

Discoverymetals

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

(expressed in Canadian dollars)

Discovery Metals Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited - (Expressed in Canadian dollars)

As at	Notes	March 31, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents	6	\$ 20,018,474	\$ 23,950,737
Sales tax and other receivables	7	35,278	59,274
Prepays and deposits	8	168,910	521,399
Investments		-	45,835
		20,222,662	24,577,245
Non-current			
Property and Equipment	9	406,465	429,419
Reclamation deposits		32,629	32,629
Mineral properties	10	27,305,101	28,479,306
TOTAL ASSETS		\$ 47,966,857	\$ 53,518,599
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	\$ 721,796	\$ 671,625
Current portion of lease liabilities	12	45,417	44,971
		\$ 767,213	\$ 716,596
Non-current			
Lease liabilities	12	76,347	87,870
TOTAL LIABILITIES		\$ 843,560	\$ 804,466
SHAREHOLDERS' EQUITY			
Share capital	13(b)	\$ 76,302,834	\$ 76,174,408
Contributed surplus		14,105,280	13,943,396
Warrants	13(d)	870,624	924,440
Accumulated other comprehensive loss		(1,043,436)	(42,241)
Accumulated deficit		(43,112,005)	(38,285,870)
TOTAL EQUITY		\$ 47,123,297	\$ 52,714,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 47,966,857	\$ 53,518,599

Commitments and contractual obligations (Note 23). Events after the reporting period (Note 25)

Approved on Behalf of the Board on May 27, 2020:

“Jeff Parr”
 Jeff Parr – Director

“Murray John”
 Murray John – Director

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Discovery Metals Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND TOTAL COMPREHENSIVE LOSS
Unaudited - (Expressed in Canadian dollars, except per share and share information)

	Notes	Three Months Ended	
		March 31, 2020	March 31, 2019
Expenses (income)			
General office and other expenses	16	\$ 518,413	\$ 319,250
Interest income		(163,428)	(20,148)
Interest expense	12	1,275	1,704
Professional fees	17	87,241	46,289
Exploration and project evaluation expenses	15	4,015,210	274,975
Share-based compensation	13(c)	157,576	55,393
Other income	14	(479,386)	-
Impairment of IVA receivable	7	586,328	-
Foreign exchange loss		102,906	116,221
Net loss		\$ 4,826,135	\$ 793,684
Other comprehensive loss (gain)		1,001,195	(89,221)
Net loss and total comprehensive loss		\$ 5,827,330	\$ 704,463
Weighted average shares outstanding			
Basic and diluted	13(b)	211,423,805	65,043,998
Net loss per share			
Basic and diluted		\$ (0.02)	\$ (0.01)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Discovery Metals Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited - (Expressed in Canadian dollars)

	Notes	Three Months Ended	
		March 31, 2020	March 31, 2019
Operating Activities			
Net loss		\$ (4,826,135)	\$ (793,684)
Items not affecting cash:			
Depreciation		28,349	28,334
Share-based compensation	13(c)	157,576	55,393
Impairment of IVA receivable		586,328	-
Gain on sale of investment	14	(182,556)	-
Unrealized foreign exchange loss		186,111	118,214
Changes in non-cash operating working capital:			
Sales tax and other receivables	7	(592,517)	1,503
Prepays and deposits	8	352,489	15,940
Accounts payable and accrued liabilities	11	50,171	(131,349)
Net cash used in operating activities		\$ (4,240,184)	\$ (705,649)
Investing Activities			
Proceeds from sale of investment	14	228,391	-
Acquisition of property and equipment	9	(18,496)	-
Net cash provided by investing activities		\$ 209,895	\$ -
Financing Activities			
Issuance of shares on exercise of options	13(c)	78,918	-
Principal payment on lease liability		(11,077)	(10,649)
Net cash provided by (used in) financing activities		\$ 67,841	\$ (10,649)
Effect of exchange rates on cash and cash equivalents		30,185	(22,405)
Decrease in cash and cash equivalents		(3,932,263)	(738,703)
Cash and cash equivalents, beginning of period	6	23,950,737	4,691,676
Cash and cash equivalents, end of period	6	\$ 20,018,474	\$ 3,952,973
Supplemental Cash Flow Information:			
Income tax expense paid		\$ -	\$ -
Interest paid		\$ 1,275	\$ 1,704

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Discovery Metals Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited - (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, 2020		211,205,321	\$ 76,174,408	\$ 924,440	\$ 13,943,396	\$ (42,241)	\$ (38,285,870)	\$ 52,714,133
Share-based compensation	13(c)	-	-	-	157,576	-	-	157,576
Expiration of replacement warrants issued on close of Plan of Arrangement	13(d)	-	-	(53,816)	53,816	-	-	-
Shares issued on exercise of options	13(c)	272,800	128,426	-	(49,508)	-	-	78,918
Net loss and total comprehensive loss for the period		-	-	-	-	(1,001,195)	(4,826,135)	(5,827,330)
At March 31, 2020		211,478,121	\$ 76,302,834	\$ 870,624	\$ 14,105,280	\$ (1,043,436)	\$ (43,112,005)	\$ 47,123,297
	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2019		65,043,998	\$ 23,539,388	\$ 8,010,367	\$ 4,169,144	\$ (102,958)	\$ (28,629,316)	\$ 6,986,625
Share-based compensation	13(c)	-	-	-	55,393	-	-	55,393
Expiration of warrants issued under non-brokered private placement (August 17, 2017)		-	-	(346,993)	346,993	-	-	-
Net loss and total comprehensive loss		-	-	-	-	89,221	(793,684)	(704,463)
At March 31, 2019		65,043,998	\$ 23,539,388	\$ 7,663,374	\$ 4,571,530	\$ (13,737)	\$ (29,423,000)	\$ 6,337,555

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
For the Three Months Ended March 31, 2020 and 2019

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

The Company’s Board of Directors authorized the issuance of these unaudited condensed interim consolidated financial statements (the “interim financial statements”) on May 27, 2020.

2. BASIS OF PREPARATION

These interim financial statements for the three months ended March 31, 2020 and 2019, have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). As such, certain disclosures required by IFRS have been condensed or omitted. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto as at and for the years ended December 31, 2019 and 2018 (the “consolidated financial statements”). The Company’s interim results are not necessarily indicative of its results for a full year.

These interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2020, the Company had working capital (defined as current assets less current liabilities) of \$19,455,449 (December 31, 2019 – \$23,860,648), shareholders’ equity of \$47,123,297 (December 31, 2019 – \$52,714,132) and an accumulated deficit of \$43,112,005 (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 interim financial statements are set out below.

a) Basis of Measurement

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

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

b) Basis of Consolidation

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

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

The Company’s principal subsidiaries and their geographic locations at March 31, 2020 were as follows:

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

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

c) Currency of Presentation

The interim 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.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

4. CHANGES IN ACCOUNTING POLICIES

a) Application of new or amended standards effective January 1, 2020

There were no new or amended standards effective January 1, 2020.

5. CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements for the three months ended March 31, 2020 are consistent with those applied and disclosed in note 5 of the consolidated financial statements. The Company's interim results are not necessarily indicative of its results for a full year.

COVID-19 Update

On March 31, 2020, the Company announced that it would temporarily suspend 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. The Company has developed business continuity plans to resume work once it is determined to be safe to do so. On May 13, 2020, the Government published another decree announcing that mining and several other sectors are to be considered essential services and could begin operations as early as June 1, 2020. Commencement of operations is 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. Although this is positive news for the mining industry, the Company is currently determining whether health and safety protocols could be implemented that would ensure the safety of its employees, consultants, contractors and communities should operations recommence. The Company has not yet applied to recommence operations. 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. As such, the Company has not set a specific date to re-start operations, but anticipates it could be during Q3 2020.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019
Cash	\$ 19,928,474	\$ 23,860,737
Cash equivalents ⁽¹⁾	90,000	90,000
	\$ 20,018,474	\$ 23,950,737

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

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

7. SALES TAX AND OTHER RECEIVABLES

	March 31, 2020	December 31, 2019
Sales tax receivable	\$ 1,650,704	\$ 1,454,986
Accumulated impairment of sales tax receivable	(1,625,677)	(1,409,637)
Other receivables	10,251	13,925
	\$ 35,278	\$ 59,274

At March 31, 2020, the Company had an aggregate Mexican value added tax (“IVA”) recoverable balance of \$3,274,948 including \$1,446,167 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. At March 31, 2020, the Company has established a provision in full for the IVA receivable balance of \$1,625,677.

On February 21, 2020, the Company received a partial IVA refund in the amount of 4,402,046MXP or approximately \$300,000. The Company also received interest on this balance in the amount of 998,384MXP or approximately \$60,000. The partial refund and interest received are recognized in ‘other income’ and ‘interest income’, respectively, in the interim consolidated Statement of Loss and Other Comprehensive Loss for the three months ended March 31, 2020. The Company expects to continue to provide for 100% of the IVA recoverable balance until such time as there are sufficient indicators of recoverability.

8. PREPAIDS AND DEPOSITS

	March 31, 2020	December 31, 2019
Insurance	\$ 13,118	\$ 38,805
Office	15,716	16,114
Drilling contract ⁽¹⁾	140,076	466,480
	\$ 168,910	\$ 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 March 31, 2020, the Company had applied approximately USD\$312,000 of the deposit against invoices received.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

9. 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 ¹	4,756	-	-	13,740	18,496
Disposals	-	-	-	-	-
Currency translation adjustment	(8,629)	(10,614)	(2,155)	(7,848)	(29,246)
Balance at March 31, 2020	\$ 170,840	\$ 77,474	\$ 211,723	\$ 133,892	\$ 593,929
Accumulated depreciation					
Balance at January 1, 2020	\$ (14,675)	\$ (41,825)	\$ (57,901)	\$ (60,859)	\$ (175,260)
Additions ¹	4,901	(9,145)	(11,013)	(9,305)	(24,562)
Disposals	-	-	-	-	-
Currency translation adjustment	1,860	5,826	367	4,305	12,358
Balance at March 31, 2020	\$ (7,914)	\$ (45,144)	\$ (68,547)	\$ (65,859)	\$ (187,464)
Carrying amount					
At January 1, 2020	\$ 160,038	\$ 46,263	\$ 155,977	\$ 67,141	\$ 429,419
At March 31, 2020	\$ 162,926	\$ 32,330	\$ 143,176	\$ 68,033	\$ 406,465

	Equipment	Vehicles	Office & Furniture	Computer	Total
Cost					
Balance at December 31, 2018	\$ 68,151	\$ 83,827	\$ 37,929	\$ 107,670	\$ 297,577
IFRS 16 transition (note 25)	-	-	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					
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

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

- (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	(11,483)
At March 31, 2020	\$ 118,658

10. MINERAL PROPERTIES

Balance at December 31, 2018	\$ 1,264,007
Acquisition of mineral properties ⁽¹⁾	27,226,224
Currency translation adjustment	(10,925)
Balance at December 31, 2019	\$ 28,479,306
Acquisition of mineral properties	-
Currency translation adjustment	(1,174,205)
Balance at March 31, 2020	27,305,101

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

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

	March 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	153,313
La Kika	93,131	93,131
	28,503,935	28,503,935
Cumulative CTA	(1,198,834)	(24,629)
	\$ 27,305,101	\$ 28,479,306

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	December 31, 2019
Trade and other payables	\$ 665,661	\$ 342,883
Salaries and benefits payable	-	241,125
Accrued liabilities	56,135	87,617
	\$ 721,796	\$ 671,625

- (1) At December 31, 2019, salaries and benefits payable comprised short-term incentive amounts payable to Executive Management and employees.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

12. LEASE LIABILITIES

	March 31, 2020	December 31, 2019
Lease liabilities	\$ 121,764	\$ 132,841
Less: current portion	45,417	44,971
Non-current portion	\$ 76,347	\$ 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 March 31, 2020, remaining payments are as follows:

Year	
2020	\$ 33,894
2021	46,780
2022	41,090
Total	\$ 121,764

Interest expense for the three months ended March 31, 2020 related to the lease liability was \$1,275 (three months ended March 31, 2019 - \$1,704).

13. SHARE CAPITAL AND WARRANTS

a) Authorized

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

b) Shares issued and outstanding

	Common Shares	Amount
As at December 31, 2019	211,205,321	\$ 76,174,408
Shares issued on exercise of options	272,800	128,426
As at March 31, 2020	211,478,121	\$ 76,302,834

c) Stock Options

The Company has adopted a rolling 10% stock option plan (the "Plan") which provides that the directors of the Company may grant options to purchase common shares of the Company to directors, officers, employees and service providers, with the number of options being limited to 10% of the issued common shares at the time of granting of options.

The Board in its sole discretion may determine any vesting provisions for options. The exercise price shall be determined by the directors of the Company at the time of grant in accordance with the provisions of the Plan. The expiry date for an option shall not be more than ten years from the grant date.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

There were 400,000 stock options granted during the three months ended March 31, 2020 to an Executive Officer who commenced employment on that date. The options have an exercise price of \$0.65 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. The fair value of these options was determined using the Black-Scholes model for option valuation.

During the year-ended December 31, 2019, an aggregate 4,909,300 replacement options were issued on completion of the acquisition of Levon Resources on August 2, 2019 at an exercise price of \$0.2909 with a one-year term to expiry from the acquisition date. The fair value of these options was determined using the Black-Scholes model for option valuation. During the three months ended March 31, 2020, 272,800 of these options were exercised for gross proceeds of \$78,918 (year-ended December 31, 2019, 375,000 of these options were exercised for gross proceeds of \$109,032).

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

	Outstanding	Weighted Average Exercise Price
As 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
As at December 31, 2019	14,759,300	\$ 0.46
Options granted	400,000	0.65
Options exercised	(272,800)	0.29
As at March 31, 2020	14,886,500	0.46

The share-based compensation expense for the three months ended March 31, 2020 was \$157,576 (three months ended March 31, 2019 - \$55,393).

As at March 31, 2020, the options outstanding and exercisable are as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number	Weighted average remaining life	Weighted average exercise price	Number	Weighted average remaining life	Weighted average exercise price
\$0.45	650,000	1.51	\$0.45	650,000	1.51	\$0.45
\$0.60	3,300,000	2.38	\$0.60	3,266,667	2.38	\$0.60
\$0.48	300,000	2.63	\$0.48	300,000	2.63	\$0.48
\$0.53	300,000	2.77	\$0.53	300,000	2.77	\$0.53
\$0.50	400,000	3.27	\$0.50	266,667	3.27	\$0.50
\$0.29	3,986,500	0.34	\$0.29	3,986,500	0.34	\$0.29
\$0.71	275,000	0.34	\$0.71	275,000	0.34	\$0.71
\$0.48	5,275,000	4.38	\$0.48	3,302,083	4.38	\$0.48
\$0.65	400,000	4.77	\$0.65	133,333	4.77	\$0.65
	14,886,500	1.28	\$0.46	12,480,250	1.15	\$0.46

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

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

	March 31, 2020
Exercise price	\$ 0.65
Share price	\$ 0.65
Expected life (years)	2.92
Risk free interest rate	1.61%
Expected volatility	95.77%
Expected forfeiture rate	18.70%
Dividend yield	-
Fair Value	\$ 0.38

d) 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.

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

	Term	Expiry Date	Exercise Price	Number	Value	Amount
As at December 31, 2019	1 to 2 years	2/13/2020 and 2/17/2021	\$0.91-\$1.00	34,142,501	\$0.24	\$ 924,440
Warrants expired	0.5 years	2/13/2020	\$0.91	(1,414,168)	\$0.04	\$ (53,816)
As at March 31, 2020	1 to 2 years	2/13/2020 and 2/17/2021	\$0.91-\$1.00	32,728,333	\$0.24	\$ 870,624

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

Number of Warrants	Weighted average remaining life	Weighted average exercise price
32,728,333	0.91 years	\$0.98

14. OTHER INCOME

	Three Months Ended	
	March 31, 2020	March 31, 2019
Sale of investment ⁽¹⁾	\$ 182,556	\$ -
IVA refund (note 7)	296,830	-
	\$ 479,386	\$ -

⁽¹⁾ 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 interim consolidated statement of loss and comprehensive loss.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

15. EXPLORATION AND PROJECT EVALUATION

Three Months Ended March 31, 2020								
	Puerto Rico	La Kika	Minerva	Monclova	Cordero	Other ⁽¹⁾	Project Evaluation	Total
Permitting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mining duties	30,985	4,941	8,458	20,130	233,537	4,098	-	302,149
Surface access	-	-	-	-	5,269	-	-	5,269
Site access	-	20,417	35,891	7,739	21,724	-	-	85,771
Drilling	-	-	-	-	2,580,621	-	-	2,580,621
Mapping, Sampling & Assays	-	-	-	-	68,984	-	-	68,984
Geophysics	-	-	-	-	2,968	-	-	2,968
Salaries and benefits	6,217	-	6,334	6,217	770,281	-	-	789,049
Travel	5,292	-	982	1,741	46,583	-	-	54,598
Administrative and other	4,374	-	2,553	75	118,799	-	-	125,801
Project Evaluation	-	-	-	-	-	-	-	-
Total	\$ 46,868	\$ 25,358	\$ 54,218	\$ 35,902	\$ 3,848,766	\$ 4,098	\$ -	\$ 4,015,210

Three Months Ended March 31, 2019								
	Puerto Rico	La Kika	Minerva	Monclova	Other ⁽¹⁾	Project Evaluation	Total	
Permitting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Mining duties	32,311	5,152	8,823	20,991	2,758	-	70,035	
Surface access	-	-	9,373	-	-	-	9,373	
Site access	-	-	-	11,080	-	-	11,080	
Drilling	-	-	-	-	-	-	-	
Mapping, Sampling & Assays	7,000	-	-	-	-	-	7,000	
Geophysics	-	-	10,998	-	-	-	10,998	
Salaries and benefits	68,213	-	24,636	27,024	-	-	119,873	
Travel	11,795	-	7,687	7,769	-	-	27,251	
Administrative and other	15,587	-	2,952	826	-	-	19,365	
Project Evaluation	-	-	-	-	-	-	-	
Total	\$ 134,906	\$ 5,152	\$ 64,469	\$ 67,690	\$ 2,758	\$ -	\$ 274,975	

1) Other includes Jemi Rare, Renata and Santa Rosa

16. GENERAL OFFICE AND OTHER EXPENSES

	Three Months Ended	
	March 31, 2020	March 31, 2019
Travel	\$ 16,088	\$ 7,098
Salaries and benefits	268,094	199,328
Shareholder communication and investor relations	48,176	15,299
Filing and transfer agent fees	27,977	1,253
Business development	7,647	16,586
Rent	17,247	16,748
Depreciation	28,349	28,334
General office and other	104,835	34,604
	\$ 518,413	\$ 319,250

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
For the Three Months Ended March 31, 2020 and 2019

17. PROFESSIONAL FEES

	Three Months Ended	
	March 31, 2020	March 31, 2019
Legal	\$ 5,155	\$ 10,826
Audit, tax and accounting	9,225	35,463
Consulting and other	72,861	-
	\$ 87,241	\$ 46,289

18. INCOME TAXES

	Three Months Ended	
	March 31, 2020	March 31, 2019
Loss before tax at statutory rate of 28% (2019 – 28%)	\$ 1,631,652	\$ 190,205
Effect on taxes of:		
Non-deductible expenses	(17,155)	(16,543)
Change in deductible temporary differences	(1,614,497)	(173,662)
Income tax expense	\$ -	\$ -

19. CAPITAL MANAGEMENT

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

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

As at March 31, 2020, aside from the long-term portion of the lease liability (note 12), the Company does not have any long-term debt outstanding and is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the three months ended March 31, 2020.

20. FINANCIAL INSTRUMENTS

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

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
For the Three Months Ended March 31, 2020 and 2019

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

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

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

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

As at March 31, 2020 the Company had no financial instruments classified as Level 2 or 3.

21. FINANCIAL RISK MANAGEMENT

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

a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2020, the Company had a cash and cash equivalents balance of \$20,018,474 (December 31, 2019 – \$23,950,737) to settle current liabilities of \$767,213 (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.

As at March 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 \$15,618,500 received through a non-brokered private placement of 31,237,000 common shares at a price of \$0.50 per share during the year ended December 31, 2017; 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; and 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. Subsequent to March 31, 2020, the Company announced the intention to complete a \$25,000,000 non-brokered private placement through the issuance of 45,454,545 units at a price of \$0.55 per unit (note 25c).

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

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 March 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.

	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 20,018,474	\$ 23,950,737
Other receivables	10,251	13,925
Deposits	155,792	482,594
	\$ 20,184,517	\$ 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. 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 March 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,

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

results of operations, and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and MXP. As at March 31, 2020 and December 31, 2019, the Company had the following foreign currency denominated trade payables:

	March 31, 2020	December 31, 2019
United States dollar	\$ 61,301	\$ 54,133
Mexican Peso	130,251	157,598
	\$ 191,552	\$ 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 March 31, 2020 by approximately \$18,990 (December 31, 2019: \$20,782).

As at March 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.

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

22. SEGMENTED INFORMATION

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

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

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

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
For the Three Months Ended March 31, 2020 and 2019

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

	Three Months Ended	
	March 31, 2020	March 31, 2019
Canada	\$ (391,828)	\$ (424,394)
Mexico	(5,435,502)	(280,069)
Net loss and total comprehensive loss	\$ (5,827,330)	\$ (704,463)

23. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

a) Other commitments

The Company has operating leases for rent and certain office equipment that fall within the IFRS -16 exemption criteria. Total payments made during the three months ended March 31, 2020 for these operating leases were \$690 (three months ended March 31, 2019 - \$690).

Total future minimum lease payments, under non-cancellable operating leases as at March 31, 2020 and December 31, 2019 are as follows:

Year	March 31, 2020	December 31, 2019
2020	\$ 1,890	\$ 9,540
2021	2,520	2,520
2022	2,520	2,520
2023	2,520	2,520
2024	2,520	2,520
2025	2,520	2,520
Total	\$ 14,490	\$ 22,140

24. RELATED PARTY TRANSACTIONS

Key management personnel

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

A company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the three months ended March 31, 2020 totaled \$11,950 (three months ended March 31, 2019 –\$5,772). The Company had \$540 in expenses payable to this company as at March 31, 2020 (December 31, 2019 – \$8,216). These expenses are not included in the table below.

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
 For the Three Months Ended March 31, 2020 and 2019

Under similar arrangements, during the three months ended March 31, 2020 the Company reimbursed expenses of \$nil (three months ended March 31, 2019 –USD\$707) to other companies which have a Director in common. There was \$nil in expenses payable at March 31, 2020 (December 31, 2019 –\$nil). These expenses are not included in the table below.

Transaction Type	Nature of Relationship	Three Months Ended	
		2020	March 31, 2019
Share-based payments	Directors and officers	\$ 77,388	\$ 31,343
Salaries and benefits	Officers	175,670	162,451
Consulting fees	Director	25,000	-
Directors fees	Directors	50,000	43,750
		\$ 328,058	\$ 237,544

A summary of amounts due to related parties:

Transaction Type	Nature of Relationship	March 31,	December 31,
		2020	2019
Salaries and benefits payable	Directors, officers and employees	\$ 47,700	\$ 266,125
		\$ 47,700	\$ 266,125

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 THE REPORTING PERIOD

a) 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 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 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.

b) Stock option grant

On April 28, 2020, the Company, pursuant to the Company’s stock option plan, granted an aggregate 4,835,000 options to certain management, employees, consultants and directors. The Options have an exercise price of \$0.47 per share, have a five-year term from the date of grant, and vest according to the following schedules:

Discovery Metals Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited - (Expressed in Canadian dollars, except where otherwise noted)
For the Three Months Ended March 31, 2020 and 2019

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

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.

c) Non-brokered private placement

On May 19, 2020, the Company announced its intention to complete a \$25,000,000 through the issuance of up to 45,454,545 units (“Units”) at a price of \$0.55 per Unit. Each Unit is comprised of one common share of Discovery (“Common Share”) and one half of one Common Share purchase warrant, with each full warrant exercisable at \$0.77 for a period of two years after the date of issuance.

Mr. Eric Sprott has agreed to invest \$10,000,000 in the Private Placement, on the acquisition of 18,181,818 Units. Assuming the Private Placement is fully subscribed, this investment will result in Mr. Sprott holding approximately 24.4% of Discovery’s issued and outstanding Common Shares, post-closing.

The proceeds of the Private Placement will be used primarily to fund Discovery’s continuing exploration program at its Cordero project and its Coahuila projects. A portion of the proceeds will be used for general working capital purposes.