Discoverysilver

(Formerly Discovery Metals Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020 and 2019

(expressed in Canadian dollars)

Independent auditor’s report

To the Shareholders of Discovery Silver Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Discovery Silver Corp. and its subsidiaries (together, the Company) (formerly Discovery Metals Corp.) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and total comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 28, 2021

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at	Notes		December 31, 2020		December 31, 2019
ASSETS					
Current					
Cash and cash equivalents	7	$	67,547,897	$	23,950,737
Short-term investments	7(b)		15,000,000		-
Sales tax and other receivables	8		435,670		59,274
Prepaids and deposits	9		98,739		521,399
Investments	15(a)		335,000		45,835
			83,417,306		24,577,245
Non-current					
Property and Equipment	10		573,305		429,419
Reclamation deposits			-		32,629
Mineral properties	11		27,574,270		28,479,306
TOTAL ASSETS		$	111,564,881	$	53,518,599
LIABILITIES					
Current					
Accounts payable and accrued liabilities	12	$	935,480	$	671,625
Current portion of lease liabilities	13		46,780		44,971
		$	982,260	$	716,596
Non-current					
Lease liabilities	13		41,089		87,870
TOTAL LIABILITIES		$	1,023,349	$	804,466
SHAREHOLDERS' EQUITY					
Share capital	14(b)	$	125,570,547	$	76,174,408
Contributed surplus			14,710,821		13,943,396
Warrants	14(d)		26,652,950		924,440
Accumulated other comprehensive loss			(351,222)		(42,241)
Accumulated deficit			(56,041,564)		(38,285,870)
TOTAL EQUITY		$	110,541,532	$	52,714,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	111,564,881	$	53,518,599

Approved on Behalf of the Board on April 28, 2021:

"Jeff Parr"
Jeff Parr – Director

"Murray John"
Murray John – Director

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF LOSS AND TOTAL COMPREHENSIVE LOSS
(Expressed in Canadian dollars, except per share and share information)

					Years Ended
	Notes		December 31, 2020		December 31, 2019
Expenses (income)					
General office and other expenses	17	$	2,869,317	$	1,902,331
Interest income			(521,448)		(123,611)
Interest expense	13		4,456		6,415
Professional fees	18		637,010		355,047
Exploration and project evaluation expenses	16		12,063,064		4,106,202
Share-based compensation	14(c)		1,295,508		1,823,318
Other income	15		(574,597)		(11,660)
Gain on sale of non-core property	15(a)		(295,000)		-
(Gain) loss on fair value remeasurement of investments	15(a)		(40,000)		29,456
Impairment of IVA receivable	8		2,339,772		1,409,637
Foreign exchange (gain) loss			(22,388)		159,419
Net loss		$	17,755,694	$	9,656,554
Other comprehensive loss (gain)			308,981		(60,717)
Net loss and total comprehensive loss		$	18,064,675	$	9,595,837
Weighted average shares outstanding					
Basic and diluted	14(b)		255,839,116		114,752,935
Net loss per share					
Basic and diluted		$	(0.07)	$	(0.08)

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

			Years Ended
	Notes	**December 31, 2020**	December 31, 2019
Operating Activities			
Net loss		**$ (17,755,694)**	$ (9,656,554)
Items not affecting cash:			
Depreciation		**139,843**	117,671
Share-based compensation	**14(c)**	**1,295,508**	1,823,318
Impairment of IVA receivable		**2,339,772**	1,409,637
Gain on sale of investment	**15(a)**	**(182,556)**	-
Gain on sale of non-core property	**15(a)**	**(295,000)**	-
(Gain) loss on fair value remeasurement	**15(a)**	**(40,000)**	29,456
Write-off of mineral property	**11**	**153,313**	-
Unrealized foreign exchange loss		**52,685**	120,240
Changes in non-cash operating working capital:			
Sales tax and other receivables	**8**	**(2,320,179)**	(443,941)
Prepaids and deposits	**9**	**455,289**	(478,451)
Accounts payable and accrued liabilities	**12**	**263,856**	(168,281)
Net cash used in operating activities		**$ (15,893,163)**	$ (7,246,905)
Investing Activities			
Cash from acquisition of Levon Resources	**6**	**-**	193,358
Acquisition of mineral properties		**-**	(594,795)
Proceeds from sale of investment	**15**	**228,391**	-
Purchase of short-term investments	**7(b)**	**(15,000,000)**	-
Acquisition of property and equipment	**10**	**(291,780)**	(127,005)
Net cash used in investing activities		**$ (15,063,389)**	$ (528,442)
Financing Activities			
Issuance of shares, net of costs		**57,066,444**	27,014,820
Issuance of shares on exercise of options	**14(c)**	**2,516,063**	109,032
Issuance of shares on exercise of warrants	**14(e)**	**15,014,059**	-
Principal payment on lease liability		**(44,972)**	(43,232)
Net cash provided by financing activities		**$ 74,551,594**	$ 27,080,620
Effect of exchange rates on cash and cash equivalents		**2,118**	(46,212)
Increase in cash and cash equivalents		**43,597,160**	19,259,061
Cash and cash equivalents, beginning of year	**7**	**23,950,736**	4,691,676
Cash and cash equivalents, end of year	**7**	**$ 67,547,897**	$ 23,950,737
Supplemental Cash Flow Information:			
Income tax expense paid		**$ -**	$ -
Interest paid		**$ 4,456**	$ 6,415

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except share information)

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At December 31, 2019		**211,205,321**	**$ 76,174,408**	**$ 924,440**	**$ 13,943,396**	**$ (42,241)**	**$ (38,285,870)**	**$ 52,714,133**
Share-based compensation	14c	-	-	-	1,295,508	-	-	1,295,508
Shares issued under non-brokered private placement (May 29)	14b	45,454,545	25,000,000	-	-	-	-	25,000,000
Finders' fees for private placement (May 29)	14b	-	(1,185,001)	-	-	-	-	(1,185,001)
Warrants issued under non-brokered private placement (May 29)	14e	-	(8,976,252)	8,976,252	-	-	-	-
Expiration of replacement warrants issued on close of Plan of Arrangement	14e	-	-	(53,816)	53,816	-	-	-
Shares issued under non-brokered private placement (Aug 7)	14b	25,927,000	35,001,450	-	-	-	-	35,001,450
Finders' fees for private placement (Aug 7)	14e	-	(1,750,005)	-	-	-	-	(1,750,005)
Warrants issued under non-brokered private placement (Aug 7)	14e	-	(17,688,252)	17,688,252	-	-	-	-
Shares issued on exercise of options	14c	6,621,992	3,980,140	-	(1,464,077)	-	-	2,516,063
Shares issued on exercise of warrants	14e	15,803,696	15,014,059	(882,178)	882,178	-	-	15,014,059
Net loss and total comprehensive loss for the year		-	-	-	-	(308,981)	(17,755,694)	(18,064,675)
At December 31, 2020		**305,012,554**	**$ 125,570,547**	**$ 26,652,950**	**$ 14,710,821**	**$ (351,222)**	**$ (56,041,564)**	**$ 110,541,532**

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except share information)

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2019		65,043,998	$ 23,539,388	$ 8,010,367	$ 4,169,144	$ (102,958)	$ (28,629,316)	$ 6,986,625
Share-based compensation	14(c)	-	-	-	1,823,318	-	-	1,823,318
Expiration of warrants issued under non-brokered private placement (Aug.17, 2017)	14(d)	-	-	(346,993)	346,993	-	-	-
Revaluation of warrants on extension (Aug.17, 2017)	14(d)	-	-	(6,997,929)	6,997,929	-	-	-
Shares issued under non-brokered private placement (Jul. 24, 2019)	14(b)	39,151,174	9,004,770	-	-	-	-	9,004,770
Finders' fees for private placement (Jul.24, 2019)	14(b)	-	(17,500)	-	-	-	-	(17,500)
Shares issued under non-brokered private placement (Nov.4, 2019)	14(b)	42,222,219	19,000,000	-	-	-	-	19,000,000
Warrants issued under non-brokered private placement (Nov.4, 2019)	14(d)	-	-	205,179	(205,179)	-	-	-
Finders' fees for private placement (Nov.4, 2019)		-	(972,450)	-	-	-	-	(972,450)
Replacement shares issued on close of Plan of Arrangement	14(b)	64,412,929	25,443,112	-	-	-	-	25,443,112
Replacement options issued on close of Plan of Arrangement	14(c)	-	-	-	879,247	-	-	879,247
Replacement warrants issued on close of Plan of Arrangement	14(d)	-		53,816	-	-	-	53,816
Shares issued on exercise of options	14(c)	375,000	177,088	-	(68,056)	-	-	109,032
Net loss and total comprehensive loss for the year		-	-	-	-	60,717	(9,656,554)	(9,595,837)
At December 31, 2019		211,205,321	$ 76,174,408	$ 924,440	$ 13,943,396	$ (42,241)	$ (38,285,870)	$ 52,714,133

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Discovery Silver Corp. ("Discovery Silver" 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 R B Technologies Inc. On November 18, 1986, the Corporation's name was changed to "Vertech Systems Corporation", then on June 26, 1989, to "Vercan Investments Inc.", then on January 26, 1998, to "Watersave Logic Corporation", then on July 27, 2006, to "Abode Mortgage Holdings Corp.", then on August 19, 2013, to "Ayubowan Capital Ltd." On June 13, 2017, the Company's name was changed to Discovery Metals Corp. On April 14, 2021, the Company's name was changed to Discovery Silver Corp. The Company is listed on the TSX Venture Exchange (the "Exchange" or "TSXV") under the symbol "DSV". The Company's head office is located at Suite 701 - 55 University Avenue, Toronto, Ontario, M5J 2H7.

The Company's Board of Directors authorized the issuance of these audited annual consolidated financial statements (the "consolidated financial statements") on April 28, 2021.

COVID-19 Update

On March 31, 2020, the Company suspended all exploration activities in Mexico as a result of an emergency decree issued by the Mexican Ministry of Health stating that all non-essential services be stopped until May 31, 2020. On May 13, 2020, the Government published another decree announcing that mining and several other sectors were to be considered essential services and could begin operations as early as June 1, 2020. Commencement of operations would be subject to government approval of a company's application to resume operations. The applicant must demonstrate that strict health and safety protocols are in place and will be adhered to. The Company applied, and was granted permission, and restarted operations on June 19, 2020, with minimal impact to operations.

The Company remains committed to being engaged with our local stakeholders during this uncertain period and will continue to closely monitor the directives of all levels of government in both Mexico and Canada as well as the relevant health authorities.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2020, the Company had working capital (defined as current assets less current liabilities) of $82,435,046 (December 31, 2019 – $23,860,648), shareholders' equity of $110,541,531 (December 31, 2019 – $52,714,132) and an accumulated deficit of $56,041,564 (December 31, 2019 – $38,285,870).

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value through profit or loss ("FVTPL"), as explained in the accounting policies described herein. Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b) Basis of Consolidation

These 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 subsidiaries and their geographic locations at December 31, 2020 were as follows:

Direct Parent Company	Location	Ownership Percentage	Properties
Discovery México S.A. de C.V.	Mexico	100%[1]	Puerto Rico, La Kika, Minerva, Monclova, Jemi Rare, Santa Rosa
Minera Titán S.A. de C.V.	Mexico	100%	Cordero

[1] Discovery México S.A. de C.V. has entered into contractual agreements that include the option to purchase 100% of the properties listed.

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

c) Currency of Presentation

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

d) Foreign currency translation

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

e) Cash and cash equivalents and restricted cash

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

f) Mineral properties and equipment

On initial acquisition, mineral properties and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition. The Company capitalizes cash and share-based payments made to acquire mineral properties (note 11). Land is stated at cost less any impairment in value and is not depreciated. Exploration and development costs are capitalized if a pre-feasibility study demonstrates that future economic benefits are probable. Upon disposal or abandonment, the carrying amount of mineral properties are derecognized and any associated gains or losses are recognized in profit and loss.

i. Depreciation

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

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

ii. Impairment

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

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

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

g) Exploration and evaluation assets

Exploration and evaluation expenditures are comprised of costs that are directly attributable to: researching and analyzing existing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, and compiling economic studies. Exploration expenditures are costs incurred in the search for resources suitable for commercial exploitation. Evaluation expenditures are costs incurred in determining the technical feasibility and commercial viability of a mineral resource. Exploration and evaluation expenditures are capitalized when there is a high degree of confidence in the project’s viability and thus it is probable that future economic benefits will flow to the Company.

h) Leases

In addition to contracts which take the legal form of a lease, other significant contracts are assessed to determine whether, in substance, they are or contain a lease, if the contractual arrangement contains the use of a specific asset and the right to use that asset. Where the Company receives substantially all the risks and rewards of ownership of the asset, these assets are capitalized at the lower of the fair value of the leased asset or the estimated present value of the minimum lease payments. The corresponding lease obligation is included within lease obligations and accretion expense is recognized over the term of the lease. Leases or contracts that do not meet the specific criteria due to their immaterial nature are not capitalized and are included in the consolidated statements of operations and total comprehensive loss on a straight-line basis over the term of the lease or contract.

i) Provisions

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

j) Financial instruments

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

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

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

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

k) Share Capital

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

l) Warrants

Warrants are classified as equity, separately from common shares and are valued at their fair value on grant date. The fair value of the warrants granted is measured using the Black-Scholes pricing model, considering the terms and conditions upon which the warrants were granted. The impact of changes to the original terms of a warrant grant or revisions to original estimates are accounted for prospectively and recognized in equity with a corresponding change in contributed surplus on the date of remeasurement. Consideration received on the exercise of warrants is recorded as share capital and the related contributed surplus is transferred to warrants, within the Company's equity accounts.

m) Share-based payments

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

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

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

n) Income taxes

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

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

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

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

o) Total comprehensive loss

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

p) Earnings (loss) per share

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

4. ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

The following new standards, and amendments to standards and interpretations, are effective for the first time for the annual periods beginning on or after January 1, 2020 and have been applied in preparing these consolidated financial statements:

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)

IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure* have been revised to incorporate amendments issued by the IASB in response to the ongoing reform of interest rate benchmarks around the world. The replacement of existing benchmarks with new risk-free rates over the next few years can have significant effects on hedge accounting. The amendments aim to provide relief for hedging relationships. The amendments provide temporary exceptions from applying certain hedge accounting requirements in IFRS 9 and IAS 39 to all hedging relationships directly affected by interest rate benchmark reform. Without these amendments, the uncertainty surrounding the replacement of benchmark rates could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments. The amendments to IFRS 7 also provide specific disclosure requirements regarding uncertainty arising from interest rate benchmark reform.

The adoption of this amendment did not have a material impact on the Company's financial statements.

Definition of Material

The IASB has issued *Definition of Material*, amending IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to make it easier for entities to judge whether information is material for inclusion in the financial statements. The amendments:

- include in the definition of material guidance that was previously only featured elsewhere in IFRS;
- improve the explanations that accompany the definition; and
- ensure the definition of material is consistent across all IFRS standards.

The adoption of this amendment did not have a material impact on the Company's financial statements.

Future Accounting Standards and Interpretations

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment on the Company's financial statements has not yet been determined.

5. CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

a) Critical accounting judgments

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

i. Functional currency

The functional currency for each of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that for each of the Canadian entities, the functional currency is CAD and for the Mexican 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 (loss) and may or may not be subsequently reclassified to profit or loss depending on future events.

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

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

b) Critical accounting estimates

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

i. Determination of useful lives

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

ii. Impairment charges

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

Management periodically reviews the carrying values of its exploration and evaluation assets with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of resources, forecast future metal prices, forecast future costs of exploring, and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are recoverable.

iii. Sales tax recoverability

The Company incurs significant expenditures for the purchase of goods and services on which sales tax is paid ("GST/HST" in Canada and "IVA" in Mexico). The net amount paid is recoverable but is subject to review and assessment by the relevant tax authorities (Canada Revenue Agency ("CRA") in Canada and the Servicio de Administración Tributaria ("SAT") in Mexico). The Company files GST/HST returns on a quarterly basis with the CRA and regularly files the required IVA returns and all supporting documentation with SAT. IVA refund requests are from time to time improperly denied based on the alleged lack of compliance of certain formal requirements and information returns by the Company's third-party suppliers.

The Company is in regular contact with SAT in respect of its IVA filings and believes the full amount of its IVA receivables will ultimately be received; however, the timing of recovery of these amounts and the nature and extent of any adjustments to the Company's IVA receivables remains uncertain. 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 (note 8).

(Expressed in Canadian dollars, except where otherwise noted)

At December 31, 2020, a provision of $2,633,976 for IVA recoverable was made (December 31, 2019: $1,409,637).

iv. Share-based payments

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

Determining the fair value of stock options and warrants require 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.

6. ACQUISITION OF LEVON RESOURCES LTD.

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

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

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

(Expressed in Canadian dollars, except where otherwise noted)

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

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

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

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

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

7. CASH AND CASH EQUIVALENTS

		December 31, 2020		December 31, 2019
Cash (a)	**$**	**67,437,897**	$	23,860,737
Cash equivalents (b)		**110,000**		90,000
	$	**67,547,897**	$	23,950,737

(Expressed in Canadian dollars, except where otherwise noted)

a) Cash

The Company closed two non-brokered private placements during the year ended December 31, 2020 for aggregate gross proceeds of approximately $60 million (note 14b). Excess proceeds were invested in highly liquid interest-bearing instruments which include a $24,500,000 1-year, 30-day redeemable GIC, bearing interest at 1.05% that matures on June 24, 2021. Interest is accrued monthly based on the total value of the GIC, pro-rated for any redemptions made during the period. The Company did not redeem any portion of this GIC during the year ended December 31, 2020.

Cash equivalents include marketable securities with short-term maturities and no restrictions on redemption.

b) Short-term investments

The Company invested $15,000,000 of excess cash from the non-brokered private placement (note 14b) in a two-year fixed rate GIC, bearing interest at 1.55% per annum (paid annually) and maturing on June 9, 2022. This investment has been classified as a current asset as there are no restrictions on redemption and the Company may, at its discretion, withdraw any amount to fund current operations.

The Company has accrued interest receivable of $264,493 relating to its two GIC investments (note 8).

8. SALES TAX AND OTHER RECEIVABLES

		December 31, 2020		December 31, 2019
Sales tax receivable	**$**	**2,769,101**	$	1,454,986
Accumulated impairment of sales tax receivable[(1)]		**(2,633,976)**		(1,409,637)
Other receivables[(2)]		**300,545**		13,925
	$	**435,670**	$	59,274

(1) Accumulated impairment of sales tax receivable includes $294,204 of foreign exchange translation adjustments from its Mexican Peso denominated balance.

(2) Other receivables include accrued interest receivable of $286,798 relating to the Company's GIC investments and interest-bearing operating accounts.

At December, 2020, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of $4,986,128 including $1,349,033 remaining from the IVA acquired in the Levon transaction (December 31, 2019: $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.

(Expressed in Canadian dollars, except where otherwise noted)

On February 21, 2020, the Company received a partial IVA refund in the amount of 4,402,046MXP or $296,830. The Company also received interest on this balance in the amount of 998,384MXP or $67,321. On August 5, 2020, the Company received another partial IVA refund in the amount of 1,609,384MXP or $95,211, as well as interest on this balance in the amount of 503,737MXP or $29,801. These partial refunds and interest received are recognized in 'other income' and 'interest income', respectively, in the consolidated Statement of Loss and Total Comprehensive Loss for the year ended December 31, 2020.

At December 31, 2020, the Company has established a provision in full for the IVA receivable balance of $2,633,976 (December 31, 2019: $1,409,637). The Company expects to continue to recognize a provision for 100% of the IVA recoverable balance until such time as there are sufficient indicators of recoverability.

9. PREPAIDS AND DEPOSITS

		December 31, 2020		December 31, 2019
Insurance	**$**	**33,056**	$	38,805
Office and other prepaid deposits		**65,683**		16,114
Drilling contract[(1)]		**-**		466,480
	$	**98,739**	$	521,399

(1) At December 31, 2019, the Company had made deposits in aggregate of USD$390,000 to a contractor performing exploration drilling activities at the Cordero Project. Under the contract, the deposit will be used to offset amounts due to the contractor by an amount equal to 10% of every invoice until the deposit is used in its entirety. At December 31, 2020, the Company had applied all of the deposit against invoices received.

10. PROPERTY AND EQUIPMENT

		Equipment		**Vehicles**		**Office & Furniture**		**Computer**		**Total**
Cost										
Balance at January 1, 2020	**$**	**174,713**	**$**	**88,088**	**$**	**213,878**	**$**	**128,000**	**$**	**604,679**
Additions		**95,080**		**170,251**		**-**		**26,449**		**291,780**
Disposals		**-**		**-**		**-**		**-**		**-**
Currency translation adjustment		**(7,655)**		**(10,984)**		**(2,135)**		**(7,876)**		**(28,649)**
Balance at December 31, 2020	**$**	**262,137**	**$**	**247,354**	**$**	**211,744**	**$**	**146,573**	**$**	**867,809**
Accumulated depreciation										
Balance at January 1, 2020	**$**	**(14,675)**	**$**	**(41,825)**	**$**	**(57,901)**	**$**	**(60,859)**	**$**	**(175,260)**
Additions		**(10,805)**		**(31,359)**		**(68,501)**		**(22,228)**		**(132,892)**
Disposals		**-**		**-**		**-**		**-**		**-**
Currency translation adjustment		**2,176**		**6,795**		**448**		**4,228**		**13,647**
Balance at December 31, 2020	**$**	**(23,303)**	**$**	**(66,389)**	**$**	**(125,953)**	**$**	**(78,859)**	**$**	**(294,504)**

Carrying amount		**Equipment**		**Vehicles**		**Office & Furniture**		**Computer**		**Total**
At January 1, 2020	$	160,038	$	46,263	$	155,977	$	67,141	$	429,419
At December 31, 2020	**$**	**238,834**	**$**	**180,965**	**$**	**85,792**	**$**	**67,714**	**$**	**573,305**

(Expressed in Canadian dollars, except where otherwise noted)

		Equipment		Vehicles		Office & Furniture		Computer		Total
Cost										
Balance at December 31, 2018	$	68,151	$	83,827	$	37,929	$	107,670	$	297,577
IFRS 16 transition		-		-		176,073		-		176,073
Balance at January 1, 2019		68,151		83,827		214,002		107,670		473,650
Additions[1]		107,948		4,398		-		20,657		133,003
Disposals		-		-		-		-		-
Currency translation adjustment		(1,386)		(137)		(124)		(327)		(1,974)
Balance at December 31, 2019	$	174,713	$	88,088	$	213,878	$	128,000	$	604,679

Accumulated depreciation										
Balance at January 1, 2019	$	(6,441)	$	(20,641)	$	(5,324)	$	(25,560)	$	(57,966)
Additions[1]		(9,098)		(20,811)		(52,563)		(35,199)		(117,671)
Disposals		-		-		-		-		-
Currency translation adjustment		864		(373)		(14)		(100)		377
Balance at December 31, 2019	$	(14,675)	$	(41,825)	$	(57,901)	$	(60,859)	$	(175,260)

Carrying amount		Equipment		Vehicles		Office & Furniture		Computer		Total
At December 31, 2018	$	61,710	$	63,186	$	32,605	$	82,110	$	239,611
At January 1, 2019	$	61,710	$	63,186	$	208,678	$	82,110	$	415,684
At December 31, 2019	$	160,038	$	46,263	$	155,977	$	67,141	$	429,419

(1) As part of the acquisition of Levon Resources Ltd., the Company acquired certain property and equipment including vehicles, machinery and computer hardware. Depreciation has been calculated for the period from acquisition date of August 2, 2019 to December 31, 2019 and based on the combined acquisition date fair values of $5,998.

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

Leased assets		**Total**
At January 1, 2019	$	176,073
Depreciation		(45,932)
At December 31, 2019	$	130,141
Depreciation		**(45,932)**
At December 31, 2020	**$**	**84,209**

11. MINERAL PROPERTIES

At January 31, 2019	$	1,264,007
Acquisition of mineral properties(1)		27,226,224
Currency translation adjustment		(10,925)
At December 31, 2019	$	28,479,306
Disposition of mineral properties(2)		**(153,313)**
Currency translation adjustment		**(751,724)**
At December 31, 2020	**$**	**27,574,270**

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

(Expressed in Canadian dollars, except where otherwise noted)

(2) The Renata mineral exploration and option agreement expired in August 2020 and was not renewed.

The value attributed to each of the Company's mineral properties is as follows:

		December 31, 2020		December 31, 2019
Cordero	**$**	**27,226,224**	$	27,226,224
Puerto Rico		**856,687**		856,687
Minerva		**174,580**		174,580
Renata		**-**		153,313
La Kika		**93,131**		93,131
		28,350,622		28,503,935
Cumulative CTA		**(776,352)**		(24,629)
	$	**27,574,270**	$	28,479,306

Puerto Rico Property

During March 2021, the Company signed a 4th amending agreement (the "Amending Agreement") to the Puerto Rico Option Agreement (the "Agreement") which replaces in their entirety, the Agreement signed in 2017 and all subsequent amendments.

The new terms of the Amending Agreement are as follows:

a. The Company can determine the nature, scope, extension and other aspects of exploration work at Puerto Rico. There are no longer any minimum work requirements.

b. The Company can exercise the option to acquire 100% of the project at any time for 6,000,000 common shares of the Company (the "Purchase Option") with a minimum and maximum value per common share of C$1.00 and C$3.00, respectively. Cash can be paid in lieu of common shares.

c. The following additional consideration will be paid on reaching certain milestones ("Milestone Consideration"): $300,000 USD (paid in 10 monthly instalments) and 1,000,000 common shares (four equal instalments) for the receipt of exploration permits; 1,500,000 common shares if the Company files a Preliminary Economic Assessment or Pre-Feasibility Study; and 3,000,000 common shares if the Company begins construction to carry out exploitation.

   All common shares to be issued as Milestone Consideration will have the same minimum and maximum value per common share as under the Purchase Option and can also be paid in cash in lieu of common shares.

d. Common shares issued as consideration for the Purchase Option and Milestone Consideration are to be held in escrow and released 1/3rd every six months beginning six months after the date of issuance.

(Expressed in Canadian dollars, except where otherwise noted)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2020		December 31, 2019
Trade and other payables	**$**	**194,932**	$	342,883
Salaries and benefits payable[1]		**690,381**		241,125
Accrued liabilities		**50,167**		-
Withholding tax payable		**-**		87,617
	$	**935,480**	$	671,625

[1] At December 31, 2020, salaries and benefits payable comprised short-term incentive amounts payable to executive management and employees.

13. LEASE LIABILITIES

		December 31, 2020		December 31, 2019
Lease liabilities	**$**	**87,869**	$	132,841
Less: current portion		**46,780**		44,971
Non-current portion	**$**	**41,089**	$	87,870

[1] As a result of the adoption of IFRS 16, the Company recognized a lease liability of $176,073 on January 1, 2019 related to the long-term lease contract for office space, with a remaining term of 3.5 years at an incremental borrowing rate of 3.95%. As at December 31, 2020, remaining payments are as follows:

Year		
2021		**46,780**
2022		**41,089**
Total	**$**	**87,869**

Interest expense for the year ended December 31, 2020 related to the lease liability was $4,438 (year ended December 31, 2019 - $6,177).

14. SHARE CAPITAL AND WARRANTS

a) Authorized

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

b) Shares issued and outstanding

The Company has completed several non-brokered private placements resulting in the issuance of common shares. These private placements include:

1) gross proceeds of $15,618,500 on August 15, 2018 through the issuance of 31,237,000 common shares at a price of $0.50 per share during the year ended December 31, 2017;
2) gross proceeds of $9,004,770 received through a non-brokered private placement of 39,151,174 common shares at a price of $0.23 per share on July 24, 2019;

(Expressed in Canadian dollars, except where otherwise noted)

3) gross proceeds of $19,000,000 received through a non-brokered private placement of 42,222,219 common shares at a price of $0.45 on November 5, 2019;
4) gross proceeds of $25,000,000 received through a non-brokered private placement of 45,454,545 common shares at a price of $0.55 per share on May 29, 2020 and June 8, 2020 (closed in two tranches); and
5) gross proceeds of $35,001,450 received through a non-brokered private placement of 25,927,000 common shares at a price of $1.35 per share on August 7, 2020.

	Note	Common Shares		Amount
At December 31, 2019		211,205,321	$	76,174,408
Shares issued for Private Placement(1)		**45,454,545**		**25,000,000**
Finders' fees on Private Placement(1)		**-**		**(1,185,001)**
Warrants issued on Private Placement(1)	**14e**	**-**		**(8,976,252)**
Shares issued for Private Placement(2)		**25,927,000**		**35,001,450**
Finders' fees on Private Placement(2)		**-**		**(1,750,005)**
Warrants issued on Private Placement(2)	**14e**	**-**		**(17,688,252)**
Shares issued on exercise of options	**14c**	**6,621,992**		**3,980,140**
Shares issued on exercise of warrants	**14e**	**15,803,696**		**15,014,059**
At December 31, 2020		**305,012,554**	**$**	**125,570,547**

(1) The Private Placement closed in two tranches on May 29 and June 8, 2020.
(2) The Private Placement closed in a single tranche on August 7, 2020.

c) Stock Options

The Company has adopted rolling 10% stock option plan (the "Option 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.

There were 5,435,000 stock options granted during the year ended December 31, 2020 (year ended December 31, 2019 – 5,300,000 options granted with a weighted-average exercise price of $0.48 and five-year term to expiry), comprised of 400,000 granted on January 5, 2020, 4,835,000 granted on April 27, 2020 and 200,000 granted on October 15, 2020. The options have a weighted average exercise price of $0.53 and a five-year term to expiry. One third vested immediately, and 1/3 will vest on each subsequent anniversary of grant date. Options issued to consultants have a vesting schedule of 1/8 each quarter beginning three months after grant date.

During the year ended December 31, 2020, 4,534,300 Replacement Options were exercised, for gross proceeds of $1,319,027 (year-ended December 31, 2019, 375,000 Replacement Options were exercised for gross proceeds of $109,032). All Replacement Options were exercised prior to their expiry on August 2, 2020.

(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
At January 1, 2019	5,100,000	$	0.56
Replacement options issued	4,909,300		0.29
Options granted	5,300,000		0.48
Options exercised	(375,000)		0.29
Options cancelled/forfeited	(175,000)		0.55
At December 31, 2019	14,759,300	$	0.46
Options granted	**5,435,000**		**0.53**
Options exercised	**(6,621,992)**		**0.38**
Options cancelled/forfeited	**(12,500)**		**0.48**
At December 31, 2020	**13,559,808**	**$**	**0.52**

The share-based compensation expense for the year ended December 31, 2020 was $1,295,508 (year ended December 31, 2019 - $1,823,318).

At December 31, 2020, 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	300,000	0.76	$0.45	300,000	0.76	$0.45
$0.60	2,533,333	1.63	$0.60	2,533,333	1.63	$0.60
$0.48	300,000	1.87	$0.48	300,000	1.87	$0.48
$0.53	300,000	2.02	$0.53	300,000	2.02	$0.53
$0.50	372,100	2.52	$0.50	372,100	2.52	$0.50
$0.48	4,475,625	3.62	$0.48	3,489,167	3.62	$0.48
$0.65	400,000	4.02	$0.65	133,333	4.02	$0.65
$0.47	4,678,750	4.32	$0.47	1,444,167	4.32	$0.47
$1.84	200,000	4.79	$1.84	66,667	4.79	$1.84
	13,559,808	**1.02**	**$0.50**	**8,938,766**	**1.17**	**$0.51**

The fair value of the option grants issued during the year ended December 31, 2020 have been estimated using the Black-Scholes option-pricing model with the following assumptions:

Grant date		**January 5, 2020**		**April 27, 2020**	**October 15, 2020**
Number granted		**400,000**		**4,835,000**	**200,000**
Exercise price	**$**	**0.65**	**$**	**0.47**	**$1.84**
Share price	**$**	**0.65**	**$**	**0.47**	**$1.84**
Expected life (years)		**2.92**		**2.21**	**2.26**
Risk free interest rate		**1.61%**		**0.34%**	**0.23%**
Expected volatility		**95.8%**		**96.3%**	**102.8%**
Expected forfeiture rate		**18.7%**		**16.4%**	**10.8%**
Dividend yield		**-**		**-**	**-**
Fair Value	**$**	**0.38**	**$**	**0.24**	**$1.03**

d) Deferred Share Units and Restricted Share Units

At the Company's Annual General Meeting held on June 26, 2020, shareholders of the Company approved a resolution which allowed the Company to adopt Deferred Share Unit ("DSU") and Restricted Share Unit ("RSU") plans (together referred to as the "DSU and RSU Plans"). The DSU and RSU Plans are rolling 10% plans, with the 10% threshold being shared with the Option Plan so the combined aggregate total Options, DSUs and RSUs granted cannot exceed 10% of the issued and outstanding common shares of the Company.

The DSU Plan provides that the directors of the Company may grant DSUs to non-executive directors of the Company, to be settled in cash or the purchase common shares of the Company. The RSU Plan provides that the directors of the Company may grant RSUs to eligible officers, employees and service providers, to be settled in cash or the purchase common shares of the Company.

The Board in its sole discretion may determine any vesting provisions for DSUs and RSUs. 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 DSUs or RSUs shall not be more than ten years from the grant date.

There were no DSUs or RSUs granted during the years ended December 31, 2020 and 2019.

e) Warrants

On February 13, 2020, the 1,414,168 replacement warrants issued on completion of the acquisition of Levon on August 2, 2019 with an exercise price of $0.91 expired unexercised. The Company also expired the remaining 427,500 broker warrants issued as part of the August 17, 2017 private placement which were not extended in accordance with regulatory requirements.

On closing of the two tranches of the private placement on May 29 and June 8, 2020, an aggregate total of 22,727,267 warrants were issued to subscribers at an exercise price of $0.77 and a two-year expiry from the date of issuance with 15,545,467 expiring May 29, 2022 and 7,181,800 expiring June 8, 2022. In addition, 804,545 warrants were issued to finders at an exercise price of $0.55 and a two-year expiry from the date of issuance with 373,636 expiring May 29, 2022 and 430,909 expiring June 8, 2022. All warrants are subject to a regulatory hold period of four months plus one day from the date of issuance. The total fair value of warrants issued is $8,976,252.

On closing of the private placement on August 7, 2020, an aggregate total of 12,963,000 warrants were issued to subscribers at an exercise price of $1.75 for a period of two years after the date of issuance. All warrants are subject to a regulatory hold period of four months plus one day from the date of issuance. The total fair value of warrants issued is $17,688,252.

The fair value of the warrants issued during the year ended December 31, 2020 have been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

(Expressed in Canadian dollars, except where otherwise noted)

Grant date		**May 29 and June 8, 2020**		**August 7, 2020**
Number granted		**22,727,267**		**12,963,000**
Exercise price	$	**0.75**	$	**1.75**
Share price	$	**0.73**	$	**2.29**
Expected life (years)		**1.97**		**2.00**
Risk free interest rate		**0.29%**		**0.27%**
Expected volatility		**96.2%**		**102.8%**
Expected forfeiture rate		**-**		**-**
Dividend yield		**-**		**-**
Fair Value	$	**0.36**	$	**1.36**

Warrants outstanding as at December 31, 2020 and December 31, 2019 are summarized as follows:

Issue date	**8/17/2017**	**8/2/2019**	**11/4/2019**	**5/29/2020**	**6/8/2020**	**5/29/2020**	**6/8/2020**	**8/6/2020**	
Expiry	**2/17/2021**	**2/13/2020**	**11/4/2021**	**5/29/2022**	**6/8/2022**	**5/29/2022**	**6/8/2022**	**8/6/2022**	
Price	**$1.00**	**$0.91**	**$0.50**	**$0.77**	**$0.77**	**$0.55**	**$0.55**	**$1.55**	**TOTAL**
December 31, 2019	31,664,500	1,414,168	1,063,833	-	-	-	-	-	34,142,501
Issued	-	-	-	**15,545,467**	**7,181,800**	**373,636**	**430,909**	**12,963,000**	**36,494,812**
Exercised	**(13,523,502)**	-	**(661,083)**	**(1,225,020)**	-	**(94,091)**	**(300,000)**	-	**(15,803,696)**
Expired	**(427,500)**	**(1,414,168)**	-	-	-	-	-	-	**(1,841,668)**
December 31, 2020	**17,713,498**	-	**402,750**	**14,320,447**	**7,181,800**	**279,545**	**130,909**	**12,963,000**	**52,991,949**

Subsequent to December 31, 2020, 17,616,498 common share purchase warrants with an exercise price of $1.00 were exercised prior to their expiry on February 17, 2021. The exercises resulted in gross proceeds of approximately $17.6 million.

The remaining contractual lives of Warrants outstanding at December 31, 2020 are as follows:

Number of Warrants	**Weighted average remaining life**	**Weighted average exercise price**
52,991,949	1.66 years	$1.08

15. OTHER INCOME

		Year Ended December 31,		
		2020		2019
Sale of investment	**$**	**182,556**	$	-
IVA refund (note 8)		**392,041**		-
	$	**574,597**	$	-

On March 2, 2020, the Company completed the disposition of its entire position in Great Thunder Gold Corp. for cash proceeds of $228,391. 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. The difference of $182,556 is recognized in 'other income' on the Consolidated Statement of Loss and Total Comprehensive Loss.

(Expressed in Canadian dollars, except where otherwise noted)

a) Sale of non-core exploration property

On April 9, 2020, the Company completed the divestiture of its 100% interest in the Congress Property ("Congress") located in British Columbia, to Talisker Resources Ltd. ("Talisker"). Congress was 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 issued 1,000,000 common shares to the Company in return for 100% ownership of Congress. The shares had a fair value of $295,000 at the transaction date which was recorded in 'investments' on the Consolidated Statement of Financial Position with a corresponding gain on sale of non-core exploration property recorded in the Consolidated Statement of Loss and Total Comprehensive Loss. At December 31, 2020, the fair value of the investment was $335,000 and is comprised of the following:

		Amount
At January 1, 2020	$	-
Fair value on acquisition of Talisker shares		295,000
Net unrealized gain on fair value remeasurement		40,000
At December 31, 2020	**$**	**335,000**

16. EXPLORATION AND PROJECT EVALUATION

	Year Ended December 31, 2020(2)							
	Puerto Rico	**La Kika**	**Minerva**	**Monclova**	**Cordero**	**Other(1)**	**Project Evaluation**	**Total**
Permitting	$ -	$ -	$ -	$ -	$ 39,277	$ -	$ -	$ 39,277
Mining duties	59,451	9,480	16,229	38,624	511,837	23,505	-	659,127
Surface access	-	-	-	-	50,185	-	-	50,185
Site access	-	20,417	35,891	11,614	56,345	-	-	124,266
Drilling	-	-	-	-	7,782,422	-	-	7,782,422
Mapping, Sampling & Assays	-	-	-	-	1,144,066	-	-	1,144,066
Geophysics	-	-	-	-	2,968	-	-	2,968
Salaries and benefits	22,225	-	22,617	22,225	1,296,512	-	-	1,363,580
Travel	11,667	-	1,620	2,949	186,254	-	-	202,491
Administrative and other	30,378	-	11,001	9,226	616,553	-	-	667,159
Project Evaluation	-	-	-	-	27,524	-	-	27,524
Total	**$ 123,722**	**$ 29,897**	**$ 87,359**	**$ 84,638**	**$ 11,713,944**	**$ 23,505**	**$ -**	**$ 12,063,064**

(Expressed in Canadian dollars, except where otherwise noted)

	Year Ended December 31, 2019							
	Puerto Rico	La Kika	Minerva	Monclova	Cordero	Other[(1)]	Project Evaluation	Total
Permitting	$ -	$ -	$ -	$ -	$ 75,657	$ -	$ -	$ 75,657
Mining duties	58,969	9,403	25,812	38,310	-	5,034	-	137,528
Surface access	-	-	24,294	-	65,111	-	-	89,405
Site access	11,979	-	-	62,465	19,098	-	-	93,542
Drilling	-	-	-	-	1,342,844	-	-	1,342,844
Mapping, Sampling & Assays	7,000	-	-	-	212,659	-	-	219,659
Geophysics	-	-	10,998	-	823,056	-	-	834,054
Salaries and benefits	167,330	-	122,602	122,794	361,585	-	-	774,311
Travel	32,314	-	13,820	17,869	22,081	-	-	86,084
Administrative and other	54,127	-	44,357	23,803	68,443	-	-	190,730
Project Evaluation	-	-	-	-	-	-	262,388	262,388
Total	$ 331,719	$ 9,403	$ 241,883	$ 265,241	$ 2,990,534	$ 5,034	$ 262,388	$ 4,106,202

1) Other includes Jemi Rare, Renata and Santa Rosa. The Option Agreement for Renata was not renewed on expiry during the year ended December 31, 2020.

2) Exploration activities were suspended on March 31, 2020 due to COVID-19 restrictions and recommenced on June 19, 2020.

17. GENERAL OFFICE AND OTHER EXPENSES

	Years Ended December 31,	
	2020	2019
Travel	**$ 16,088**	$ 74,711
Salaries and benefits	**1,744,449**	1,007,104
Shareholder communication and investor relations	**182,203**	118,748
Filing and transfer agent fees	**190,651**	165,104
Business development	**140,863**	96,710
Rent	**67,384**	67,049
Depreciation	**106,762**	117,671
General office and other	**420,917**	255,234
	$ 2,869,317	$ 1,902,331

18. PROFESSIONAL FEES

	Years Ended December 31,	
	2020	2019
Legal	**$ 208,693**	$ 178,993
Audit, tax and accounting	**190,780**	176,054
Consulting and other [(1)]	**237,537**	-
	$ 637,010	$ 355,047

(1) Consulting and other fees primarily include costs related to metallurgical studies, mine planning, pit optimization.

(Expressed in Canadian dollars, except where otherwise noted)

19. INCOME TAXES

				Years Ended December 31,
		2020		2019
Loss before tax at statutory rate of 28% (2019 – 28%)	**$**	**5,058,108**	$	2,665,957
Effect on taxes of:				
Non-deductible expenses		**(363,778)**		(521,007)
Change in deductible temporary differences		**(4,694,330)**		(2,144,950)
Income tax expense	**$**	**-**	$	-

a) Unrecognized Deductible Temporary Differences

Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

The tax loss carry-forwards will expire in 2026.

				Years Ended
		December 31, 2020		December 31, 2019
Non-capital loss carry-forwards	**$**	**11,257,000**	$	9,222,000
Capital loss carry-forwards		**12,640,000**		12,640,000
Share issue costs		**68,000**		172,000
Resource properties		**27,038,000**		12,104,000
	$	**51,003,000**	$	34,138,000

20. 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, with the goal of 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. The current excess funds realized from the non-brokered private placements are invested in highly liquid, interest-bearing marketable securities with no restrictions on redemption.

At December 31, 2020, aside from the long-term portion of the lease liability (note 13), 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, 2020.

21. FINANCIAL INSTRUMENTS

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

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

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.
Financial instruments are classified into one of three levels in the fair value hierarchy according to the degree to which the inputs used in the fair value measurement are observable.

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

At December 31, 2020 the Company had no financial instruments classified as Level 2 or 3.

22. FINANCIAL RISK MANAGEMENT

The Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk. The aim of the Company's overall risk management strategy is to reduce the potential adverse effect that these risks may have on the Company's financial position and results. The Company's Board of Directors has overall responsibility and oversight of management's risk management practices. Risk management is carried out by the Board through the Nominating and Corporate Governance Committee with the policies being recommended for approval by the Board of Directors at least annually or when changes are required.

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. At December 31, 2020, the Company had a cash and cash equivalents balance of $67,547,897 (December 31, 2019 – $23,950,737) to settle current liabilities of $982,260 (December 31, 2019 – $716,596). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(Expressed in Canadian dollars, except where otherwise noted)

At December 31, 2020, the Company has no sources of revenue to fund its operating expenditures. Since inception the Company has relied solely on private placements to fund its operations. Since the change of business transaction in August 2017, such private placements include gross proceeds of $103,624,720 received through multiple non-brokered private placements – of which $60,001,450 was during the year ended December 31, 2020 (note 14b).

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, 2020, the Company is currently exposed to a low level of liquidity risk.

b) Credit risk

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

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

	December 31, 2020	December 31, 2019
Cash and cash equivalents	**$ 67,547,897**	$ 23,950,737
Short-term investments	**15,000,000**	-
Other receivables	**300,545**	13,925
Deposits	**65,683**	482,594
	$ 82,914,125	**$** 24,447,256

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 or other highly liquid interest-bearing short-term investments. 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, 2020, 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. At December 31, 2020 and December 31, 2019, the Company had the following foreign currency denominated trade payables:

		December 31, 2020		December 31, 2019
United States dollar	**$**	**149,806**	$	54,133
Mexican Peso		**109,853**		157,598
	$	**259,659**	$	211,731

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss at December 31, 2020 by approximately $25,467 (December 31, 2019: $20,782).

At December 31, 2020, management has determined the Company's exposure to foreign currency risk to be at an acceptable level.

iii. Price risk

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

There have been significant fluctuations in commodity prices and prices of equity securities during 2020 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.

(Expressed in Canadian dollars, except where otherwise noted)

At December 31, 2020 Management has determined the Company's exposure to price risk to be at an acceptable level.

23. 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 is involved in the exploration and development of polymetallic deposits. All mineral properties are located in Mexico. The Company currently has no revenues.

Segment performance is evaluated based on several operating and financial measures, including net loss and total comprehensive loss, which is measured consistently with net loss and total comprehensive loss in the consolidated financial statements.
The net loss and total comprehensive loss are distributed by geographic region as follows:

		Years Ended December 31,
	2020	2019
Canada	**$ (3,130,856)**	$ (4,329,647)
Mexico	**(14,933,819)**	(5,266,190)
Net loss and total comprehensive loss	**$ (18,064,675)**	$ (9,595,837)

24. RELATED PARTY TRANSACTIONS

a) Key management personnel

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

A Company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the year ended December 31, 2020 totaled $13,283 (year ended December 31, 2019 –$22,304). The Company had $nil in expenses payable to this company as at December 31, 2020 (December 31, 2019 – $8,216). These expenses are not included in the table below.

Under similar arrangements, during the year ended December 31, 2020 the Company reimbursed expenses of $nil (year ended December 31, 2019 –$31,457) to other companies which have a Director in common. There was $nil in expenses payable at December 31, 2020 (December 31, 2019 –$nil). These expenses are not included in the table below.

(Expressed in Canadian dollars, except where otherwise noted)

Related party transactions for the years ended December 31, 2020 and 2019 are as follows:

		Years Ended December 31,	
Transaction Type	**Nature of Relationship**	**2020**	2019
Share-based payments	Directors and officers	**$ 837,020**	$ 964,379
Salaries and benefits	Officers	**1,048,024**	670,345
Consulting fees	Director	**25,000**	98,467
Directors fees	Directors	**301,736**	213,333
		$ 2,211,780	$ 1,946,524

A summary of amounts due to related parties:

Transaction Type	**Nature of Relationship**	**December 31, 2020**	December 31, 2019
Salaries and benefits payable	Directors, officers and employees	**$ 598,000**	$ 266,125
		$ 598,000	$ 266,125

b) 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 for all properties except for Cordero.

25. EVENTS AFTER THER REPORTING PERIOD

a) Stock Option Grant

On January 13, 2021, the Company announced that it had granted to certain officers, directors, employees and/or consultants of the Company an aggregate of 5,500,000 options to acquire common shares of the Company ("Options"). The Options have an exercise price of $1.89 per share, have a five-year term from the date of grant (expiration date of January 12, 2026), and vest according to the following schedules:

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

b) Appointment of Board Member

On March 12, 2021, the Company announced the appointment of Jennifer Wagner to the Company's Board of Directors.

Pursuant to the Company's stock option plan, Ms. Wagner has been granted 300,000 stock options ("Options"). The Options, each exercisable for one common share of the Company at an exercise price of $2.08 per share, vest annually in two equal tranches beginning on the date of the grant of March 11, 2021. The Options will expire five years after 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 from the date of grant.

c) Announcement of Company Name Change to Discovery Silver Corp.

On April 9, 2021, the Company announced that it was changing its name from Discovery Metals Corp. to Discovery Silver Corp. The Company's common shares commenced trading under the new name on the TSX Venture Exchange ("TSXV") under its previous ticker symbol "DSV" and on the OTCQX where its ticker symbol changed from "DSVMF" to "DSVSF" at the opening of trading on April 14, 2021.

d) Exercise of warrants

Subsequent to December 31, 2020, 17,616,498 common share purchase warrants with an exercise price of $1.00 were exercised prior to their expiry on February 17, 2021. The exercises resulted in gross proceeds of approximately $17,600,000.