Discovery Metals

(formerly Ayubowan Capital Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the four-month period ended December 31, 2017
and
for the year ended August 31, 2017

Dated April 24, 2018

MANAGEMENT'S RESPONSIBILTY FOR FINANCIAL REPORTING

This Management's Discussion and Analysis ("MD&A"), dated April 24, 2018, of Discovery Metals Corp. (formerly Ayubowan Capital Ltd.) and its wholly-owned subsidiaries (together referred to as the "Company" or "Discovery Metals"), contains information that the Company's management ("Management") believes is relevant to an assessment and understanding of the Company's consolidated financial position and results of its consolidated operations for the four months ended December 31, 2017 and year ended August 31, 2017. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the four months ended December 31, 2017 and year ended August 31, 2017 and accompanying notes (the "consolidated financial statements").

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). All dollar amounts are presented in Canadian dollars ("CAD"), the Company's functional currency, except where otherwise noted. References to United States dollars are denoted as "USD$". Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.dsvmetals.com.

The Company's certifying officers, based on their knowledge and having exercised reasonable diligence, are also responsible to ensure that this MD&A and related consolidated financial statements do not contain any untrue statement of material fact and do not omit any required statement of material fact with respect to the periods reported. The consolidated financial statements, together with the other financial information included in this MD&A present fairly in all material respects the financial condition, results of operations and cash flows of the Company, as at the date of and for the periods presented in this MD&A. This MD&A contains forward looking information that is subject to risk factors set out in the cautionary note herein. The Company's Board of Directors' (the "Board") review is accomplished principally through the Company's Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board has approved the 2017 consolidated financial statements and this MD&A, as well as ensured that Management has discharged its financial responsibilities. Information in this MD&A is prepared as at April 24, 2018.

DESCRIPTION OF BUSINESS

Discovery Metals is a mineral exploration company whose main objective is to identify and successfully define and develop mineral deposits, primarily in Mexico.

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

Discovery Metals' former business was through its wholly owned operating company, Abode Mortgage Corporation ("AMC"), an underwriting entity focused primarily on the origination and servicing of mortgages from various distribution channels. AMC permanently closed its mortgage operation on March 4, 2010. There were no operations from that date and until the completion of the change of business transaction (the "Transaction") on August 17, 2017. Refer to the description of the Transaction in this MD&A and for additional details, refer to the Press Release dated August 17, 2017 available on SEDAR at www.sedar.com or on the Company's website at www.discoverymetals.com.

On March 21, 2017 the Company incorporated a 100% wholly owned subsidiary in Mexico, Discovery Metals, S.A. de C.V. ("Discovery Mexico").

On May 1, 2017, the Company announced it had entered into a mineral exploration and option agreement on the Puerto Rico Property in Coahuila, Mexico. The Puerto Rico Property is the Company's qualifying property under the TSXV's policies. Over the next several months the Company signed option agreements on six other properties in Coahuila, Mexico.

On July 17 and July 19, 2017, the Company completed the first and second tranches respectively, of a non-brokered private placement (the "Offering"). Aggregate gross proceeds from both tranches of the Offering were $15,618,500. The proceeds of the Offering were held in escrow, pending the Company receiving all applicable regulatory approvals and completing the Transaction. Subsequently, on August 17, 2017, the Company completed the Transaction and began trading on the Exchange as a junior exploration company.

2017 HIGHLIGHTS

For the four months ended December 31, 2017

The Company has made significant progress since it completed its change of business transaction and financing in August 2017. Key highlights include:

- Build out of Management and Mexican exploration teams;
- Application for drill permits on six projects with five permits received to-date and the sixth drill permit submitted in Q1 2018;
- Baseline work for the drill permit application at Puerto Rico is underway and is expected to be ready for submission to regulators in Q2 2018;
- Completed initial underground and surface / channel / panel sampling programs at Puerto Rico and La Kika; and
- Started the Company's first drill program at La Kika in December 2017.

Change in year-end

During the four months ended December 31, 2017, the Company changed its fiscal year-end to December 31 from August 31. The Company's transition period is the four months ended December 31, 2017. The comparative period is the twelve months ended August 31, 2017. The new financial year will align the Company with its peer group in the mineral resources sector and help to facilitate marketplace assessment of the Company's business performance. Certain of the comparative figures have been reclassified to conform with the current period presentation.

RECENT DEVELOPMENTS

On February 5, 2018, the Company provided an update and announced its exploration program for 2018 (the "2018 Program"). The budget of the 2018 Program is approximately $5.2M and includes extensive field work, surface and underground drilling, and permitting activities. The goal of the 2018 Program is to systematically test the Company's projects through extensive geological mapping and geochemical sampling programs and geophysics, followed by prioritized first-stage drill programs. The Company then plans to advance the top three or four of the projects through a second-stage exploration and drill program with the ultimate aim to produce a maiden resource on each of the priority projects in 2019. In partnership with reputable, Mexico-based geological services companies, Discovery Metals has assembled mapping / sampling field teams to quickly and efficiently advance the projects to the drill-ready stage.

Highlights include:

- Diamond drilling program was carried out at the La Kika project ("La Kika") with approximately 750 m in 20 holes completed;
- 2018 exploration budget of approximately $5.2M encompassing geological mapping, geochemical sampling, geophysics and first-stage drill testing of up to seven of the Company's projects; and
- Mapping and sampling programs are currently underway at the Puerto Rico project ("Puerto Rico"). Mapping and sampling programs are also underway at the Minerva and Monclova projects ("Minerva" and "Monclova", respectively), with drilling planned for Q2 2018.

Refer to the Press Release dated February 5, 2018 available on SEDAR at www.sedar.com and on the Company's website at www.discoverymetals.com.

On March 15, 2018, the Company announced that it had intersected near-surface, high-grade zinc and had significantly expanded the prospective area at La Kika. The aim of the program was to test the extent of the very shallow mineralization located near historic workings.

Highlights include:

- 750 m of drilling was completed in 20 holes over an approximate area of 100m by 100m. The average drill hole depth was approximately 35 m.
- Several near-surface occurrences of high-grade manto-style mineralization were intersected.
- Select intercepts from the drilling include:
  - 1.1m of 10.41% Zn, including 16.65% Zn over 0.6m, 7m from surface, in Hole LK-17-18.
  - 1.5m of 12.77% Zn, including 30.63% Zn over 0.4m, 7m from surface, in Hole LK-18-18.
- Property-wide geochemical sampling identified strong and coincident Zn and Pb anomalies. The surface extent of the geochemical anomalies identified a 1.5km by 0.8km area; this opens up the area for future exploration on the property to the north significantly.

Refer to the Press Releases dated March 15, 2018 available on SEDAR at www.sedar.com and on the Company's website at www.discoverymetals.com.

(Expressed in Canadian dollars, except where otherwise noted)

2018 OUTLOOK

As Discovery Metals is still in its first twelve months of operations, the Company remains in the very early stages of developing exploration programs and working on the seven properties for which it signed option agreements.

Management believes initial samples taken at the Puerto Rico Project provided encouraging results. The widths and grades in this initial sampling indicate that economically robust polymetallic grades potentially occur on the project, and that a substantial program of geology, geophysics, geochemistry, and drilling is merited. A detailed compilation program, based on historic production and exploration data, is underway. The Company began surface exploration work in Q1 2018, which includes extensive high-quality remote sensing to detect alteration patterns, geologic mapping, extensive rock-chip geochemistry using both hand-held XRF and laboratory-submitted samples, and ground geophysics. The Company plans to begin drilling, subject to receiving permits, in Q3 2018.

While the Company's main focus in fiscal 2018 will be on the Puerto Rico property, other activities will include testing its other six properties with surface exploration work and drilling.

As noted previously, the Company's 2018 budget is approximately $5.2 million. There are no present plans for any material capital expenditures in the next twelve months. As such, the Company is sufficiently capitalized to support the budget forecast.

SELECTED CONSOLIDATED ANNUAL FINANCIAL INFORMATION

	Four Months Ended December 31, 2017	Year ended August 31, 2017	Year ended August 31, 2016
Net (loss) income:			
(a) Total	**($1,901,029)**	($3,588,611)	$4,689,309
(b) basic and diluted per share	**($0.03)**	($0.10)	$2.05
Total comprehensive (loss) income[1]	**($2,247,458)**	($3,588,611)	$4,689,309
Cash and cash equivalents	**$12,234,811**	$14,643,353	$1,059,933
Total assets	**$13,697,402**	$15,912,142	$1,059,933
Total current liabilities	**$442,391**	$802,667	$15,434
Total weighted average shares outstanding	**65,043,998**	35,367,831	2,292,949

(1) Net income during the year-ended August 31, 2016 relates to debt forgiveness as a result of the Company's reorganization of debt to creditors.

REVIEW OF ANNUAL CONSOLIDATED FINANCIAL RESULTS

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $2,247,458 for the four months ended December 31, 2017, compared to a net and total comprehensive loss of $3,588,611 for the year ended August 31, 2017. As described earlier, during the year ended August 31, 2017, the Company actively evaluated a number of business opportunities, eventually signed a number of option agreements on properties in Coahuila, Mexico, and by August 31, 2017, had changed its business to become a Tier 2 exploration company on the TSX-V. As a result of the activity related to the Transaction, expenses were significantly higher for the year ended August 31, 2017 when compared to the four months ended December 31, 2017. The net and total comprehensive loss for the four months ended December 31, 2017 includes a non-cash currency translation adjustment of $346,429 as a result of the translation of Discovery Mexico's MXP functional currency financial statements to the Company's presentation currency of CAD on consolidation.

Share-based compensation expense

The Company incurred non-cash share-based compensation expenses of $392,994, compared to $1,984,871 during the year ended August 31, 2017. This decrease of $1,591,877 or approximately 80%, is the result of the issuance of a greater quantity of stock options during the year-ended August 31, 2017 as a result of the inception of the Company during the period.

Exploration and project evaluation expense

The Company incurred exploration and project evaluation costs of $758,628 compared to $949,265 during the year ended August 31, 2017. This decrease is a result of all the project evaluation having occurred during the year-ended August 31, 2017 prior to the Transaction. This is partially offset by increases in expenditures on the actual properties during the four-months ended December 31, 2017, including an increase of approximately $120 thousand related to permitting at Puerto Rico, and approximately $162 thousand related to surface access rights, drilling and other expenses at La Kika.

General office and other expenses

During the four months ended December 31, 2017, the Company incurred general office and other expenses of $748,075 compared to $190,948 during the year ended August 31, 2017. This increase of $557,127 or 292% is primarily the result of the inclusion of salaries and benefits of $395 thousand related to the hiring of all executives, directors and employees during the period and $115 thousand related to office rent and other expenses which did not exist during the year-ended August 31, 2017 as the Company was in its start-up phase. The Company had no officers, directors or employees up to the Transaction date, and did not set up the corporate office until the four-months ended December 31, 2017.

Professional fees

During the four months ended December 31, 2017, the Company incurred professional fees of $268,048 compared to $456,636 during the year ended August 31, 2017. This decrease of $188,588 or approximately 41% is entirely due to costs associated with the Transaction having occurred during the year-ended August 31, 2017 which resulted in greater legal and consulting fees during that period.

Foreign exchange (gain) loss

The company incurred a foreign exchange gain of $230,616 during the four months ended December 31, 2017 compared to a foreign exchange loss of $8,871 during the year-ended August 31, 2017. The change of $239,487 is the result of a depreciation of the MXP against the CAD partially offset by an appreciation of the USD against the CAD during the period. The Company remains unhedged with respect to foreign currency.

(Expressed in Canadian dollars, except where otherwise noted)

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	Four Months Ended	Three Months Ended		
	December 31, 2017	August 31, 2017	May 31, 2017	February 28, 2017
Net loss				
(a) Total	**($1,901,029)**	($2,100,859)	($320,265)	($146,300)
(b) basic and diluted per share	**($0.03)**	($0.05)	($0.01)	($0.00)
Total comprehensive loss	**($2,247,458)**	($2,100,859)	($320,265)	($146,300)
Total assets	**$13,697,402**	$15,912,142	$668,756	$941,220
Total current liabilities	**$442,391**	$802,667	$112,059	$64,258
Total weighted average shares outstanding	**65,043,998**	38,652,150	32,669,999	32,669,999

	Three Months Ended			
	November 30, 2016	August 31, 2016	May 31, 2016	February 28, 2016
Net (loss) income				
(a) Total(1)	($1,021,187)	$5,092,772	($140,989)	($133,909)
(b) basic and diluted per share	($0.03)	$0.95	($0.12)	($0.12)
Total comprehensive (loss) income	($1,021,187)	$5,092,772	($140,989)	($133,909)
Total assets	$1,037,107	$1,059,933	$111	$7
Total current liabilities	$13,845	$15,434	$5,623,384	$5,482,290
Total weighted average shares outstanding	32,669,999	5,637,388	1,169,998	1,169,998

1) Net income during the three months-ended August 31, 2016 relates to debt forgiveness as a result of the Company's reorganization of debt to creditors.

Four Months Ended December 31, 2017 vs. Q4 2017

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $2,247,458 for the four months ended December 31, 2017, compared to a net and total comprehensive loss of $2,100,859 for Q4 2017. The net and total comprehensive loss for the four months ended December 31, 2017 includes a non-cash currency translation adjustment of $346,429 as a result of the translation of Discovery Mexico's MXP functional currency financial statements to the Company's presentation currency of CAD on consolidation.

Share-based compensation expense

The Company incurred non-cash share-based compensation expenses of $392,994, compared to $984,921 during Q4 2017. This decrease of $591,927 or approximately 60%, due to the issuance of a greater quantity of stock options during Q4 2017 as a result of the inception of the Company during the period.

Exploration and project evaluation expense

The Company incurred exploration and project evaluation costs of $758,628 compared to $674,993 during Q4 2017. This increase is a result of greater expenditures incurred on the actual properties during the four-months ended December 31, 2017, including an increase of approximately $120 thousand related to permitting at Puerto Rico, and approximately $162 thousand related to surface access rights, drilling and other expenses at La Kika.

General office and other expenses

During the four months ended December 31, 2017, the Company incurred general office and other expenses of $748,075 compared to $125,598 during Q4 2017. This increase of $622,477 or 495% is primarily the result of the inclusion of salaries and benefits of $395 thousand related to the hiring of all executives, directors and employees during the period and $115 thousand related to office rent and other expenses which did not exist during Q4 2017 as the Company was in its start-up phase. The Company had no officers, directors or employees up to the Transaction date, and did not set up the corporate office until the four-months ended December 31, 2017.

Professional fees

During the four months ended December 31, 2017, the Company incurred professional fees of $268,048 compared to $308,456 during Q4 2017. This decrease of $40,408 or approximately 13% is entirely due to costs associated with the Transaction having occurred during Q4 2017 which resulted in greater legal and consulting fees during that period.

Foreign exchange (gain) loss

The company incurred a foreign exchange gain of $230,616 during the four months ended December 31, 2017 compared to a foreign exchange loss of $8,871 during Q4 2017. The change of $239,487 is the result of a depreciation of the MXP against the CAD partially offset by an appreciation of the USD against the CAD during the period. The Company remains unhedged with respect to foreign currency.

CASH FLOW

Four Months Ended December 31, 2017 vs. Year Ended August 31, 2017

The Company had net cash used in operating activities of $2,072,705 for the four months ended December 31, 2017 compared to net cash used in operating activities of $1,063,186 for the year-ended August 31, 2017. This increase is a direct result of a full four months of operating activities when compared to the prior year when the Company's exploration activities had not begun.

The Company had net cash used in investing activities of $307,779 for the four months ended December 31, 2017 compared to net cash used in investing activities of $667,359 for the year ended August 31, 2017. Investing activities for the current period includes the acquisition of vehicles in Mexico, office equipment and computer equipment and the final payment for the Option Agreements which was included in payables at August 31, 2017.

The cash outflow for the year ended August 31, 2017 is a result of cash payments made related to the Option Agreements.

The Company had no cash provided by or used in financing activities during the four months ended December 31, 2017 compared to cash provided by financing activities of $15,313,965 during the year ended August 31, 2017 related to the issuance of shares and warrants during the period.

Four Months Ended December 31, 2017 vs. Q4 2017

The Company had net cash used in operating activities of $2,072,705 for the four months ended December 31, 2017 compared to net cash used in operating activities of $454,775 for Q4 2017. This increase is a direct result of a full four months of operating activities when compared to the prior year when the Company's exploration activities had not begun.

The Company had net cash used in investing activities of $307,779 for the four months ended December 31, 2017 compared to net cash used in investing activities of $667,359 for Q4 2017. Investing activities for the current period includes the acquisition of vehicles in Mexico, office equipment and computer equipment and the final payment for the Option Agreements which was included in payables at August 31, 2017. The cash outflow for Q4 2017 is a result of cash payments made related to the Option Agreements.

The Company had no cash provided by or used in financing activities during the four months ended December 31, 2017 compared to cash provided by financing activities of $15,313,965 during Q4 2017 related to the issuance of shares and warrants during the period.

CAPITAL MANAGEMENT AND LIQUIDITY

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 December 31, 2017, 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, 2017.

As at December 31, 2017, the Company had working capital of $12,043,101 (August 31, 2017 – $13,945,069), shareholders' equity of $13,255,011 (August 31, 2017 – $15,109,475) and an accumulated deficit of $21,598,689 (August 31, 2017 – $19,697,660). The Company is sufficiently capitalized to complete planned initial exploration programs on its properties for the current fiscal year. However, the Company will likely require additional financing to accomplish its long-term strategic objectives. Future funding may be obtained by means of issuing share capital, debt financing or a combination of both and will be assessed by Management at that time.

(Expressed in Canadian dollars, except where otherwise noted)

SHARE CAPITAL

There were no changes in share capital during the four-months ended December 31, 2017. A summary of the shares issued and outstanding as at December 31, 2017 is as follows:

	Common Shares		Amount
As at August 31, 2016	32,669,998	$	15,881,039
Shares issued on acquisition of mineral properties	709,500		354,750
Shares issued under non-brokered private placement	31,237,000		15,618,500
Shares issued as finders' fees under private placement	427,500		213,750
Finders' fees for private placement	-		(518,284)
Warrants issued under non-brokered private placement	-		(8,010,367)
As at August 31, 2017	65,043,998	$	23,539,388
As at December 31, 2017	**65,043,998**	**$**	**23,539,388**

Non-brokered private placement

During the year-ended August 31, 2017, the Company proposed a change of business from its previous mortgage origination and servicing business (which ceased operations in 2010) to a mineral exploration company. Prior to completion of the Transaction, certain regulatory approvals were required.

On June 8, 2017, the Company announced that it intended to complete a non-brokered private placement (the "Offering") to raise up to $10,000,000 through the issuance of up to 20,000,000 Subscription Receipts at a price of $0.50 per subscription receipt.

On July 17, 2017, the Company closed the first (the "First Tranche") of the Offering. An aggregate of 25,787,000 Subscription Receipts at a price of $0.50 per subscription receipt were issued for gross proceeds of $12,893,500.

On July 19, 2017, the Company closed the second and final tranche (the "Second Tranche") of its Offering. An aggregate of 5,450,000 Subscription Receipts at a price of $0.50 per subscription receipt were issued for gross proceeds of $2,725,000.

Aggregate gross proceeds from both tranches of the Offering were $15,618,500, through the issuance of 31,237,000 Subscription Receipts. The proceeds of the Offering were held in escrow, pending the Company receiving all applicable regulatory approvals and completing the Transaction.

On August 17, 2017, the Company completed the Transaction, and the previously issued 31,237,000 Subscription Receipts of the Company, each converted into one unit of the Company for no additional consideration. Each unit consists of one common share and one share purchase warrant, with each share purchase warrant entitling the holder to acquire one additional common share at a price of $1.00 per share for a period of 24 months. The Company paid fees of $304,534 and issued 427,500 units valued at $213,750 to certain finders who introduced subscribers to the private placement. In addition, finders received 1,244,460 finder's warrants valued at $346,993, exercisable at $0.60 per share for 18 months. The securities issued in connection with the Offering have hold periods which expired between November 15 and November 20, 2017. The securities issued to finders had a hold period which expired December 18, 2017.

(Expressed in Canadian dollars, except where otherwise noted)

OUTSTANDING SHARE DATA

As at April 24, 2018 the Company had the following equity securities and convertible securities outstanding:

	Authorized	**Number and Type Outstanding**
Voting or Equity Securities Issued and Outstanding	Unlimited Common Shares	65,043,998 Common Shares
Securities convertible or exercisable into voting or equity securities-stock options	Stock Options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 5,583,333 Common Shares
Securities convertible or exercisable into voting or equity securities-warrants	Warrants to acquire 32,908,960 Common Shares	Warrants to acquire 32,908,960 Common Shares

RELATED PARTY TRANSACTIONS

Key management personnel

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

A company partially owned by one of the directors of the Company, Oxygen Capital Corp. ("Oxygen") provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. Oxygen does not charge a fee to the Company, allocating all expenses at cost. Reimbursed expenses to Oxygen for the four months ended December 31, 2017 totalled $30,230 (August 31, 2017 - $118,156). The Company also had $34,431 in expenses payable to Oxygen as at December 31, 2017 (August 31, 2017 - $nil). These expenses are not included in the table below.

Similar to the arrangement with Oxygen, the Company reimbursed expenses of USD$3,289 and had expenses payable at December 31, 2017 of USD$4,958 to a company which has a Director in common. These expenses are not included in the table below.

(Expressed in Canadian dollars, except where otherwise noted)

Transaction Type	Nature of Relationship	Four Months Ended December 31, 2017	Year Ended August 31, 2017
Professional fees	A director and a company with a former director/officer	**$ 80,000**	$ 60,000
Consulting fees	Officer	**41,667**	-
Share-based payments	Directors, officer and a company with a former director/officer in common	**251,660**	1,760,296
Shares to purchase mineral properties	Director	**-**	125,000
Payment to purchase mineral properties	Director	**-**	325,592
Salaries	Officers	**305,083**	18,827
Directors fees	Directors	**63,890**	6,848
		$ 742,300	$ 2,296,563

Summary of amounts due to related parties:

Transaction Type	Nature of Relationship	December 31, 2017	August 31, 2017
Accounts payable and accrued liabilities	A director and a company with a director/officer in common with the Company	**$ 76,554**	$ 6,848
		$ 76,554	$ 6,848

FINANCIAL INSTRUMENTS

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

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

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

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

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

As at December 31, 2017 the Company had no financial instruments classified as Level 2 or 3.

RISK FACTORS

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. For a detailed discussion of risks, refer to the Company's Filing Statement in Respect of a Change of Business dated August 3, 2017, available on SEDAR at www.sedar.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks occur, the Company's business, financial condition and operating results could be adversely affected.

Financial Risk Factors

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2017, the Company had a cash balance of $12,234,811 (August 31, 2017: $14,643,353) to settle current liabilities of $442,391 (August 31, 2017: $802,667). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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

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. The Company's sales tax receivable is with the Canadian and Mexican governments, both of which have a positive history of refunding balances owing. Management therefore deems the credit risk to be low. Due to the immaterial amount of prepaids and deposits, Management has determined the exposure to this risk 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, 2017		August 31, 2016
Cash and cash equivalents	**$**	**12,234,811**	$	14,643,353
Sales tax receivable		**212,894**		26,655
Prepaids and deposits		**37,787**		77,728
	$	**12,485,492**	**$**	14,747,736

Market Risk

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

Interest rate risk

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

Foreign currency risk

The Company's functional currency is the Canadian dollar. At December 31, 2017, cash balances were held primarily in Canadian dollars. Foreign currency risk is the risk that the value of the Company's financial instruments denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. Changes in the exchange rate between foreign currencies and the Canadian Dollar could have a significant impact on the Company's financial position, results of operations, and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

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

As at December 31, 2017, the Company had the following foreign currency denominated trade payables

		December 31, 2017		August 31, 2017
United States dollar	**$**	**33,970**	$	181,791
Mexican Peso		**20,584**		430,023
	$	**54,554**	$	611,814

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss for the year by approximately $8,231 (August 31, 2017: $61,181).

As at December 31, 2017, Management has determined the Company's exposure to foreign currency risk to be at an acceptable level.

Price risk

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

As at December 31, 2017, Management has determined the Company's exposure to price risk to be at an acceptable level.

OTHER RISKS AND UNCERTAINTIES

Nature of Mineral Exploration and Mining

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

The operations of the Company are subject to all of the hazards and risks normally incident to exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability for any and all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the operations in which the Company has interests. Hazards, such as unusual or unexpected geological structures, rock bursts, pressure, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and, potentially, its financial position.

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

Permits and Licenses

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

Competition

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

Environmental and Climate Change Regulation

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

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

Estimates of Mineral Resources May Not Be Realized

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

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

Dependence on Key Personnel

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

Limited Financial Resources

The existing financial resources of the Company are not sufficient to bring any of its properties into commercial production. The Company will need to obtain additional financing from external sources in order to fund the development of its properties. There is no assurance that the Company will be able to obtain such financing on favourable terms, or at all. Failure to obtain financing could result in delay or indefinite postponement of further exploration and development of the Company's properties.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Puerto Rico Property

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

Please refer 2017 Significant Events for a full description of the terms necessary to exercise the options on the exploration properties.

Other commitments

The Company has a five-year operating lease for premises and certain office equipment in Canada. Total payments made during the four-months ended December 31, 2017 totalled $16,153 (year-ended August 31, 2017 - $nil).

(Expressed in Canadian dollars, except where otherwise noted)

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2017 are as follows:

Year		December 31, 2017		August 31, 2017
2018	**$**	**93,785**	$	78,293
2019		**93,785**		93,400
2020		**92,864**		93,400
2021		**91,024**		90,640
2022		**75,854**		90,640
	$	**447,312**	$	446,373

SIGNIFICANT ACCOUNTING POLICIES

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

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new IFRS standards, amendments to standards and interpretations for the year ended December 31, 2017. The Company determined there to be no material impact on the consolidated financial statements.

IAS 7 – Statement of Cash Flows ("IAS 7")

This amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash and non-cash changes.

IAS 12 – Income Taxes ("IAS 12")

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of a reporting period, and is not affected by possible future changes in the carrying amount or expected recovery of the asset.

Future accounting standards and interpretations effective January 1, 2018 and thereafter

Certain new IFRS standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements.

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

IFRS 9 - Financial Instruments ("IFRS 9")

In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9 already adopted by the Company. These amendments to IFRS 9 introduce a single, forward-looking 'expected credit loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value in other comprehensive income "FVOCI" category for financial assets that are debt instruments. Other previously issued amendments to IFRS 9 that have not yet been adopted by the Company include a substantially reformed approach to hedge accounting and requirements to recognize gains or losses that relate to the effect of a company's own credit risk in measuring liabilities elected to be measured at fair value outside of net earnings or loss. The amendments to IFRS 9 that are not yet adopted by the Company are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Company has assessed the impact of the amendments to IFRS 9 on its annual consolidated financial statements and does not expect a material impact upon adoption on January 1, 2018.

IFRS 16 - Leases ("IFRS 16")

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

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

On December 8, 2016, the IASB issued IFRIC 22 which clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt. The amendments to IFRIC 22 that are not yet adopted by the Company are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Company is currently assessing the impact of IFRIC 22 but does not anticipate there to be a material impact on its consolidated financial statements upon adoption on January 1, 2018.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

Critical accounting judgments

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

Functional currency

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

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

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

Critical accounting estimates

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

Determination of useful lives

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

Impairment charges

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

Income taxes

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for saleable metals, production costs, interest rates and foreign currency exchange rates.

Share-based payments

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

QUALIFIED PERSON

The technical information in this MD&A was reviewed and approved by Taj Singh, M.Eng, P.Eng, President and CEO of the Company, who is recognized as a Qualified Person ("QP") under the guidelines of NI 43-101.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

ADDITIONAL INFORMATION

Additional information relating to the Company is available on the Company's website at www.dsvmetals.com or on SEDAR at www.sedar.com.