Company announced it had closed a non-brokered private placement raising \$9,004,770 through the issuance of 23,216,174 common shares at a price of \$0.23 per common share and 15,935,000 subscription receipts at a price of \$0.23 per subscription receipt. Discovery paid finders fees totalling \$17,500 to arms' length parties who introduced Discovery to investors.

On November 5, 2019, the Company announced it had closed an oversubscribed non-brokered private placement previously announced on October 10, 2019, 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. Discovery paid finders fees totalling \$972,450 to arms' length parties who introduced Discovery to investors and issued 1,063,833 broker warrants with an exercise price of \$0.50 and a 24-month expiry.

As a result of this second private placement, the Company held a Special meeting of its shareholders on December 11, 2019 to approve the creation of a 'Control Person' as defined in the policies of the TSX Venture Exchange for a shareholder who will own 21.1% of the outstanding common shares of the Company once the subscription receipts are converted. The shareholders passed the resolution and as a result, the 3,311,111 subscription receipts were automatically converted to common shares of the Company.

The proceeds of the private placements will be used primarily to fund Discovery's continuing exploration programs. A portion of the proceeds will be used for general working capital purposes.

Refer to the Press Releases dated July 25, 2019, October 10, 2019, November 5, 2019 and December 12, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**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.

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The activity of Levon does not constitute a business, as defined by IFRS 3, and consequently, Discovery accounted for the acquisition of Levon as an asset acquisition.

Refer to note 6 of the consolidated financial statements for details on the purchase price allocation and to the Press Releases dated May 30, 2019 and August 2, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**Stock option grant**

On August 16, 2019, the Company, pursuant to the Company's stock option plan, granted an aggregate 5,300,000 options to certain management, employees, consultants and directors. The Options have an exercise price of \$0.48 per share, have a five-year term from the date of grant, and vest according to the following schedules:

- **Management and employees:** annually in equal thirds beginning on the date of grant;
- **Consultants:** quarterly in equal eighths beginning three months after the date of grant; and
- **Directors:** immediately on the date of grant.

Any common shares issuable upon exercises of Options will, in accordance with applicable securities laws, be subject to a hold period expiring four months and one day from the date of grant.

Refer to the Press Release dated August 16, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**Warrant Extension**

On July 8, 2019, the Company announced it had received approval from the TSX Venture Exchange to extend the term of an aggregate 31,237,000 outstanding common share purchase warrants that were issued pursuant to a non-brokered private placement as described in the Company's news releases dated July 17, 2017, July 19, 2017 and June 17, 2019.

Each Warrant entitles its holder to acquire one common share of the Company (a "Common Share") at an exercise price of \$1.00 per Common Share. The original expiry date of each Warrant was August 17, 2019. The Company received approval from the TSXV to extend the expiry date of the Warrants by an additional 18 months, such that each Warrant will expire on February 17, 2021. The exercise price of all Warrants will remain unchanged, at the current exercise price of \$1.00 per Common Share. No Warrants under the Private Placement have been exercised to date.

The revaluation of the fair values of these warrants resulted in a decrease to the warrant balance of \$6,997,929 and a corresponding increase to contributed surplus for a net zero impact on Shareholder's Equity in the Statement of Financial Condition in the Company's consolidated financial statements.

Refer to the Press Release dated July 8, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

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**RECENT DEVELOPMENTS**

**Cordero**

Subsequent to December 31, 2019, the Company announced first sets of results from the 30,000 – 35,000 metre Phase 1 drill program at its Cordero project. The focus of Phase 1 is to: (1) delineate, expand and then re-domain areas of higher-grade mineralization within the existing Cordero resource; and (2) test new high priority targets outside the current resource, including targets on the large 35,000 hectare property package that surrounds Cordero.

On March 31<sup>st</sup>, 2020, the Company announced that it had temporarily suspended all exploration activities at its Mexican operations due to increased health and safety risks associated with the growing number of COVID casers in the country.

Prior to the temporary suspension of exploration activities on March 31, 2020, forty-eight holes totaling approximately 17,500 metres had been completed. All the holes were drilled within the existing resource area as previously defined by Levon. All holes were drilled roughly perpendicular to the northeast trend of higher-grade blocks outlined in the current resource model. Highlights include:

Hole ID	From	To	Width (m)	Ag g/t	Au g/t	Pb %	Zn %	AgEq <sup>2</sup> g/t
C19-295	55.4	136.6	81.2	63	0.35	0.9	0.9	159
C19-296	101.1	148.2	47.1	71	0.45	1.0	1.2	191
C19-294	86.0	180.3	94.3	47	0.27	0.7	0.6	121
C19-293	473.6	533.5	59.9	37	0.06	0.9	1.5	136
C19-297	272.9	274.0	1.1	522	0.21	6.6	18.3	1,533
C19-299	43.4	101.2	57.8	24	0.21	0.3	0.6	78
C19-301	63.5	157.8	94.3	30	0.21	0.4	0.3	75
C19-302	14.0	80.5	66.6	33	0.16	0.4	0.4	77
C19-303	125.5	125.9	0.5	1,035	0.11	5.1	12.6	1,743
C19-304	76.8	182.7	105.9	74	0.38	1.1	1.1	188
C19-305	0.6	65.6	65.0	74	0.05	0.5	0.5	113
C19-306	58.4	78.8	20.5	39	0.17	0.6	0.5	95
C19-307	17.5	19.5	2.0	700	0.06	1.33	2.05	837
C19-308	3.6	17.6	14.0	185	0.02	0.05	0.13	194
C19-309	59.1	60.3	1.3	673	0.26	10.13	3.73	1,205
C20-310	51.1	52.3	1.2	904	0.08	5.40	8.08	1,436
C20-311	3.0	74.0	71.1	18	0.15	0.24	0.19	46
C20-312	3.0	127.1	124.1	46	0.03	0.23	0.54	79



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Hole ID	From	To	Width (m)	Ag g/t	Au g/t	Pb %	Zn %	AgEq <sup>2</sup> g/t
C20-313	214.1	224.1	10.0	15	0.00	0.63	1.58	103
C20-314	135.0	241.0	106.1	51	0.37	0.97	0.56	139
C20-315	136.6	150.6	14.0	31	0.01	0.23	1.18	89
C20-316	163.1	190.7	27.7	119	0.55	2.02	0.28	247

As of the end of March 2020, 24 drill holes have results pending.

Refer to the Press Releases dated January 8, 2020, February 12, 2020 and April 7, 2020 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**CORPORATE**

**Sale of non-core exploration property**

On April 9, 2020, the Company announced the divestiture of its 100% interest in the Congress Property ("Congress") located in British Columbia, to Talisker Resources Ltd. ("Talisker"). Congress is a non-core exploration property acquired by the Company as part of the Levon Resources Ltd. transaction that closed on August 2, 2019.

Under the terms of the purchase agreement, Talisker will issue 1,000,000 common shares to the Company in return for 100% ownership of Congress. The common shares are subject to a four month hold period pursuant to applicable securities laws and further subject to certain resale restrictions for up to one year.

The sale of Congress to Talisker is subject to the approval of the Canadian Securities Exchange.

**Disposition of Investment**

On March 2, 2020, the Company completed the disposition of its entire position in Great Thunder Gold Corp. for cash proceeds of approximately \$230,000. The position was acquired as part of the acquisition of Levon on August 2, 2019 and at December 31, 2019 had a fair value of \$45,835.

**IVA Provision and Recovery**

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, the Company has provided for 100% of the IVA recoverable balance (\$1,409,637 at December 31, 2019) until such time as there are sufficient indicators of recoverability.

On February 21, 2020, the Company received a partial IVA refund in the amount of 5,400,430MXP, or approximately \$360,000 which is expected to be recognized as 'Other Income' in the consolidated Statement of Loss and Other Comprehensive Loss for the three months ended March 31, 2020.

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**TSX Venture 50 Award**

On February 21, 2020, the Company announced that it was named to the TSX Venture Exchange's 2020 Venture 50™. The Venture 50 award goes to the top 10 companies listed on the TSX Venture Exchange ("TSX-V") in each of five major industry sectors. The ranking formula is based on three equally weighted criteria: 1) year-over-year share price appreciation; 2) growth in market capitalization and; 3) trading volume growth. Based on these criteria, Discovery ranked in the top 10 out of more than 900 mining companies listed on the TSX-V.

Refer to the Press Release dated February 21, 2020 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com).

**2020 OUTLOOK**

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The Company is focused on exploring and advancing Cordero, a 37,000-hectare property in Chihuahua State, Mexico, that covers an entire porphyry district that hosts numerous exploration targets for bulk tonnage diatreme-hosted, porphyry-style, and carbonate replacement deposits. The Company holds rights to a high-grade silver-zinc-lead deposits in a land package of approximately 150,000 hectares covering a historic mining district in northern Coahuila State, Mexico. The portfolio of three large-scale, drill-ready projects and several earlier-stage prospects, all with shallow, high-grade mineralization, is situated in a world-class carbonate replacement deposit belt that stretches from southeast Arizona to central Mexico. The land holdings contain numerous historical direct-ship ore workings with several kilometers of underground development, but there was no modern exploration or drill testing on the properties prior to the work carried out by Discovery.

**COVID-19 – Impact on 2020 Outlook**

While the Company's main focus for 2020 was on completing the planned 30,000 - 35,000m Phase 1 Drill Program for Cordero, developing drill programs for its Coahuila projects, and completing other activities including testing its earlier-stage properties with surface exploration work, the recent COVID-19 pandemic has forced the Company to temporarily suspend exploration activities. The Company has put in place business continuity plans so that exploration activity can ramp up once it is deemed safe to do so.

The Company continues to evaluate other strategic and accretive business opportunities. There are no present plans for any material capital expenditures in the next twelve months. With the addition of the gross \$28.0 million cash inflow from the private placement financings which closed in 2019, the Company is sufficiently capitalized to withstand an elongated suspension of activities, but also a quick ramp up of the Phase 1 Drill Program once it has been determined operations can recommence.

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**REVIEW OF CONSOLIDATED FINANCIAL RESULTS**

**Selected Consolidated Financial Information**

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net loss:		
(a) Total	\$ (9,656,554)	\$ (7,030,627)
(b) basic and diluted loss per share	\$ (0.08)	\$ (0.10)
Net loss and total comprehensive loss	\$ (9,595,837)	\$ (6,787,156)
Cash and cash equivalents	\$ 23,950,737	\$ 4,691,676
Total assets	\$ 53,518,599	\$ 7,216,714
Total current liabilities	\$ 716,596	\$ 230,090
Total weighted average shares outstanding	114,752,935	65,043,998

**Year Ended December 31, 2019 vs. Year Ended December 31, 2018**

**Net loss and total comprehensive loss**

The Company had a net and total comprehensive loss of \$9,595,837 for the year ended December 31, 2019 compared to a net and total comprehensive loss of \$6,787,156 for the year ended December 31, 2018. The net and total comprehensive loss for the year ended December 31, 2019 and the year ended December 31, 2018 includes non-cash currency translation adjustment gains of \$60,717 and \$243,471, respectively, as a result of the translation of Discovery Mexico's MXP functional currency financial statements to the Company's presentation currency of CAD on consolidation.

The overall increase in net loss during 2019 when compared to 2018 is primarily the result of a provision for 100% of the IVA recoverable during the year of \$1,409,637, non-capitalized acquisition costs of \$455,355 associated with the acquisition of Levon on August 2, 2019, increased exploration expenditures including \$1,342,844 due to the commencement of the Phase 1 Drill Program at Cordero and an increase in non-cash share-based compensation expense of \$1,304,547 resulting from both the option grant to Management, Directors and employees on August 15, 2019 and the issuance of replacement options on acquisition of Levon on August 2, 2019. Refer to detailed discussion included below.

**Share-based compensation expense**

The Company incurred non-cash share-based compensation expenses of \$1,823,318 during the year ended December 31, 2019 compared to \$518,770 year ended December 31, 2018. This increase compared to year ended December 31, 2018 is the direct result of the issuance of 5.3 million stock options on August 15, 2019 (refer to 2019 Highlights section of this MD&A) and the additional share-based compensation expense during the period from August 2, 2019 to December 31, 2019 associated with the 4.9 million replacement options issued on acquisition of Levon.

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**Exploration and project evaluation expense**

The Company incurred exploration and project evaluation costs of \$4,106,202 during the year ended December 31, 2019 compared to \$4,876,988 for the year ended December 31, 2018. This decrease over the prior year is due to significant initial exploration activities at the Coahuila projects, including permitting (\$1,572,637), mapping and sampling (\$1,230,428), surface access payments (\$405,087) having been incurred during 2018. This decrease was partially offset by an increase in drilling expense of \$1,342,844 due to the commencement of the Phase 1 Drill Program at Cordero and \$262,388 in project evaluation costs as the Company focused on project reviews one of which resulted in the acquisition of Levon on August 2, 2019.

**General office and other expenses**

During the year ended December 31, 2019, the Company incurred general office and other expenses of \$1,902,331 compared to \$1,289,068 for the year ended December 31, 2018. This increase over prior year is the direct result of higher salaries and benefits during 2019 from a combination of the accrual of short-term incentives payable to Management and employees, the addition of three members to the Company's Board of Directors, an increase in shareholder communications and investor relations costs as a result of the Special meeting of the shareholders of the Company to approve a Control Person (from the private placement on November 4, 2019), increased filing and transfer agent fees as a result of the two private placements and increased depreciation expense on capital assets acquired during the year (refer to note 10 of the consolidated financial statements).

**Professional fees**

During the year ended December 31, 2019, the Company incurred professional fees of \$355,047 compared to \$289,323 for the year ended December 31, 2018. The increase over prior year is primarily a result of legal fees related to the preparation of regulatory filings associated with the two private placements and acquisition of Levon during 2019 as well as an increase accounting costs in Mexico as a result of the acquisition of the operations in Chihuahua through Levon.

**Impairment of IVA receivable**

At December 31, 2019, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of \$3,197,997 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. At December 31, 2019, the Company established a provision in full for the IVA receivable balance of \$1,409,637.

**Foreign exchange (gain) loss**

The company incurred foreign exchange losses of \$157,066 and \$170,304 during the years ended December 31, 2019 and 2018. The fluctuations are primarily the result an appreciation of the USD against the CAD during the period partially offset by a slight depreciation of the MXP against the CAD. The Company remains unhedged with respect to foreign currency.

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**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
<b>Discounted using the incremental borrowing rate of 3.95%</b>		<b>176,073</b>
<b>Lease liabilities recognized at January 1, 2019</b>		<b>176,073</b>
<b>Less: current portion</b>		<b>43,232</b>
<b>Non-current portion</b>	<b>\$</b>	<b>132,841</b>

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.

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**Summary of Consolidated Quarterly Results**

	Q4 2019		Q3 2019		Q2 2019		Q1 2019	
Net loss								
(a) Total	\$	(4,178,391)	\$	(3,876,582)	\$	(807,897)	\$	(793,684)
(b) basic and diluted per share	\$	(0.02)	\$	(0.03)	\$	(0.01)	\$	(0.01)
Net loss and total comprehensive loss	\$	(3,959,211)	\$	(4,017,681)	\$	(914,483)	\$	(704,463)
Cash and cash equivalents	\$	23,950,737	\$	9,974,045	\$	3,139,279	\$	3,952,973
Total assets	\$	53,518,599	\$	39,074,676	\$	5,802,632	\$	6,601,720
Total current liabilities	\$	716,596	\$	514,414	\$	220,488	\$	142,402
Total weighted average shares outstanding		193,526,170		134,258,418		65,043,998		65,043,998
	Q4 2018		Q3 2018		Q2 2018		Q1 2018	
Net loss								
(a) Total <sup>(1)</sup>	\$	(1,384,584)	\$	(1,983,699)	\$	(2,115,844)	\$	(1,546,500)
(b) basic and diluted per share	\$	(0.02)	\$	(0.03)	\$	(0.03)	\$	(0.02)
Net loss and total comprehensive loss	\$	(1,179,158)	\$	(1,934,797)	\$	(2,027,768)	\$	(1,645,433)
Cash and cash equivalents	\$	4,691,676	\$	5,928,552	\$	8,060,078	\$	10,317,254
Total assets	\$	7,216,714	\$	8,341,816	\$	10,097,337	\$	12,137,236
Total current liabilities	\$	230,090	\$	254,985	\$	218,076	\$	358,225
Total weighted average shares outstanding		65,043,998		65,043,998		65,043,998		65,043,998

**Q4 2019 vs. Q4 2018**

**Net loss and total comprehensive loss**

The Company had a net and total comprehensive loss of \$3,959,211 during Q4 2019, compared to a net and total comprehensive loss of \$1,179,158 for Q4 2018. The net and total comprehensive loss for Q4 2019 includes a non-cash currency translation adjustment gain of \$219,181 as a result of the translation of Discovery Mexico's MXP functional currency financial statements to the Company's presentation currency of CAD on consolidation (Q4 2018 – gain of \$205,427).

The overall increase in net loss during Q4 2019 when compared to Q4 2018 is primarily the result of a provision for 100% of the IVA recoverable during Q4 2020 of \$382,080 increased exploration expenditures due to the commencement of the Phase 1 Drill Program at Cordero in September 2019 and increased share-based compensation expense resulting from the option grant to Management, Directors and employees on August 15, 2019 and the issuance of replacement options on acquisition of Levon on August 2, 2019. Refer to detailed discussion included below.

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**Share-based compensation expense**

The Company incurred non-cash share-based compensation expenses of \$104,813 during Q4 2019, compared to \$78,952 during Q4 2018. This increase is a direct result of the issuance of 5.3 million new options and 4.9 million replacement options in Q3 2019.

**Exploration and project evaluation expense**

The Company incurred exploration and project evaluation costs of \$2,551,339 during Q4 2019 compared to \$814,470 Q4 2018. This increase is the direct result of work being performed on the Company's Cordero property. A total of \$2,401,907 was spent on Cordero during Q4 2019 comprised primarily of \$1,025,342 in drilling, \$694,066 in geophysics, \$212,659 in assays, \$75,657 in permitting and \$295,771 on salaries and benefits with remainder having been spent on general project expenses while work during Q4 2018 was focused primarily on Puerto Rico, Minerva and Monclova.

**General office and other expenses**

During Q4, the Company incurred general office and other expenses of \$843,106 compared to \$239,928 during Q4 2018. This increase is comprised primarily of the accrual of short-term incentives payable to Management and employees and the addition of three new members to the Board of Directors included in salaries and benefits, increased depreciation related to capital asset purchases during 2019, and higher filing and transfer agent fees and shareholder communication costs associated with the November 4, 2019 private placement and related special meeting of the shareholders of the Company held on December 11, 2019.

**Professional fees**

During Q4 2019, the Company incurred professional fees of \$148,603 compared to \$72,289 during Q4 2018. This increase is primarily the result of legal fees associated with the November 4, 2019 private placement and related special meeting of the shareholders of the Company held on December 11, 2019.

**Impairment of IVA receivable**

At December 31, 2019, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of \$3,197,997 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. At December 31, 2019, the Company established a provision in full for the IVA receivable balance of \$1,409,637 (impairment of \$382,080 recognized during Q4 2019).

**Foreign exchange (gain) loss**

The company incurred a foreign exchange loss of \$148,502 during Q4 2019 compared to a loss of \$200,507 during Q4 2018. The change is the result of an appreciation of the MXP against the CAD combined with an appreciation of the USD against the CAD during the period. The Company remains unhedged with respect to foreign currency.

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**CASH FLOW**

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**Year Ended December 31, 2019 vs. Year Ended December 31, 2018**

The Company had net cash used in operating activities of \$7,246,905 during the year ended December 31, 2019 compared to \$7,303,823 year ended December 31, 2018. This slight decrease is a result of lower spend in Coahuila as the Company focused efforts on developing the Phase 1 Drill Program at Cordero, which commenced in September 2019.

The Company had net cash used in investing activities of \$528,442 for the year ended December 31, 2019 compared to \$240,970 year ended December 31, 2018. Investing activities for the current period primarily include transaction costs paid on acquisition of Levon, partially offset by the cash acquired in the transaction. Prior year additions included the acquisition of additional mineral claims for Minerva, La Kika and Puerto Rico, vehicles in Mexico and office and computer equipment

The Company had cash provided by financing activities of \$27,080,620 as a direct result of two private placement financings totaling in aggregate \$28,000,000 cash, offset by \$989,950 in finders' fees. The Company also received cash of \$109,032 on the exercise of options. The Company did not have any financing activity during year ended December 31, 2018

**Q4 2019 vs. Q4 2018**

The Company had net cash used in operating activities of \$4,035,966 for Q4 2019 compared to net cash used in operating activities of \$1,238,146 for Q4 2018. This increase is the result of the commencement of the Phase 1 Drill Program at Cordero and related exploration activities at that project.

The Company had net cash used in investing activities of \$97,180 for Q4 2019 compared to net cash used in investing activities of \$6,915 for Q4 2018. Investing activities for the current period include the building of a core shack and storage shed at Cordero in addition to the purchase of equipment and furniture at site. Investing activities for the prior period includes cash paid for the acquisition of claims for La Kika and Puerto Rico and minor additions to property, plant and equipment.

The Company had net cash provided by financing activities of \$18,096,522 during Q4 2019 as a result of the private placement on November 4, 2019 for gross proceeds of \$19,000,000 offset by finders' fees of \$972,450. The Company also received cash of \$79,941 on the exercise of options. The Company did not have any financing activity during Q4 2018.

**CAPITAL MANAGEMENT AND LIQUIDITY**

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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



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opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at December 31, 2019, aside from the long-term portion of the lease liability (refer to note 13 of the consolidated financial statements), the Company does not have any long-term debt outstanding and is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended December 31, 2019.

As at December 31, 2019, the Company had working capital (calculated as current assets less current liabilities) of \$23,860,648 (December 31, 2018 – \$5,483,006), shareholders' equity of \$52,714,132 (December 31, 2018 – \$6,986,625) and an accumulated deficit of \$38,285,870 (December 31, 2018 – \$28,629,316). The Company is sufficiently capitalized to complete planned initial exploration programs on its properties, including the Phase 1 Drill Program at Cordero. However, the Company will likely require additional financing to accomplish its long-term strategic objectives. Future funding may be obtained by means of issuing share capital, debt financing or a combination of both and will be assessed by Management at that time.

**SHARE CAPITAL**

There were significant changes in share capital during the year ended December 31, 2019 as a result of the acquisition of Levon and the two private placements as disclosed in the "Highlights" section of this MD&A.

A summary of the common shares issued and outstanding as at December 31, 2019 and impact of changes to share capital is as follows:

	<b>Common Shares</b>	<b>Amount</b>
As at December 31, 2018	65,043,998	\$ 23,539,388
<b>Shares issued on Acquisition of Levon Resources Ltd.</b>	<b>64,412,929</b>	<b>25,443,112</b>
<b>Shares issued on Private placement (Jul.24)</b>	<b>39,151,174</b>	<b>9,004,770</b>
<b>Finders' fees on Private placement (Jul.24)</b>	-	<b>(17,500)</b>
<b>Shares issued on Private placement (Nov.4)</b>	<b>42,222,219</b>	<b>19,000,000</b>
<b>Finders' fees on Private placement (Nov.4)</b>	-	<b>(972,450)</b>
<b>Shares issued on exercise of options</b>	<b>375,000</b>	<b>177,088</b>
<b>As at December 31, 2019</b>	<b>211,205,321</b>	<b>\$ 76,174,408</b>

**OUTSTANDING SHARE DATA**

As at April 24, 2019 the Company had the following equity securities and convertible securities outstanding:

	<b>Authorized</b>	<b>Number and Type Outstanding</b>
Voting or Equity Securities Issued and Outstanding	Unlimited Common Shares	211,498,121 Common Shares
Securities convertible or exercisable into voting or equity securities-stock options	Stock Options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 14,866,500 Common Shares
Securities convertible or exercisable into voting or equity securities-warrants <sup>(1)</sup>	Warrants to acquire 34,142,501 Common Shares	Warrants to acquire 34,142,501 Common Shares

<sup>(1)</sup> 1,244,460 private placement warrants expired unexercised on February 17, 2019.

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**RELATED PARTY TRANSACTIONS**

**Key management personnel**

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

A company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the year ended December 31, 2019 totaled \$22,304 (year ended December 31, 2018 –\$75,841). The Company had \$8,216 in expenses payable to this company as at December 31, 2019 (December 31, 2018 – \$5,772). These expenses are not included in the table below.

Under similar arrangements, during the year ended December 31, 2019 the Company reimbursed expenses of \$31,457 (year ended December 31, 2018 –\$27,619) to other companies which have a Director in common. There was \$nil in expenses payable at December 31, 2019 (December 31, 2018 –\$707). These expenses are not included in the table below.

Transaction Type	Nature of Relationship	Years Ended	
		December 31, 2019	December 31, 2018
Share-based payments	Directors and officers	\$ 964,379	\$ 287,516
Salaries and benefits	Officers	670,345	585,005
Consulting fees	Director	98,467	-
Directors fees	Directors	213,333	175,000
		\$ 1,946,524	\$ 1,047,521

A summary of amounts due to related parties:

Transaction Type	Nature of Relationship	December 31,	
		2019	2018
Salaries and benefits payable	Officers and employees	\$ 266,125	\$ -
Accounts payable and accrued liabilities	A director and a company with a director/officer in common with the Company	-	1,554
		\$ 266,125	\$ 1,554

**Exploration and Option agreements**

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.

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**FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS**

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

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

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

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

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

As at December 31, 2019 the Company had no financial instruments classified as Level 2 or 3.

**Financial Risk Factors**

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

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had a cash and cash equivalents balance of \$23,950,737 (December 31, 2018 – \$4,691,676) to settle current liabilities of \$716,596 (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 December 31, 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 5, 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 13b).

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Management believes these financings will fund the Company’s initial exploration work on the properties in both Coahuila and Chihuahua, Mexico as well as the existing administrative needs. The Company may require additional financing to accomplish long-term strategic objectives. Future funding may be obtained by means of issuing share capital, or debt financing. At December 31, 2019, the Company is currently exposed to a low level of liquidity risk.

*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.

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.

	<b>December 31, 2019</b>	December 31, 2018
Cash and cash equivalents	\$ 23,950,737	\$ 4,691,676
Other receivables	13,925	34,494
Deposits	482,594	10,693
	<b>\$ 24,447,256</b>	<b>\$ 4,736,863</b>

*Market Risk*

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. Management has determined market risk to be at an acceptable level.

*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.

*Foreign currency risk*

The Company’s functional currency is the Canadian dollar. At December 31, 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 Mexican Pesos (“MXP”). As at December 31, 2019 and December 31, 2018, the Company had the following foreign currency denominated trade payables:

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	<b>December 31, 2019</b>		December 31, 2018	
United States dollar	\$	<b>54,133</b>	\$	38,077
Mexican Peso		<b>157,598</b>		108,625
	<b>\$</b>	<b>211,731</b>	<b>\$</b>	<b>146,702</b>

There have been significant fluctuations in currency valuations during the period subsequent to December 31, 2019 as a result of the COVID-19 pandemic. As a result, the Company determined it was exposed to a higher level of risk associated with balances held in foreign currencies when compared to the risk assessed at December 31, 2019. It is estimated that various fluctuations in the USD and MXP against the Canadian dollar would affect net loss at December 31, 2019 as follows:

<b>% currency fluctuation</b>	<b>December 31, 2019</b>	
10%	\$	<b>20,782</b>
20%	\$	<b>41,566</b>
30%	\$	<b>62,348</b>

As a result of the foreign currency risk sensitivity analysis, Management has determined the Company's exposure to foreign currency risk to be at low.

*Price risk*

The Company is exposed to price risk with respect to commodity prices and prices of equity securities. 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. 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.

There have been significant fluctuations in commodity prices and prices of equity securities during the period subsequent to December 31, 2019 as a result of the COVID-19 pandemic. Due to this volatility, the Company determined it was exposed to a higher level of overall price risk when compared to the risk assessed at December 31, 2019.

The impact on the Company's market capitalization at December 31, 2019 as a result of share price fluctuation would be as follows:

<b>% share price fluctuation</b>	<b>December 31, 2019</b>	
10%	\$	<b>13,939,551</b>
20%	\$	<b>27,879,102</b>
30%	\$	<b>41,818,654</b>
40%	\$	<b>55,758,205</b>
50%	\$	<b>69,697,756</b>

Assumptions used in the price risk sensitivity are as follows:

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- 1) Common shares of the Company issued and outstanding at December 31, 2019: 211,205,321 (refer to 14 of the consolidated financial statements);
- 2) Closing share price of the Company at December 31, 2019: \$0.66 per common share; and
- 3) Market capitalization of the Company at December 31, 2019: \$139,395,512

The global economic impact will be felt for an extended period after the threat from COVID-19 subsides as businesses return to steady-state operations. However, governments around the world have approved large monetary and fiscal stimulus packages in order to offset the anticipated economic decline. This should result in inflation over the medium-term that, coupled with historically low interest rates will have a positive impact on the precious metals market.

The Company will continue to closely monitor commodity prices, particularly as they relate to silver and base metals (lead and zinc), and movement in the price of individual equity securities and the stock market generally, to determine the appropriate course of action to be taken by the Company.

## **OTHER RISKS AND UNCERTAINTIES**

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The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations.

For additional risks other than the primary risks described herein, refer to the Company's Filing Statement in Respect of a Change of Business dated August 3, 2017, available on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A also contains forward-looking information that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks faced by the Company as described in the documents incorporated by reference herein. Refer to the "Cautionary Statement Regarding Forward-Looking Information".

### **Nature of Mineral Exploration and Mining**

At the present time the Company does not hold any interest in a producing mining property. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involve significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mine may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration programs on exploration properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability for any and all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the operations in which the Company has interests. Hazards, such as unusual or unexpected geological structures, rock bursts, pressure, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain

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insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and, potentially, its financial position.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

#### **Permits and Licenses**

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required in carrying out the activities which it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. There can be no assurance that the Company will be able to obtain all necessary licenses and permits required to carry out exploration, development and mining operations at its projects.

Due to COVID-19, government offices are working on reduced schedules that could result in delays in processing applications and issuing any licenses and permits. The Company currently has all necessary drill permits to complete planned work in 2020, however any future applications could be adversely impacted by COVID-19.

#### **Competition**

The mineral exploration and mining business is competitive in all its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties, the acquisition of mining equipment and related supplies and the attraction and retention of qualified personnel. The ability of the Company to acquire properties, purchase required equipment, and hire qualified personnel in the future will depend not only on its ability to develop its present properties, but also on its ability to identify, arrange, negotiate, select or acquire suitable properties or prospects for mineral exploration, source suitable equipment and hire qualified people. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring such properties or prospects, sourcing equipment or hiring people.

#### **Environmental and Climate Change Regulation**

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as

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seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. Such impacts may have an adverse effect on the capital and operating cost of the Company's operations or those of its future customers that may materially affect future operations.

**Estimates of Mineral Resources May Not Be Realized**

The mineral resource estimates that may be published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geological, metallurgical or engineering work, and work interruptions, among other things.

Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

**Dependence on Key Personnel**

The Company is dependent on the services of its senior management and a small number of skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on the Company's operations.

This risk of is further increased by the recent COVID-19 pandemic which has impacted health and safety measures and therefore accessibility to key personnel who are no longer working under normal conditions as a result of social-distancing measures and the temporary closure of non-essential services implemented by both Canadian and Mexican governments. This risk is partially mitigated by the availability of additional communication tools implemented by the Company. Although the Company has no identified cases of COVID-19 at site or at its corporate office, should any key personnel contract the virus, the loss, temporary or otherwise, could have a material adverse effect on the Company's operation.

**Limited Financial Resources**

The existing financial resources of the Company are sufficient to complete the Phase 1 Drilling program at Cordero in addition to exploration work on its other properties, however they are not sufficient to bring any of



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its projects into commercial production. The Company will need to obtain additional financing from external sources in order to fund the development of its properties and/or to engage in other strategic business opportunities. There is no assurance that the Company will be able to obtain such financing on favourable terms, or at all.

This risk of financial resources is further amplified by the recent COVID-19 pandemic which has had significant impact on global economies and financial markets. Should depressed market conditions continue in the medium to long-term, it may be more difficult for the Company to obtain required financing to complete its long-term objectives. Failure to obtain financing could result in delay or indefinite postponement of further exploration and development of the Company's properties.

### **Political Environment**

The Company's mineral exploration activities are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local and indigenous people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a material adverse impact on the operations and financial position of the Company. In addition, as governments continue to struggle with deficits and concerns over the effects of depressed economies, the mining and metals sector has been targeted to raise revenue. Governments are continually assessing the fiscal terms of the economic rent for a mining company to exploit resources in their countries. The occurrence of mining regime changes adds uncertainties that cannot be accurately predicted and any future adverse changes in government policies or legislation in the jurisdictions in which the Company operates that affect foreign ownership, mineral exploration, development or mining activities, may affect the Company's viability and profitability.

On December 1, 2018, a new government took office in Mexico. Management is closely monitoring the potential impacts the change in government is having on the mining industry, foreign investment and general economy in Mexico as it relates to the Company.

As a result of COVID-19, the global political environment is a continually changing landscape as countries implement measures to contain the spread of the virus. This has resulted in border closures and temporary suspension of non-essential services, among other measures. Should there be a continued increase in the number of identified cases and deaths, border closures and suspension of activities could be extended thereby having a material adverse impact on the Company's operations.

### **Health and Safety**

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions.

The Company's business could be adversely impacted by the effects of the recent COVID-19 outbreak or other epidemics. In December 2019, a novel strain of the coronavirus emerged in China and the virus has now spread globally, including Canada and Mexico. The extent to which COVID-19 impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly

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uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken by each country's respective government to contain or treat the coronavirus outbreak. In particular, the continued spread of the coronavirus globally could materially and adversely impact the Company's operating activities including but not limited to: employee health; workforce productivity; increased insurance premiums; limitations on travel; the availability of industry experts and personnel; restrictions to its drill program and/or the timing to process drill and other metallurgical testing; and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations.

There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks.

In addition, a significant outbreak of coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious metals and the Company's future prospects.

## **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

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### **Puerto Rico**

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 the Recent Developments section of this MD&A).

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 totaled USD\$1.2 million of which the remaining USD\$100 thousand will be paid upon receipt of all permits.

### **Monclova**

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.

### **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).

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The Company has operating leases for rent and certain office equipment that fall within the IFRS exemption criteria. Total payments made during the year ended December 31, 2019 for these operating leases were \$14,460 (year ended December 31, 2018 - \$2,760).

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

Year	December 31, 2019	December 31, 2018
2020	\$ 9,540	\$ 2,760
2021	2,520	1,840
2022	2,520	-
2023	2,520	-
2024	2,520	-
Total	\$ 22,140	\$ 4,600

**SIGNIFICANT ACCOUNTING POLICIES**

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For a full description of the Company’s significant accounting policies, please see note 3 of the consolidated financial statements.

**CHANGES IN ACCOUNTING POLICIES**

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**Application of new and revised accounting standards effective January 1, 2019**

The Company has adopted the following new IFRS standards, amendments to standards and interpretations for the year ended December 31, 2019.

*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 “IFRS Transitional Adjustments” section of this MD&A).

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.

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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
- 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'.

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**CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

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The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 in any future periods affected.

Critical accounting judgments and estimates include but are not limited to the Company's determination of: functional currency; the economic recoverability and probability of future economic benefits of exploration; evaluation and development costs; determination of useful lives; impairment charges; recoverability of sales tax receivable; income taxes; and share-based payments. The estimates of non-cash share-based payments expense involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Actual results could differ from those estimates.

**Critical accounting judgments**

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

*Functional currency*

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

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

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

**Critical accounting estimates**

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

*Determination of useful lives*

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

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*Impairment charges*

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

*Sales tax recoverability*

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

As a result of the Company's limited operating history, management cannot reasonably estimate collectability of IVA balances in Mexico as it is possible that the refund requests may be delayed, reduced or denied by the taxation authorities. Management assesses collectability and classification of the asset at each reporting period and currently includes a 100% provision for this balance (refer to note 8 of the consolidated financial statements).

At December 31, 2019, a provision of \$1,409,637 for IVA recoverable was made (December 31, 2018 – no provision made).

*Share-based payments*

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

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

**OFF-BALANCE SHEET ARRANGEMENTS**

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The Company does not have any off-balance sheet arrangements.

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**QUALIFIED PERSON**

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The technical information in this MD&A was reviewed and approved by Gernot Wober, P. Geo., Vice President Exploration of the Company, who is recognized as a Qualified Person ("QP") under the guidelines of NI 43-101.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results could differ materially from any estimates, forecasts, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

These forward-looking statements may include but are not limited to statements concerning:

- The Company's success at completing future financings;
- The Company's strategies and objectives;
- The Company's receipt of permits for the Puerto Rico Property;
- The availability of qualified employees for business operations;
- General business and economic conditions;
- General political climate;
- The Company's ability to meet its financial obligations as they become due; and
- The Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity.

Readers are cautioned that the preceding list of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by these forward-looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements.

**ADDITIONAL INFORMATION**

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Additional information relating to the Company is available on the Company's website at [www.dsvmetals.com](http://www.dsvmetals.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).