

Discovery silver

(Formerly Discovery Metals Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)



Independent auditor's report

To the Shareholders of Discovery Silver Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Discovery Silver Corp. and its subsidiaries (together, the Company) (formerly Discovery Metals Corp.) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of loss and total comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 27, 2022

Discovery Silver Corp. (formerly Discovery Metals Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars, except where otherwise noted)

As at	Notes	December 31, 2021	December 31, 2020
ASSETS			
Current			
Cash and cash equivalents	6	\$ 54,748,652	\$ 67,547,897
Short-term investments	6(b)	15,000,000	15,000,000
Sales tax and other receivables	7	206,144	435,670
Prepays and deposits	8	220,203	98,739
Investments	14(a)	1,141,192	335,000
		71,316,191	83,417,306
Non-current			
Property and Equipment	9	960,850	573,305
Value-added taxes receivable	7	2,879,866	-
Mineral properties	10	32,633,848	27,574,270
TOTAL ASSETS		\$ 107,790,755	\$ 111,564,881
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	\$ 1,663,441	\$ 935,480
Current portion of lease liabilities	12	41,089	46,780
		\$ 1,704,530	\$ 982,260
Non-current			
Lease liabilities	12	-	41,089
TOTAL LIABILITIES		\$ 1,704,530	\$ 1,023,349
SHAREHOLDERS' EQUITY			
Share capital	13(b)	\$ 150,492,379	\$ 125,570,547
Contributed surplus		24,095,443	14,710,821
Warrants	13(d)	23,395,976	26,652,950
Accumulated other comprehensive loss		(389,494)	(351,222)
Accumulated deficit		(91,508,079)	(56,041,564)
TOTAL EQUITY		\$ 106,086,225	\$ 110,541,532
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 107,790,755	\$ 111,564,881

Approved on Behalf of the Board on April 26, 2022:

“Jeff Parr”
Jeff Parr – Director

“Murray John”
Murray John – Director

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

	Notes	Years Ended	
		December 31, 2021	December 31, 2020
Expenses (income)			
General office and other expenses	16	\$ 3,810,985	\$ 2,869,317
Interest income		(834,904)	(521,448)
Interest expense	12	3,193	4,456
Professional fees	17	647,492	637,010
Exploration and project evaluation expenses	15	25,155,757	12,063,064
Share-based compensation	13(c)	6,786,606	1,295,508
Other income	14	(99,595)	(574,597)
Gain on sale of non-core property	14(a)	(1,223,669)	(295,000)
Loss (gain) on fair value remeasurement of investments	14(a)	417,478	(40,000)
Provision for value-added taxes receivable	7	1,036,604	2,339,772
Foreign exchange gain		(233,432)	(22,388)
Net loss		\$ 35,466,515	\$ 17,755,694
Other comprehensive loss		\$ 38,272	\$ 308,981
Total comprehensive loss		\$ 35,504,787	\$ 18,064,675
Weighted average shares outstanding			
Basic and diluted	13(b)	324,466,655	255,839,116
Net loss per share			
Basic and diluted		\$ (0.11)	\$ (0.07)

Discovery Silver Corp. (formerly Discovery Metals Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars, except where otherwise noted)

	Notes	Years Ended	
		December 31, 2021	December 31, 2020
Operating Activities			
Net loss		\$ (35,466,515)	\$ (17,755,694)
Items not affecting cash:			
Depreciation		191,745	139,843
Share-based compensation	13(c)	6,786,606	1,295,508
Adjustments to Provision for value-added taxes receivable	7	1,036,604	2,339,772
Gain on sale of investment	14	-	(182,556)
Gain on sale of non-core property		(1,223,669)	(295,000)
Loss (gain) on fair value remeasurement	14(a)	417,478	(40,000)
Write-off of mineral property	10	-	153,313
Unrealized foreign exchange (gain) loss		(94,561)	52,685
Changes in non-cash operating working capital:			
Sales tax and other receivables	7	(3,686,944)	(2,320,179)
Prepays and deposits	8	(121,464)	455,289
Accounts payable and accrued liabilities	11	727,960	263,856
Net cash used in operating activities		\$ (31,432,760)	\$ (15,893,163)
Investing Activities			
Proceeds from sale of investment	14	-	228,391
Purchase of short-term investments		-	(15,000,000)
Acquisition of mineral properties	10	(5,298,138)	-
Acquisition of property and equipment	9	(587,916)	(291,780)
Net cash used in investing activities		\$ (5,886,054)	\$ (15,063,389)
Financing Activities			
Issuance of shares on private placement, net of costs		-	57,066,444
Issuance of shares on exercise of options	13(c)	1,035,961	2,516,063
Issuance of shares on exercise of warrants	13(e)	23,226,913	15,014,059
Principal payment on lease liability		(46,780)	(44,972)
Net cash provided by financing activities		\$ 24,216,094	\$ 74,551,594
Effect of exchange rates on cash and cash equivalents		303,474	2,118
(Decrease) increase in cash and cash equivalents		(12,799,245)	43,597,160
Cash and cash equivalents, beginning of year	6	67,547,897	23,950,737
Cash and cash equivalents, end of year	6	\$ 54,748,652	\$ 67,547,897
Supplemental Cash Flow Information:			
Income tax expense paid		\$ -	\$ -
Interest paid		\$ 3,193	\$ 4,456

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

	Notes	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Equity
At January 1, 2021		305,012,554	\$ 125,570,547	\$ 26,652,950	\$ 14,710,821	\$ (351,222)	\$ (56,041,564)	\$ 110,541,532
Share-based compensation	13c	-	-	-	6,786,606	-	-	6,786,606
Shares issued on exercise of options	13c	1,830,833	1,694,919	-	(658,958)	-	-	1,035,961
Shares issued on exercise of warrants	13e	24,505,046	23,226,913	(3,256,974)	3,256,974	-	-	23,226,913
Net loss and total comprehensive loss for the year		-	-	-	-	(38,272)	(35,466,515)	(35,504,787)
At December 31, 2021		331,348,433	\$ 150,492,379	\$ 23,395,976	\$ 24,095,443	\$ (389,494)	\$ (91,508,079)	\$ 106,086,225
	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	13c	-	-	-	1,295,508	-	-	1,295,508
Shares issued under non-brokered private placement (May 29)	13b	45,454,545	25,000,000	-	-	-	-	25,000,000
Finders' fees for private placement (May 29)	13b	-	(1,185,001)	-	-	-	-	(1,185,001)
Warrants issued under non-brokered private placement (May 29)	13e	-	(8,976,252)	8,976,252	-	-	-	-
Expiration of replacement warrants issued on close of Plan of Arrangement	13e	-	-	(53,816)	53,816	-	-	-
Shares issued under non-brokered private placement (Aug 7)	13b	25,927,000	35,001,450	-	-	-	-	35,001,450
Finders' fees for private placement (Aug 7)	13e	-	(1,750,005)	-	-	-	-	(1,750,005)
Warrants issued under non-brokered private placement (Aug 7)	13e	-	(17,688,252)	17,688,252	-	-	-	-
Shares issued on exercise of options	13c	6,621,992	3,980,140	-	(1,464,077)	-	-	2,516,063
Shares issued on exercise of warrants	13e	15,803,696	15,014,059	(882,178)	882,178	-	-	15,014,059
Net loss and total comprehensive loss for the year		-	-	-	-	(308,981)	(17,755,694)	(18,064,675)
At December 31, 2020		305,012,554	\$ 125,570,547	\$ 26,652,950	\$ 14,710,821	\$ (351,222)	\$ (56,041,564)	\$ 110,541,532

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Years Ended December 31, 2021 and 2020

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

The Company was incorporated on October 10, 1986 under the laws of British Columbia and on June 13, 2017, the Company’s name was changed to Discovery Metals Corp. On April 14, 2021, the Company’s name was changed to Discovery Silver Corp. The Company is listed on the TSX Venture Exchange (the “Exchange” or “TSXV”) under the symbol “DSV”. The Company’s head office is located at Suite 701 - 55 University Avenue, Toronto, Ontario, M5J 2H7.

The Company’s Board of Directors authorized the issuance of these annual consolidated financial statements (the “consolidated financial statements”) on April 26, 2022.

COVID-19 Update

The Company continues to be proactive in attempting to mitigate the health and safety risks resulting from the COVID-19 pandemic. The Company’s top priority remains the health and safety of its employees, contractors, vendors, and consultants. Close attention to and the monitoring of the directives of the governments and health authorities in Mexico and Canada remains constant, in order to ensure the best interests of all stakeholders are upheld. Despite the challenges that COVID-19 has brought upon the Company and the Cordero Project, 2021 drilling and other works were completed successfully, and the Company was able to deliver the updated Preliminary Economic Assessment (“PEA”) in December 2021. To-date, health and safety protocols and the efforts of employees and contractors to manage COVID-19 have been effective and the Company continues with the Phase 2 drilling assisted by the use of four diamond core rigs.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2021, the Company had working capital (defined as current assets less current liabilities) of \$69,611,661 (December 31, 2020 – \$82,435,046), shareholders’ equity of \$106,086,225 (December 31, 2020 – \$110,541,531) and an accumulated deficit of \$91,508,079 (December 31, 2020 – \$56,041,564).

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

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Years Ended December 31, 2021 and 2020

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

a) Basis of Measurement

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

b) Basis of Consolidation

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

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions. The consolidated financial statements include the financial condition and results of operations of the Company and its subsidiaries as outlined below.

The Company’s principal subsidiaries and their geographic locations at December 31, 2021 were as follows:

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

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

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

c) Currency of Presentation

The consolidated financial statements are presented in Canadian dollars (“CAD”) which is the functional and presentation currency of the Company. The functional currency for the entities through which the Company conducts its operations is determined depending upon the primary

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

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economic environment in which they operate. The functional currency of the Mexican subsidiaries is Mexican pesos ("MXP").

d) Foreign currency translation

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

e) Cash and cash equivalents

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

f) Mineral properties and equipment

On initial acquisition, mineral properties and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition. The Company capitalizes cash and share-based payments made to acquire mineral properties (note 10). Land is stated at cost less any impairment in value and is not depreciated. Exploration and development costs are capitalized if a pre-feasibility study demonstrates that future economic benefits are probable. Upon disposal or abandonment, the carrying amount of mineral properties are derecognized and any associated gains or losses are recognized in profit and loss.

i. Depreciation

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

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

ii. Impairment

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Years Ended December 31, 2021 and 2020

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

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

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

g) Exploration and evaluation assets

Exploration and evaluation expenditures are comprised of costs that are directly attributable to: researching and analyzing existing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, and compiling economic studies. Exploration expenditures are costs incurred in the search for resources suitable for commercial exploitation. Evaluation expenditures are costs incurred in determining the technical feasibility and commercial viability of a mineral resource. Exploration and evaluation expenditures are capitalized when there is a high degree of confidence in the project's viability and thus it is probable that future economic benefits will flow to the Company. When a project is considered to no longer have commercially viable prospects for the Company, exploration and evaluation costs in respect of that property are assessed as impaired and written off to the statement of loss and total comprehensive loss. The Company also assesses mineral property costs for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

h) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of

Discovery Silver Corp. (formerly Discovery Metals Corp.)

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time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are classified as other fixed assets in the consolidated statement of financial position.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. Interest recognized on the consolidated statement of operations and comprehensive loss is classified as a financing cost.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero upon remeasurement of the liability.

i) Provisions

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

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Years Ended December 31, 2021 and 2020

j) Financial instruments

Measurement

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, all financial assets and liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as fair value through profit or loss (“FVTPL”). Transaction costs of financial assets and liabilities classified as at FVTPL are expensed in the period in which they are incurred.

Subsequent measurement of financial assets and liabilities depends on the classifications of such assets and liabilities. Management determines the classification on initial recognition.

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

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

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

k) Share Capital

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

l) Warrants

Warrants are classified as equity, separately from common shares and are valued at their fair value on grant date. The fair value of the warrants issued is measured using the Black-Scholes pricing model, considering the terms and conditions upon which the warrants were granted. The impact of changes to the original terms of a warrant grant or revisions to original estimates are accounted for

Discovery Silver Corp. (formerly Discovery Metals Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, except where otherwise noted)

For the Years Ended December 31, 2021 and 2020

prospectively and recognized in equity with a corresponding change in contributed surplus on the date of remeasurement. Consideration received on the exercise of warrants is recorded as share capital and the related contributed surplus is transferred from warrants, within the Company's equity accounts.

m) Share-based payments

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

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

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

n) Income taxes

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

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which

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they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Total comprehensive loss

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

p) Earnings (loss) per share

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

4. ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

There were no new standards, or amendments to standards and interpretations that were adopted effective January 1, 2021.

Future Accounting Standards and Interpretations

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

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

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

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

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Property, Plant and Equipment- Proceeds Before Intended Use (Amendments to IAS 16)

The International Accounting Standards Board (IASB) has published '*Property, plant and equipment Proceeds Before Intended Use (Amendments to IAS 16)*' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Amendment to IAS 16 amends the standard to prohibit deducting from cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. Amendment to IAS 16 is effective for annual periods beginning on or after January 1, 2022. Early application is permitted. The extent of the impact of adoption of this amendment on the Company's financial statements is not expected to be material.

5. CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

a) Critical accounting judgments

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

i. Functional currency

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

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

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

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b) Critical accounting estimates

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

i. Determination of useful lives

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

ii. Impairment charges

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

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

iii. Sales tax recoverability

The Company incurs significant expenditures for the purchase of goods and services on which sales tax is paid ("GST/HST" in Canada and "IVA" in Mexico). The net amount paid is recoverable but is subject to review and assessment by the relevant tax authorities (Canada Revenue Agency ("CRA") in Canada and the Servicio de Administración Tributaria ("SAT") in Mexico). The Company files GST/HST returns on a quarterly basis with the CRA and regularly files the required IVA returns and all supporting documentation with SAT.

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

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remains uncertain. As a result of the Company's limited operating history, management cannot reasonably estimate collectability of IVA balances in Mexico as it is possible that the refund requests may be delayed, reduced, or denied by the taxation authorities. Management assesses collectability and classification of the asset at each reporting period and currently includes a 100% provision for this balance until there is an expectation of recovery at which point that specific amount is recognized as a long-term receivable and the related provision reversed (note 7).

iv. Share-based payments

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

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

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	December 31, 2021	December 31, 2020
Cash (a)	\$ 54,638,652	\$ 67,437,897
Cash equivalents (a)	110,000	110,000
	\$ 54,748,652	\$ 67,547,897

a) Cash and Cash Equivalents

The Company closed two non-brokered private placements during the year ended December 31, 2020, for aggregate gross proceeds of approximately \$60 million (note 13b). Excess proceeds were invested in highly liquid interest-bearing instruments which include a \$24,500,000 1-year, 30-day redeemable GIC, bearing interest at 1.05% that matured on June 24, 2021. Interest was accrued monthly based on the total value of the GIC, pro-rated for any redemptions made during the period. Cash equivalents include marketable securities with short-term maturities and no restrictions on redemption.

b) Short-term investments

The Company invested \$15,000,000 of excess cash from the non-brokered private placement (note 13b) in a two-year fixed rate GIC, bearing interest at 1.55% per annum (paid annually) and maturing

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on June 9, 2022. This investment has been classified as a current asset as there is less than one year remaining to maturity, there are no restrictions on redemption and the Company may, at its discretion, withdraw any amount to fund current operations.

At December 31, 2021, the Company has accrued interest receivable of \$124,212 relating to this GIC investment (note 7).

7. SALES TAX AND OTHER RECEIVABLES

	December 31, 2021	December 31, 2020
Sales and value-added tax receivable	\$ 3,510,276	\$ 2,769,101
Accumulated provision for value-added tax receivable	(3,478,644)	(2,633,976)
Other receivables ⁽¹⁾	174,512	300,545
	\$ 206,144	\$ 435,670

⁽¹⁾ Other receivables primarily include accrued interest receivable of \$166,417 relating to the Company's GIC investment and interest-bearing operating accounts.

a) Value-added tax receivable provision

The Company's Mexican subsidiaries pay value-added tax, Impuesto al Valor Agregado ("IVA") on the purchase of goods and services. The amount of IVA paid is recoverable but is subject to review and assessment by the Mexican tax authorities (the "Tax Authorities"). The complex application process can impact the collectability and timing of refunds from the Tax Authorities. As a result, the Company recognizes a provision for 100% of the IVA incurred during a reporting period. Once there is a reasonable expectation of recovery, the associated provision is reversed and a non-current receivable is recognized (note 7b).

As at December 31, 2021, \$1,036,604 of the \$3,478,644 accumulated provision relates to an increase in the provision recorded during the year.

b) Non-current value-added tax receivable

During 2020 and 2021 the Company has been successful in recovering amounts owed to both of its Mexican subsidiaries. Due to the increased confidence in collectability, the Company reversed \$2,879,866 of the provision related to returns that are pending review by the Tax Authorities. The Company recorded the reversal as a non-current asset on the Consolidated Statement of Financial Position, and a credit to the original provision recognized on the Consolidated Statements of Loss and Other Comprehensive Loss.

During the year ended December 31, 2021, the Company collected total IVA refunds of \$506,548. This cash received is recognized as a reduction of the non-current IVA receivable balance.

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8. PREPAIDS AND DEPOSITS

	December 31, 2021	December 31, 2020
Insurance	\$ 107,839	\$ 33,056
Office and other prepaid deposits	112,364	65,683
	\$ 220,203	\$ 98,739

9. PROPERTY AND EQUIPMENT

	Equipment	Vehicles	Office & Furniture	Computer	Total
Cost					
Balance at January 1, 2021	\$ 262,137	\$ 247,354	\$ 211,744	\$ 146,573	\$ 867,809
Additions	503,054	25,951	1,502	57,409	587,916
Disposals	-	(7,129)	(651)	-	(7,780)
Currency translation adjustment	265	2,019	40	3,592	5,916
Balance at December 31, 2021	\$ 765,456	\$ 268,195	\$ 212,635	\$ 207,574	\$ 1,453,861
Accumulated depreciation					
Balance at January 1, 2021	\$ (23,303)	\$ (66,389)	\$ (125,953)	\$ (78,859)	\$ (294,504)
Additions	(42,421)	(55,963)	(51,730)	(41,631)	(191,745)
Disposals	-	(4,810)	-	-	(4,810)
Currency translation adjustment	(1,261)	(1,462)	433	338	(1,952)
Balance at December 31, 2021	\$ (66,985)	\$ (128,624)	\$ (177,250)	\$ (120,152)	\$ (493,011)
Carrying amount					
At January 1, 2021	\$ 238,834	\$ 180,965	\$ 85,792	\$ 67,714	\$ 573,305
At December 31, 2021	\$ 698,471	\$ 139,571	\$ 35,385	\$ 87,422	\$ 960,850

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	Equipment	Vehicles	Office & Furniture	Computer	Total
Cost					
Balance at January 1, 2020	\$ 174,713	\$ 88,088	\$ 213,878	\$ 128,000	\$ 604,679
Additions	95,080	170,251	-	26,449	291,780
Disposals	-	-	-	-	-
Currency translation adjustment	(7,655)	(10,984)	(2,135)	(7,876)	(28,649)
Balance at December 31, 2020	\$ 262,137	\$ 247,354	\$ 211,744	\$ 146,573	\$ 867,809
Accumulated depreciation					
Balance at January 1, 2020	\$ (14,675)	\$ (41,825)	\$ (57,901)	\$ (60,859)	\$ (175,260)
Additions	(10,805)	(31,359)	(68,501)	(22,228)	(132,892)
Disposals	-	-	-	-	-
Currency translation adjustment	2,176	6,795	448	4,228	13,647
Balance at December 31, 2020	\$ (23,303)	\$ (66,389)	\$ (125,953)	\$ (78,859)	\$ (294,504)
Carrying amount					
At January 1, 2020	\$ 160,038	\$ 46,263	\$ 155,977	\$ 67,141	\$ 429,419
At December 31, 2020	\$ 238,834	\$ 180,965	\$ 85,792	\$ 67,714	\$ 573,305

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

Leased assets	Total
At January 1, 2020	\$ 130,141
Depreciation	(45,932)
At December 31, 2020	\$ 84,209
Depreciation	(45,934)
At December 31, 2021	\$ 38,275

10. MINERAL PROPERTIES

At January 1, 2020	\$ 28,479,306
Disposition of mineral properties ⁽¹⁾	(153,313)
Currency translation adjustment	(751,724)
At December 31, 2020	\$ 27,574,270
Acquisition and cancellation of net smelter royalty⁽²⁾	5,298,138
Currency translation adjustment	(238,560)
At December 31, 2021	\$ 32,633,848

⁽¹⁾ The Renata mineral exploration and option agreement expired in August 2020 and was not renewed.

⁽²⁾ During the year ended December 31, 2021, the Company acquired and cancelled a 2% net smelter royalty payable on production from the Cordero Project.

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

	December 31, 2021	December 31, 2020
Cordero	\$ 32,524,362	\$ 27,226,224
Puerto Rico	856,687	856,687
Minerva	174,580	174,580
La Kika	93,131	93,131
	33,648,760	28,350,622
Cumulative CTA	(1,014,912)	(776,352)
	\$ 32,633,848	\$ 27,574,270

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Trade and other payables ⁽¹⁾	\$ 554,564	\$ 194,932
Salaries and benefits payable ⁽²⁾	925,769	690,381
Accrued liabilities	183,108	50,167
	\$ 1,663,441	\$ 935,480

⁽¹⁾ At December 31, 2021, trade and other payables were comprised primarily of amounts payable for contract drilling and related services.

⁽²⁾ At December 31, 2021, salaries and benefits payable were comprised of short-term incentive amounts payable to executive management and employees.

12. LEASE LIABILITIES

	December 31, 2021	December 31, 2020
Lease liabilities	\$ 41,089	\$ 87,869
Less: current portion	41,089	46,780
Non-current portion	\$ -	\$ 41,089

⁽¹⁾ As a result of the adoption of IFRS 16, the Company recognized a lease liability of \$176,073 on January 1, 2019 related to the long-term lease contract for office space, with a remaining term of 3.5 years at an incremental borrowing rate of 3.95%. As at December 31, 2021, remaining payments are as follows:

Year	
2022	\$ 41,089
Total	\$ 41,089

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.

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b) Shares issued and outstanding

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

- 1) gross proceeds of \$15,618,500 on August 15, 2017 through the issuance of 31,237,000 common shares at a price of \$0.50 per share during the year ended December 31, 2017;
- 2) gross proceeds of \$9,004,770 received through a non-brokered private placement of 39,151,174 common shares at a price of \$0.23 per share on July 24, 2019;
- 3) gross proceeds of \$19,000,000 received through a non-brokered private placement of 42,222,219 common shares at a price of \$0.45 on November 5, 2019;
- 4) gross proceeds of \$25,000,000 received through a non-brokered private placement of 45,454,545 common shares at a price of \$0.55 per share on May 29, 2020 and June 8, 2020 (closed in two tranches); and
- 5) gross proceeds of \$35,001,450 received through a non-brokered private placement of 25,927,000 common shares at a price of \$1.35 per share on August 7, 2020.

	Note	Common Shares	Amount
At December 31, 2020		305,012,554	\$ 125,570,547
Shares issued on exercise of options	13c	1,830,833	1,694,919
Shares issued on exercise of warrants	13e	24,505,046	23,226,913
At December 31, 2021		331,348,433	\$ 150,492,379

c) Stock Options

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

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

There were 6,450,000 stock options granted during the year ended December 31, 2021 (year ended December 31, 2020 – 5,435,000 options granted with a weighted-average exercise price of \$0.53 and five-year term to expiry), comprised of 5,500,000 granted on January 12, 2021, 250,000 granted on February 1, 2021, 300,000 granted on March 11, 2021, 200,000 granted on July 15, 2021, and 200,000 granted on November 1, 2021. The options have a weighted average exercise price of \$1.90 and a five-year term to expiry. One third of options granted to management and employees vested immediately, and 1/3 will vest on each subsequent anniversary of grant date. One half of the options granted to Directors of the Company vested immediately, and the other half will vest on the subsequent anniversary. Options issued to consultants have a vesting schedule of 1/8 each quarter beginning three months after grant date.

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

	Outstanding	Weighted Average Exercise Price
At January 1, 2020	14,759,300	\$ 0.46
Options granted	5,435,000	0.53
Options exercised	(6,621,992)	0.38
Options cancelled/forfeited	(12,500)	0.48
At December 31, 2020	13,559,808	\$ 0.52
Options granted	6,450,000	1.90
Options exercised	(1,830,833)	0.57
At December 31, 2021	18,178,975	\$ 1.01

The non-cash share-based compensation expense for the year ended December 31, 2021 was \$6,786,606 (year ended December 31, 2020 - \$1,295,508). As at December 31, 2021, 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
\$0.60	1,733,333	0.63	\$0.60	1,733,333	0.63	\$0.60
\$0.48	300,000	0.87	\$0.48	300,000	0.87	\$0.48
\$0.53	300,000	1.02	\$0.53	300,000	1.02	\$0.53
\$0.50	372,100	1.52	\$0.50	372,100	1.52	\$0.50
\$0.48	3,862,500	2.62	\$0.48	3,862,500	2.62	\$0.48
\$0.65	360,000	3.02	\$0.65	240,000	3.02	\$0.65
\$0.47	4,647,500	3.32	\$0.47	3,047,083	3.32	\$0.47
\$1.84	200,000	3.79	\$1.84	133,333	3.79	\$1.84
\$1.89	5,496,875	4.04	\$1.89	2,234,375	4.04	\$1.89
\$1.85	206,667	4.09	\$1.85	40,000	4.09	\$1.85
\$2.08	300,000	4.19	\$2.08	150,000	4.19	\$2.08
\$2.06	200,000	4.54	\$2.06	66,667	4.54	\$2.06
\$1.77	200,000	4.84	\$1.77	66,667	4.84	\$1.77
	18,178,975	3.07	\$1.01	12,546,058	2.72	\$0.80

The fair value of the option grants issued during the year ended December 31, 2021, have been estimated using the Black-Scholes option-pricing model with the following assumptions:

Grant date	January 12, 2021	February 1, 2021	March 12, 2021
Number granted	5,500,000	250,000	300,000
Exercise price	\$ 1.89	\$ 1.85	\$ 2.08
Share price	\$ 1.89	\$ 1.85	\$ 2.08
Expected life (years)	2.94	3.17	2.69
Risk free interest rate	0.25%	0.22%	0.40%
Expected volatility	99.0%	97.0%	100.1%
Expected forfeiture rate	9.3%	8.7%	8.1%
Dividend yield	-	-	-
Fair Value	\$ 1.13	\$ 1.12	\$ 1.22

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Grant date	July 15, 2021	November 1, 2021
Number granted	200,000	200,000
Exercise price	2.06	\$ 1.77
Share price	2.06	\$ 1.77
Expected life (years)	3.22	3.22
Risk free interest rate	0.63%	1.08%
Expected volatility	95.13%	95.09%
Expected forfeiture rate	6.6%	5.7%
Dividend yield	-	-
Fair Value	1.24	\$ 1.06

Black-Scholes pricing models require the input of highly subjective assumptions. Volatility was estimated based on average daily volatility based on historical share price observations over the expected term of the option grant.

d) Deferred Share Units and Restricted Share Units

At the Company's Annual General Meeting held on June 25, 2021, shareholders of the Company re-approved the Company's Deferred Share Unit ("DSU") and Restricted Share Unit ("RSU") plans (together referred to as the "DSU and RSU Plans"). The DSU and RSU Plans are rolling 10% plans, with the 10% threshold being shared with the Option Plan so the combined aggregate total Options, DSUs and RSUs granted cannot exceed 10% of the issued and outstanding common shares of the Company.

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

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

There were no DSUs or RSUs granted during the years ended December 31, 2021, and 2020.

e) Warrants

The Company has issued warrants as part of certain subscription agreements and also as finders' fees for certain non-brokered private placements which closed in 2017, 2019 and 2020. The warrants are exchangeable for Common Shares of the Company at a ratio and an exercise price determined at the time of the individual private placement. Warrants are classified as equity, separately from common shares and are valued at their fair value on grant date using the Black-Scholes pricing model. There were no warrants issued during the year ended December 31, 2021.

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Warrant transactions and the number of warrants outstanding at December 31, 2021 and 2020 are summarized as follows:

Issue date	8/17/2017	11/4/2019	5/29/2020	6/8/2020	5/29/2020	6/8/2020	8/6/2020	
Expiry	2/17/2021	11/4/2021	5/29/2022	6/8/2022	5/29/2022	6/8/2022	8/6/2022	
Price	\$1.00	\$0.50	\$0.77	\$0.77	\$0.55	\$0.55	\$1.75	TOTAL
December 31, 2020	17,713,498	402,750	14,320,447	7,181,800	279,545	130,909	12,963,000	52,991,949
Exercised	(17,616,498)	(386,250)	(840,117)	(5,000,000)	(133,227)	(65,454)	(463,500)	(24,505,046)
Expired	(97,000)	(16,500)	-	-	-	-	-	(113,500)
December 31, 2021	-	-	13,480,330	2,181,800	146,318	65,455	12,499,500	28,373,403

The remaining contractual lives of Warrants outstanding at December 31, 2021 are as follows:

Number of Warrants	Weighted average remaining life	Weighted average exercise price
28,373,403	0.49 years	\$1.20

14. OTHER INCOME

	Year Ended December 31,	
	2021	2020
Sale of investment	\$ -	\$ 182,556
IVA refund (note 7)	99,595	392,041
	\$ 99,595	\$ 574,597

On March 2, 2020, the Company completed the disposition of its entire position in Great Thunder Gold Corp. for cash proceeds of \$228,391. The position was acquired as part of the acquisition of Levon on August 2, 2019, and at December 31, 2019 had a fair value of \$45,835. The difference of \$182,556 was recognized in 'other income' on the Consolidated Statement of Loss and Total Comprehensive Loss.

a) Sale of non-core exploration property

Jemi Rare Earth Property

On September 27, 2021, The Company announced that it entered into an arm's length assignment and assumption agreement (the "Agreement") with Monumental Gold Ltd. ("Monumental") (TSX-V: MGLD) dated September 22, 2021, whereby Discovery agreed to transfer and assign its rights and obligations under the option agreement on the Jemi Rare Earth Property (the "Property" and the "Jemi Option Agreement"), located in Coahuila, Mexico, to Monumental.

Under the terms of the Agreement, Monumental assumed the Jemi Option Agreement and in return issued 2,308,810 common shares to Discovery that resulted in Discovery holding approximately 9.9% of the issued and outstanding common shares of Monumental ("Payment Shares") on a non-diluted basis upon receiving approval from the TSX, received on November 2, 2021.

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The shares received on November 2, 2021 had a fair value of \$1,223,669 at the transaction date which was recorded in 'investments' on the Consolidated Statement of Financial Position with a corresponding gain on sale of non-core exploration property recorded in the Consolidated Statement of Loss and Total Comprehensive Loss.

The Payment Shares are subject to a statutory hold period of four months and a day from the date of issuance and a 12-month voluntary hold period from the date of issuance. In addition, subject to the exercise of the option to acquire the Property pursuant to the Agreement, Discovery retained a 1.5% net smelter return royalty payable upon the achievement of commercial production of the Property in accordance with the terms set out in the Agreement and pursuant to a separate royalty agreement between Discovery and Monumental's Mexican subsidiaries.

Congress Property

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

Under the terms of the purchase agreement, Talisker issued 1,000,000 common shares to the Company in return for 100% ownership of Congress. The shares had a fair value of \$295,000 at the transaction date which was recorded in 'investments' on the Consolidated Statement of Financial Position with a corresponding gain on sale of non-core exploration property recorded in the Consolidated Statement of Loss and Total Comprehensive Loss.

At December 31, 2021, the fair value of the investments was \$1,141,192 and is comprised of the following:

Investment in common shares of Talisker Resources	Amount
At January 1, 2021	\$ 335,000
Net unrealized loss on fair value remeasurement	(25,000)
At December 31, 2021	\$ 310,000

Investment in common shares of Monumental	Amount
At November 2, 2021 – initial recognition	\$ 1,223,669
Net unrealized loss on fair value remeasurement	(392,478)
At December 31, 2021	\$ 831,191

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15. EXPLORATION AND PROJECT EVALUATION

Year Ended December 31, 2021							
	Puerto Rico	La Kika	Minerva	Monclova	Cordero	Other	Total
Permitting	\$ -	\$ -	\$ -	\$ -	\$ 761,186	\$ -	\$ 761,186
Mining duties	65,087	10,379	17,766	42,286	517,799	6,959	660,276
Surface access	-	-	-	-	45,576	-	45,576
Site access	-	-	-	-	6,540	-	6,540
Drilling	-	-	-	-	17,234,067	-	17,234,067
Mapping, Sampling & Assays	-	-	-	-	1,073,284	-	1,073,284
Geophysics	-	-	-	-	37,370	-	37,370
Salaries and benefits	26,048	-	19,732	19,504	2,597,475	-	2,662,760
Travel	9,125	-	-	-	156,810	-	165,935
Administrative and other	28,325	-	31,853	2,588	1,996,862	-	2,059,628
Project Evaluation	-	-	-	-	449,135	-	449,135
Total	\$ 128,585	\$ 10,379	\$ 69,351	\$ 64,378	\$ 24,876,104	\$ 6,959	\$ 25,155,757

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

16. GENERAL OFFICE AND OTHER EXPENSES

	Years Ended December 31,	
	2021	2020
Travel	\$ 35,247	\$ 16,088
Salaries and benefits	2,264,840	1,744,449
Shareholder communication and investor relations	329,426	182,203
Filing and transfer agent fees	218,353	190,651
Business development	2,164	140,863
Rent	56,455	67,384
Depreciation	92,187	106,762
General office and other	812,313	420,917
	\$ 3,810,985	\$ 2,869,317

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17. PROFESSIONAL FEES

	Years Ended December 31,	
	2021	2020
Legal	\$ 198,873	\$ 208,693
Audit, tax and accounting	217,931	190,780
Consulting and other	230,688	237,537
	\$ 647,492	\$ 637,010

18. INCOME TAXES

	Years Ended December 31,	
	2021	2020
Loss before tax at statutory rate of 28% (2020 – 28%)	\$ 9,941,340	\$ 5,058,108
Effect on taxes of:		
Non-deductible expenses	(1,901,863)	(363,778)
Change in provision for unrecognized deferred tax assets	(8,039,477)	(4,694,330)
Income tax expense	\$ -	\$ -

a) Unrecognized Deductible Temporary Differences

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

The tax loss carry-forwards will expire in 2026.

	Years Ended	
	December 31, 2021	December 31, 2020
Non-capital loss carry-forwards	\$ 13,035,041	\$ 11,257,000
Capital loss carry-forwards	12,640,000	12,640,000
Share issue costs	42,000	68,000
Resource properties	53,998,000	27,038,000
	\$ 79,715,041	\$ 51,003,000

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, with the goal of creating shareholder value, as well ensuring that the Company will be able to meet its financial obligations as they become due.

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The Company manages its capital structure to maximize its financial flexibility to enable the Company to respond to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The current excess funds realized from the non-brokered private placements are invested in highly liquid, interest-bearing marketable securities with no restrictions on redemption.

At December 31, 2021, 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, 2021.

20. FINANCIAL INSTRUMENTS

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

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

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

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

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

At December 31, 2021 the Company had no financial instruments classified as Level 2 or 3.

21. FINANCIAL RISK MANAGEMENT

The Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk. The aim of the Company's overall risk management strategy is to reduce the potential adverse effect that these risks may have on the Company's financial position and results. The Company's Board of Directors has overall responsibility and oversight of management's risk management practices.

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Risk management is carried out by the Board through the Nominating and Corporate Governance Committee with the policies being recommended for approval by the Board of Directors at least annually or when changes are required.

a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2021, the Company had a cash and cash equivalents balance of \$54,748,652 (December 31, 2020 – \$67,547,897) to settle current liabilities of \$1,704,530 (December 31, 2020 – \$982,260). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

At December 31, 2021, the Company has no sources of revenue to fund its operating expenditures. Since inception the Company has relied solely on private placements to fund its operations. Since the change of business transaction in August 2017, such private placements include gross proceeds of \$103,624,720 received through multiple non-brokered private placements – of which \$60,001,450 was during the year ended December 31, 2020 (note 13b).

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 an equity or debt financing. At December 31, 2021, 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, short-term investments, accounts receivable and prepaids and deposits are exposed to credit risk. The Company has assessed the credit risk on its cash and cash equivalents and short-term investments as low as its funds are held in several highly rated Canadian financial institutions. Management deems the credit risk associated with other receivables and deposits to be at an acceptable level.

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

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 54,748,652	\$ 67,547,897
Short-term investments	15,000,000	15,000,000
Other receivables	174,511	300,545
Deposits	112,364	65,683
	\$ 70,035,527	\$ 82,914,125

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c) Market Risks

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

i. Interest rate risk

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

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. At December 31, 2021, cash balances were held primarily in Canadian and US 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 currently use derivative instruments to reduce its exposure to foreign currency risk, however exchange rates are continually monitored for any significant changes. A portion of the Company's exploration expenses are paid in USD and in order to reduce its currency risk related to the CAD, the Company has converted a portion of its CAD cash balances into USD.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and MXP. At December 31, 2021 and December 31, 2020, the Company had the following foreign currency denominated trade payables:

	December 31, 2021	December 31, 2020
United States dollar	\$ 165,803	\$ 149,806
Mexican Peso	226,833	109,853
	\$ 392,636	\$ 259,659

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss at December 31, 2021 by approximately \$38,778 (December 31, 2020: \$25,467).

At December 31, 2021, 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

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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 movement and volatility. The Company closely monitors commodity prices, particularly as they relate to base and precious metals, and movements in the price of individual equity securities, and movements in the stock market generally, to assist in determining the appropriate course of action to be taken by the Company.

At December 31, 2021, 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 is involved in the exploration and development of polymetallic deposits. All mineral properties are located in Mexico. The Company currently has no revenues.

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

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

	Years Ended December 31,	
	2021	2020
Canada	\$ (8,544,875)	\$ (3,130,856)
Mexico	(26,959,912)	(14,933,819)
Net loss and total comprehensive loss	\$ (35,504,787)	\$ (18,064,675)

23. RELATED PARTY TRANSACTIONS

a) Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as well as those personnel with responsibility for the oversight of the Company's activities. 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.

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Related party transactions for the years ended December 31, 2021 and 2020 are as follows:

Transaction Type	Nature of Relationship	Years Ended December 31,	
		2021	2020
Non-cash share-based payments	Directors and officers	\$ 4,704,460	\$ 837,020
Salaries and benefits	Officers	1,658,000	1,048,024
Consulting fees	Director	-	25,000
Director's fees	Directors	357,042	301,736
		\$ 6,719,502	\$ 2,211,780

A summary of amounts due to related parties:

Transaction Type	Nature of Relationship	December 31,	December 31,
		2021	2020
Salaries and benefits payable	Directors, officers, and employees	\$ 826,163	\$ 598,000
		\$ 826,163	\$ 598,000

24. EVENTS AFTER THE REPORTING PERIOD

a) Stock Option Grant

On January 5, 2022, the Company announced that it had granted to certain officers, directors, employees and/or consultants of the Company an aggregate of 6,950,000 options to acquire common shares of the Company ("Options"). The Options have an exercise price of \$2.05 per share, have a five-year term from the date of grant (expiration date of January 5, 2027), and vest according to the following schedules:

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

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

b) Appointment of Chief Operating Officer

On March 14, 2022, the Company announced the appointment of Tony Esplin as Chief Operating Officer.

The Company granted Mr. Esplin 1,000,000 incentive stock options ("Options") on March 11, 2022, the date of Mr. Esplin's engagement by the Company, at an exercise price of C\$1.93 per share. The Options have a five-year expiry and will vest annually in three equal tranches, with the first tranche exercisable on the first anniversary of the grant date. Mr. Esplin will commence working for the Company on April 4, 2022.

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The Company has also agreed to grant Mr. Esplin 250,000 restricted share units (“RSUs”), each of which are redeemable for one Discovery common share. One-half of the RSUs were redeemed on the issue date, April 4, 2022, and the remaining one-half will be redeemable on the first anniversary of the issue date.

c) Appointment of Board Member

On April 12, 2022, the Company announced the appointment of Tony Makuch to the Company’s Board of Directors.

Pursuant to the Company’s stock option plan, Mr. Makuch has been granted 400,000 stock options (“Options”). The Options, each exercisable for one common share of the Company at an exercise price of \$1.76 per share, vest annually in two equal tranches beginning on the date of the grant of April 11, 2022. The Options will expire on April 11, 2027, five years after the date of grant. Any common shares issuable upon exercises of Options will, in accordance with applicable securities laws, be subject to a hold period expiring four months from the date of grant.