



1100 – 595 Howe Street, Vancouver, BC, Canada V6C 2T5
T (604) 681-3170, F (604) 681-3552, info@discoveryharbour.com
www.discoveryharbour.com

DISCOVERY HARBOUR RESOURCES CORP.

INTERIM MD&A – QUARTERLY HIGHLIGHTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

The following interim MD&A – Quarterly Highlights of the financial position of Discovery Harbour Resources Corp. (the “Company” or “Discovery Harbour”) and results of operations of the Company should be read in conjunction with the unaudited condensed interim consolidated financial statements including the notes thereto for the period ending December 31, 2018 and the audited financial statements for the year ending September 30, 2018.

The accompanying unaudited condensed interim consolidated financial statements and related notes are presented in accordance with International Financial Reporting Standards for interim financial statements and accordingly do not include all disclosures required for annual financial statements. These statements, together with the following interim MD&A – Quarterly Highlights dated **February 26, 2019** (“Report Date”), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to the potential future performance. The information in the interim MD&A – quarterly highlights may contain forward-looking statements.

These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

Economic and industry factors are substantially unchanged with respect to a comparison of the Company’s interim financial condition to the financial condition as at the most recently completed financial year end.

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

1. CORE BUSINESS

Discovery Harbour Resources Corp. is a junior resource company engaged in the acquisition, exploration and evaluation of mineral properties in the United States for hosting gold and base metals.

The Company holds interests in the following mineral resource properties in the United States:

- **Caldera Gold Property** (Nye County, Nevada) – gold property located in Nye County, Nevada in which the Company has an option to earn a 100% interest, subject to advance minimum royalty payments and a 2% retained net smelter return royalty.

- **Caldera Extension Gold Property** (Nye County, Nevada) – gold property located in Nye County, Nevada in which the Company holds a 100% interest, subject to a 2% retained net smelter return royalty.

The Company continues to review projects with the intent to expand its portfolio with a focus on gold projects located in the western United States.

The Company was incorporated under the Business Corporations Act of British Columbia on March 11, 2009. The Company was classified as a Capital Pool Company as defined in Policy 2.4 of the TSXV and completed its Qualifying Transaction pursuant to the policies of the TSXV on November 22, 2010. The Company is listed on the TSX Venture Exchange as a Tier 2 Venture Issuer having the symbol DHR-V. The Company completed a reverse takeover transaction with CVC Cayman Ventures Corp. on April 2, 2013.

The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 0845837 B.C. Ltd. (active) and Discovery Harbour (USA) LLC (dormant). Inter-company balances and transactions are eliminated on consolidation.

2. FINANCIAL CONDITION

The Company has not generated revenue from operations since inception. The Company has accumulated losses of \$20,480,451 since inception and expects to incur further losses in the development of its business, all of which may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise financing and generate future profitable operations. As the Company is in the exploration stage, the recoverability of costs incurred to date on exploration properties is 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 its properties and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise funds to continue operations, and although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

The Company had a working capital deficit of \$401,061 at December 31, 2018 compared to a deficit of \$279,865 at September 30, 2018.

Cash was \$1,035 at December 31, 2018 compared to \$3,372 at September 30, 2018. Term deposits held at BMO Bank of Montreal totaled \$45,000 at December 31, 2018 (September 30, 2018 - \$160,000). The Company's sources and uses of cash are discussed in Section 4 "Cash Flows" below.

Amounts receivable of \$10,479 at December 31, 2018 (September 30, 2018 - \$17,701) consist of GST input tax credits, interest receivable on term deposits, and \$7,754 (USD \$5,684) in reclamation bond receivable.

Prepaid expenses of \$2,652 at December 31, 2018 (September 30, 2018 - \$6,604) relate to ordinary operating expenses.

Investments of \$8,101 at December 31, 2018 (September 30, 2018 - \$35,641) consist of the fair value of 162,000 shares of Red Oak Mining Corp. ("Red Oak") that trade publicly on the TSXV. Trading in Red Oak is temporarily suspended pending regulatory review of a proposed transaction.

Exploration and evaluation assets of \$327,373 at December 31, 2018 (September 30, 2018 - \$261,073) consist of acquisition and exploration expenditures on the Company's Caldera property, which are discussed in section 6 "Major Operating Milestones" below.

Trade and other payables were \$9,358 at December 31, 2018 (September 30, 2018 - \$27,282). Trade payable amounts are unsecured.

Due to related parties was \$5,313 at December 31, 2018 (September 30, 2018 - \$7,250). Due to related parties represents amounts owing to directors, officers, companies with a common director or officer, and shareholders who hold greater than a 10% interest in the Company for unpaid project management services, expenses and salaries, which are unsecured, non interest bearing and payable on demand.

The convertible debenture of \$100,000 at December 31, 2018 (September 30, 2018 - \$100,000) is held by a director and significant shareholder of the Company. The debenture is non-interest bearing, unsecured, and convertible at the option of the holder, into shares of the Company at a conversion price equal to the greater of \$0.05 per share or the subscription price for each share in the most recently completed private placement of the Company during the term of the debenture. The debenture matured on April 8, 2018.

Loans payable of \$345,556 at December 31, 2018 (September 30, 2018 - \$333,010) are held by the same director and significant shareholder of the Company. The loans are unsecured, non-interest bearing and payable on demand.

3. FINANCIAL PERFORMANCE

The Company's corporate and administrative head office is located in Vancouver, Canada and it is engaged in acquisition, exploration and evaluation activities in the state of Nevada, United States of America.

Because the Company is in the exploration stage, it did not earn any significant revenue and its expenses relate to the costs of operating a public company of its size. Net loss for the three months ended December 31, 2018 was \$62,254 compared to net loss of \$28,991 for the three months ended December 31, 2017. Comprehensive loss for the three months ended December 31, 2018 was \$89,794 compared to comprehensive loss of \$45,191 for the three months ended December 31, 2017. Loss per share was \$0.00 for the three months ended December 31, 2018 compared to loss per share of \$0.00 for the 2017 comparative period.

3.1 Other Income and Expenses

Other income and expenses for the three months ended December 31, 2018 consists of loss on foreign exchange of \$12,126 and interest income of \$327. Other income and expenses for the three months ended December 31, 2017 consists of gain on foreign exchange of \$171.

3.2 Total Expenses for the three months ended December 31, 2018

Total expenses for the three months ended December 31, 2018 were \$50,455 compared to total expenses of \$29,162 recorded for the 2017 comparative period.

Employee costs were \$21,539 for the three months ended December 31, 2018 compared to expenses of \$9,000 recorded for the 2017 comparative period. Employee costs include management fees, consulting fees, salaries and benefits and share-based payments. The following is a breakdown of material components of the Company's employee costs for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
Management fees	-	9,000
Consulting fees	15,000	-
Salaries and benefits	6,539	-
Share-based payments	-	-
	<u>21,539</u>	<u>9,000</u>

Management fees of \$9,000 for the three months ended December 31, 2017 were paid to the Company's former CFO.

Consulting fees of \$15,000 for the three months ended December 31, 2018 were paid to a business consultant.

Salaries and benefits of \$6,539 for the three months ended December 31, 2018 were paid to the Company's CFO.

Finance expense consists of accretion expense on the Company's one year convertible debenture.

General and administrative expenses were \$28,916 for the three months ended December 31, 2018 compared to expenses of \$11,848 recorded for the 2017 comparative period. The following is a breakdown of the material components of the Company's general and administrative expenses for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
Accounting and audit fees	15	-
Filing fees	4,279	500
Insurance	2,521	2,521
Investor communication	13,103	3,814
Legal	7,182	2,397
Office	1,219	1,781
Transfer agent	597	835
	<u>28,916</u>	<u>11,848</u>

Accounting and audit fees consist of amounts paid and/or accrued for the Company's annual audit and income tax returns.

Filing fees were \$4,279 for the three months ended December 31, 2018 compared to expenses of \$500 recorded for the 2017 comparative period. The following is a breakdown of the material components of the Company's filing fees for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
Listing sustaining fee	1,300	-
Annual financial statements	1,779	-
Stock option plan	-	500
Miscellaneous filings	200	-
Property acquisition	1,000	-
	<u>4,279</u>	<u>500</u>

Insurance consists of directors and officer's liability insurance.

Investor communication expenses were \$13,103 for the three months ended December 31, 2018 compared to expenses of \$3,814 recorded for the 2017 comparative period. The Company signed an agreement dated August 15, 2018 to engage Purple Crown Communications Corp. to provide investor relations services for a three month term for consideration of \$5,000 per month. Upon expiry of the term, the parties agreed to reduce the fee to \$500 per month for maintenance services. The following is a breakdown of the material components of the Company's investor communication expenses for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
Annual general meeting	3,243	3,814
Investor relations consultant	8,760	-
Marketing materials	1,100	-
	<u>13,103</u>	<u>3,814</u>

Legal fees were \$7,182 for the three months ended December 31, 2018 compared to expenses of \$2,397 for the 2017 comparative period. The following is a breakdown of the material components of the Company's legal fees for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
General corporate matters	1,198	1,497
Annual general meeting	3,649	541
Property acquisition	2,335	-
Convertible debenture	-	359
	<u>7,182</u>	<u>2,397</u>

Office expenses were \$1,219 for the three months ended December 31, 2018 compared to expenses of \$1,781 for the 2017 comparative period. The following is a breakdown of the material components of the Company's office expenses for the three months ended December 31, 2018 and 2017.

	Three months ended December 31, 2018	Three months ended December 31, 2017
	\$	\$
Rent	366	1,500
IT / web	540	41
Bank charges and interest	89	240
Courier and postage	15	-
Office supplies	193	-
Telephone	16	-
	1,219	1,781

Transfer agent fees were \$597 for the three months ended December 31, 2018 compared to expenses of \$835 for the 2017 comparative period.

4. CASH FLOWS

The Company is still in the exploration and development stage and as such does not earn any significant revenue. Total cash used in operating activities was \$56,458 for the three months ended December 31, 2018 compared to cash used of \$21,697 for the 2017 comparative period.

Cash provided by investing activities was \$56,058 for the three months ended December 31, 2018 and consists of mineral property expenditures of \$66,300, redemption of term deposit of \$115,000, and return of reclamation bond of \$7,358. In comparison, cash of \$161,631 was used in investing activities during the 2017 comparative period, and consists of expenditures on exploration and evaluation assets.

Cash used in financing activities was \$1,937 for the three months ended December 31, 2018 and consists of repayments to related parties. Cash provided by financing activities was \$258,640 for the three months ended December 31, 2017 and consists of demand loan received of \$255,490 and advances from related parties of \$3,150.

5. SELECTED ANNUAL INFORMATION

N/A

6. MAJOR OPERATING MILESTONES

The Company is in the mineral exploration stage and as such has no revenues. Mineral interests in the form of exploration and acquisition costs totalled \$327,373 as at December 31, 2018 (September 30, 2018 - \$261,073).

Mark Fields, P.Geo., is the Qualified Person for Discovery Harbour as defined in NI 43-101 and has reviewed and approved the technical contents of this MD&A.

6.1 Caldera Property

On November 18, 2016, as amended February 17, 2017 and March 30, 2017, the Company signed an option agreement with Genesis Gold Corporation to acquire a 100% interest, subject to advance minimum royalty payments and a 2% retained royalty, in the Caldera gold property (the “Property”) located in Nye County, Nevada. The Company may earn its interest in the Property by issuing 166,667 share purchase warrants exercisable at \$0.15 per share over a three year term (issued), paying the rentals on the unpatented mining claims to keep the property in good standing (paid), and making scheduled minimum advance royalty payments totalling USD \$400,000 (paid - USD \$100,000).

During the three months ended December 31, 2018, the Company expended \$66,300 in acquisition costs on the Property that consists of USD \$50,000 in advance royalty.

The Caldera property is comprised of 260 claims totalling over 3,000 hectares (~7,400 acres) in Nye County, Nevada. The Property is located west of the Round Mountain gold mine (Kinross Gold) and in the foothills of the Shoshone Range. Its location is nearly equidistant from the Round Mountain, Paradise Peak, Monte Cristo, Northumberland, Manhattan and Tonopah districts from which over 30 million ounces of gold have been collectively produced. Most of these deposits are classified as low sulfidation epithermal gold systems.

The Caldera Project is classified as a low-sulfidation, epithermal gold system, occurring near the periphery (crater rim) of a Tertiary-aged volcano. Historical, small-scale mining was primarily focused on gold-silver occurrences contained in thin veins with Bonanza-style gold and silver grades. Historical production figures have not been presented and are not available in researched literature for the project.

Good road access to the Caldera Project is present.

A NI 43-101 technical report has been completed on the Property by other explorers (Caldera – NI 43-101 Report dated February 21, 2005) and is available on SEDAR.

6.11 Project Exploration Focus and Concepts

Caldera hosts strong epithermal gold mineralization and very significant gold pathfinder element geochemistry (rock and soil) exposed at surface, in shallow workings and in drill intercepts. These results all support the likelihood that very significant gold mineralization may occur at depth, within and above the ‘boiling zone’ where circulating, low temperature groundwater aquifers have interacted with magmatic heat, raising temperatures to allow gold to be deposited as veining, void fillings and as disseminated and stratabound mineralization in chemically favorable and structurally prepared host lithologies.

Drilling at Caldera has not been deep enough to test for this boiling zone-related mineralization. This will be the focus of the Company’s exploration efforts; however, the initiation and scope of any future exploration program is subject to the Company’s ability to raise capital.

6.2 Caldera Extension Property

On August 15, 2018, as amended September 19, 2018 and December 20, 2018, the Company signed a Letter of Intent with a non-arm’s length party (the “Vendor”) to acquire a 100% interest in the Caldera Extension gold property located in Nye County, Nevada, subject to a 2% net smelter royalty (“NSR”) retained by the Vendor that the Company can purchase for \$1,000,000 for each one percentage point of the NSR. The

Vendor is a related party by virtue of holding beneficial ownership of over 10% of the common shares of the Company. The acquisition was completed on January 3, 2019.

The Caldera Extension consists of 56 mineral claims and is contiguous to the Company's Caldera gold project.

7. SUMMARY OF QUARTERLY RESULTS

N/A

8. LIQUIDITY

The Company's financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations. In order for the Company to continue as a going concern and meet its financial obligations over the next twelve months, the Company may need to conclude an equity and/or debt financing.

Cash at December 31, 2018 was \$1,035 compared to cash of \$3,372 at September 30, 2018. Term deposits of \$45,000 were held at BMO Bank of Montreal at December 31, 2018 (September 30, 2018 - \$160,000). Working capital deficit was \$401,061 at December 31, 2018 compared to a deficit of \$279,865 at September 30, 2018. Factors that could impact on the Company's liquidity are monitored regularly and include market changes, gold price changes, and economic downturns that affect the market price of the Company's trading securities for the purposes of raising financing. The current state of equity markets have improved marginally but still presents a challenge to raise financing. Management believes that this condition may continue over the next twelve months.

Amounts receivable of \$10,479 at December 31, 2018 (September 30, 2018 - \$17,701) consist of GST input tax credits, interest receivable on term deposits, and reclamation bond receivable.

The Company has total current liabilities of \$460,227 at December 31, 2018, of which \$450,869 is owing to related parties. Due to related parties of \$5,313 includes amounts owing to officers and 10% shareholders for unpaid salaries and consulting fees. The \$100,000 convertible debenture and \$345,556 loan is payable to a director and major shareholder of the Company.

Based on the above financial condition at December 31, 2018, the Company will need to raise additional equity or loan financing in order to meet its financial obligations as they become payable in the current fiscal year.

On February 15, 2019, the Company announced that it has arranged a non-brokered private placement (the "Financing") of up to 2,000,000 units (each, a "Unit") at a price of \$0.05 per Unit for gross proceeds of up to \$100,000. Each Unit consists of one common share and one share purchase warrant exercisable into one additional common share at a price of \$0.10 for a period of one year. Proceeds of the Financing are to be used for working capital. The Financing is subject to the acceptance of the TSX Venture Exchange.

9. CAPITAL RESOURCES

The Company has no commitments for capital expenditures. The Company holds a property option agreement in the Caldera property that will require an advance royalty payment of USD \$50,000 (paid) and

unpatented mining claims rental of an estimated USD \$43,565 in the 2019 fiscal year to maintain the option in good standing.

The Company does not have any capital resources in the form of debt, equity and any other financing arrangements.

10. OFF-BALANCE SHEET ARRANGEMENTS

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

11. TRANSACTIONS BETWEEN RELATED PARTIES

All related party transactions are recorded at the exchange amount which is the amount agreed to by the Company and the related party.

11.1 Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include directors, the chief executive officer and chief financial officer of the Company. Key management personnel compensation is comprised of the following:

	2018	2017
	\$	\$
Short-term employee benefits and director fees	6,000	9,000
Share-based payments	-	-
	6,000	9,000

The Company has entered into an Employment Agreement with the Company's Chief Financial Officer effective September 1, 2018 for a twelve month term ending August 31, 2019. As compensation for the services to be provided, the Chief Financial Officer will receive a monthly fee of \$2,000. During the three months ended December 31, 2018, the Company paid \$6,000 (2017: \$nil) in salary to the Chief Financial Officer. Due to related parties at December 31, 2018 includes \$nil (September 30, 2018: \$2,000) in amounts owing to the Chief Financial Officer for unpaid salaries.

During the three months ended December 31, 2017, the Company paid \$9,000 in accounting fees to a company controlled by the former Chief Financial Officer.

11.2 Consulting Agreement

The Company has entered into a Strategic Consulting Agreement with a consultant company (the "Consultant Company") effective September 1, 2018 for a twelve month term with provisions for automatic renewal for consecutive twelve month terms unless 30 day written notice of termination is provided. As compensation for the services to be provided, the Consultant Company will receive a monthly fee of \$5,000. The Consultant Company is a related party by virtue of a common director and holding beneficial ownership of over 10% of the common shares of the Company. During the three months ended December 31, 2018, the Company paid \$15,000 (2017: \$nil) in consulting fees to the Consultant Company. Due to related parties at December 31, 2018 includes \$5,250 (September 30, 2018: \$5,250) in amounts owing to the Consultant Company for unpaid services and expenses.

11.3 Office Expenses

Office expenses of \$60 (2017: \$nil) was paid to a company with a common director and officer. Due to related parties at December 31, 2018 includes \$63 (September 30, 2018 - \$nil) in amounts owing to the related company for unpaid office expenses.

Office rent of \$nil (2017: \$1,500) was paid to a company that formerly shared a common officer.

11.4 Convertible Debenture and Demand Loan

On April 8, 2017, the Company issued a non-interest bearing, unsecured convertible debenture to a director of the Company for gross proceeds of \$100,000. The debenture is convertible, at the option of the holder, into shares of the Company at a conversion price equal to the greater of \$0.05 per share or the subscription price for each share in the most recently completed private placement of the Company during the term of the debenture. The debenture matured twelve (12) months from the date of closing of the financing on April 8, 2018. Using a risk adjusted discount rate of 12%, the equity portion was determined to be \$11,255 and was recognized as the equity portion of convertible debenture on the Consolidated Statement of Financial Position. Accretion expense of \$5,795 was expensed to the Consolidated Statements of Comprehensive Loss during the year ended September 30, 2018 (2017 - \$5,460).

On August 1, 2017, the Company received a non-interest bearing, unsecured demand loan of US \$80,000 from a director. The fair value of the loan was \$109,136 on December 31, 2018 (September 30, 2018 - \$103,560).

On October 6, 2017, the Company received a non-interest bearing, unsecured demand loan of US \$100,000 from a director. The fair value of the loan was \$136,420 on December 31, 2018 (September 30, 2018 - \$129,450).

On December 19, 2017, the Company received a non-interest bearing, unsecured demand loan of \$130,000 from a director. The Company repaid \$30,000 of the demand loan on August 2, 2018.

12. FOURTH QUARTER

N/A

13. PROPOSED TRANSACTIONS

The Company is engaged in the search for potential mineral property acquisitions and financings, but there are currently no proposed asset or business acquisitions or dispositions. Other than disclosed in this Report, the Company does not have any proposed transactions.

14. SIGNIFICANT CHANGES FROM PREVIOUS DISCLOSURE

N/A

15. CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

A number of new or amended accounting standards were scheduled for mandatory adoption on October 1, 2018 and were adopted in 2019:

IFRS 9 – Financial Instruments

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedging requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC-31 – Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

New accounting standards effective October 1, 2019:

IFRS 2 – Shared-Based Payments

In June 2016 the Board issued the final amendments to IFRS 2 which amended (a) the effects that vesting conditions have on the measurement of a cash-settled share-based payment; (b) the accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled; and (c) classification of share-based payment transactions with net settlement features.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2019, and have not been applied in preparing these consolidated financial statements.

The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements, are not expected to have a material effect on the Company's future results and financial position.

New accounting standards effective October 1, 2019:

IFRS 16 – Leases

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

The extent of the impact of adoption of this standard and interpretation on the financial statements of the Company has not been determined.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The Company's financial instruments include cash, term deposits, amounts and other receivable, investments, trade and other payables, amounts due to related parties, convertible debenture and demand loans payable. The fair value of these financial instruments approximates their carrying values due to the relative short-term maturity of these instruments.

The following table summarizes information regarding the carrying and fair values of the Company's financial instruments:

	December 31, 2018		September 30, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	\$	\$	\$	\$
FVTPL assets (i)	46,035	46,035	163,372	163,372
Loans and receivables (ii)	7,754	7,754	11,393	11,393
Investments (iii)	8,100	8,100	35,640	35,640
Other financial liabilities (iv)	14,671	14,671	21,032	21,032
Convertible debenture	100,000	100,000	100,000	100,000
Demand loans payable	345,556	345,556	333,010	333,010

- (i) Cash, term deposits
- (ii) Amounts and other receivable
- (iii) Marketable securities
- (iv) Trade and other payables and due to related parties

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

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

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

As at December 31, 2018	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	1,035	-	-	1,035
Term deposits	45,000	-	-	45,000

The Company believes the recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates.

Credit risk

Credit risk is the risk of an unexpected loss associated with a counterparty's inability to fulfill its contractual obligations. Management evaluates credit risk on an ongoing basis and monitors activities related to amounts and other receivable including the amounts of counterparty concentrations. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and cash equivalents. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To

minimize credit risk the Company only holds its cash and cash equivalents with high credit chartered Canadian financial institutions. As at December 31, 2018, the Company has no financial assets that are past due or impaired due to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its trade and other payable, amounts due to related parties, convertible debenture and loans payable. The Company has a working capital deficit of 401,061 as at December 31, 2018 and requires additional financing for operations and meet its current obligations. The Company handles its liquidity risk through the management of its capital structure as described in Note 14 to the condensed interim consolidated financial statements. All of the Company's financial liabilities are due on demand, do not generally bear interest and are subject to normal trade terms.

The following are the contractual maturities of financial liabilities as at December 31, 2018:

	Carrying Amount \$	Contractual Cash Flows \$	Within 1 year \$	Within 2 years \$	Within 3 years \$	Over 3 years \$
Trade and other payables	9,358	9,358	9,358	-	-	-
Due to related parties	5,313	5,313	5,313	-	-	-
Convertible debenture	100,000	100,000	100,000	-	-	-
Loans payable	345,556	345,556	345,556	-	-	-
Total	460,227	460,227	460,227	-	-	-

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant interest rate risk as the Company has no interest bearing debt. The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in gold and metal prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. The Company is exposed to foreign exchange risk because the Company's financial instruments are denominated in both Canadian dollars and US dollars, and all current exploration occurs within the United States.

Exploration and Development

Exploration for mineral commodities is a speculative venture involving substantial risk. There are no guarantees that the Company's efforts in exploration will be successful in defining economically feasible deposits. Only a limited number of exploration programs run by mineral exploration companies (including the Company) are and are expected to be successful. The long-term profitability of the Company will in

part be directly related to the costs and success of its exploration projects, which may be affected by a number of variables that are beyond the control of the Company.

Financing

None of the Company's projects are in production and as such, do not produce revenue. The Company's ability to conduct its exploration is based on its working capital and on its ability to raise financing necessary to support its activities through equity issuances and through proceeds from future dispositions of its mineral properties, or development and production from its properties. There can be no assurance that the Company will be successful in securing the funding required to support its activities, now or in the future. Failure to raise sufficient funding has caused the Company to suspend exploration activities and eventually may force it to sell or forfeit its interest in its properties. This could ultimately result in the dissolution of the Company. Numerous factors affect the Company's abilities to raise the necessary capital. Market conditions and fluctuations in investor attitude and commodity prices are two main variables, over which the Company has no control or prior warning.

Mining Operations

Mining operations involve a high degree of risk and danger. Natural and/or man-made hazards or accidents could cause the Company to be liable for physical or environmental damages and such liabilities could produce adverse financial effects on the Company and its financial position, as well as result in the possible forfeiture of its assets.

Economics of Developing Mineral Properties

Substantial costs are attached to the establishment of economic resources of mineral commodities. Exploration and development expenditure are required to determine the viability of any deposit prior to the extraction of the ore minerals. Although substantial financial benefits are attached to the production of commodities from an economic deposit, there is no assurance that every deposit discovered will contain sufficient quantities or grades to support the required development costs attached to mine and infrastructure construction. Therefore, announcements of apparent ore-grade mineralization from exploration activities, are only the first steps in a long and costly process of bringing a discovery to a production status.

Marketability of Commodities

Precious and base metal exploration and development are speculative and involve high risk. The marketability of these commodities that may be discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, government regulations and permitting issues, commodity pricing, taxation, royalties, land tenure, land use, import and export issues, and environmental permitting. The exact effect of these factors cannot be predicted and any combination of these factors may result in not being able to exploit.

Pricing of Commodities

The future value of the Company will, to some degree, be dependent on the pricing of mineral commodities in the marketplace. Fluctuations in the pertinent commodity prices continuously change and these fluctuations are beyond the control of the Company. Furthermore, although the Company continuously attempts to perceive the direction of commodity pricing and subsequent sales probabilities, the future pricing of mineral commodities remains uncertain and contributes to the high risk of investment in these types of opportunities.

Environmental Requirements

At present, the Company conducts its exploration activities only in the State of Nevada. All phases of its operations are subject to the environmental regulations in that state. All laws and regulations relating to the environment are and must be strictly adhered to in order to avoid penalties and time delays in permit issuances. Environmental legislation and regulation is evolving and, in the future, may result in the enactment of laws and regulations that could negatively impact exploration and development or entirely preclude the development of mines. This would also have a negative material and financial effect on the Company. However, the State of Nevada's laws and regulations do not appear to the Company to impose in the near or long term any restrictive policies that would cause significant harm to the Company nor hinder it from the development of operations there.

Competition

The mining industry (exploration and development) is intensely competitive in all of its phases. The Company competes with numerous other companies possessing greater financial resources and technical facilities. There is no guarantee in the future that the Company may not lose or forfeit a mineral property because of a relative lack of funding, personnel or expertise.

Title

While the Company has registered all its claims and licenses with the appropriate mining authorities and has filed all required documentation needed to keep the claims in good standing, these should not be considered absolute guarantees of irrevocable title to those properties. The Company's properties may also be subject to prior unregistered agreements or transfers and the Company's ownership of these properties may be affected by these or other undetected defects. The Company's properties may include recorded third party claims, which have not been surveyed, rendering uncertainty as to their exact location. The Company may also lose entitlement to claims if certain payments are not made. The Company's title to the Caldera Property is subject to fulfilment of the terms of the Original Agreement.

Mining Regulation

Mining operations are subject to extensive regulation in the jurisdictions in which its projects are located. Future changes made by such authorities could adversely affect the Company's holdings and its ability to mine, as well as mining as a whole. The Company has no control over these possible changes. The Company has not filed for any permit to mine its properties with any governmental unit. However, mining regulations in the State of Nevada are stable and no new alterations or issues have been proposed to legislative changes that would adversely affect any present or future mining operations there.

Cash Flow and Ongoing Business

The Company has not generated any cash flow or earnings to support its activities and there can be no assurance that the Company will generate any earnings or cash flow in the future. If the Company does not generate cash flow, additional external funding will be required to finance the Company's activities. This future funding may not be available or, if available, may not be on terms acceptable to the Company and could result in the Company ceasing to exist.

Dilution

Shareholders will suffer dilution with respect to future private and/or public offerings of the Company's common shares (or securities convertible into common shares).

Key Management

The Company has not purchased any “key man” insurance with respect to any of its directors, officers or key personnel to the date hereof. The loss of the Company’s interim President and Chief Executive Officer and any other current senior officer could have an adverse affect on the Company and its business, financial position and prospects.

Conflicts of Interest

Certain of the Company’s directors and officers currently, and may in the future, serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties as a director or officer of the Company and their duties as a director or officer of other companies. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosure by directors and officers of conflicts of interest and the Company will rely upon such laws in respect of any director or officer’s conflict of interest or in respect of any breaches of duty by any of its directors or officers.

Market Volatility

In the past, there have been instances where the Company’s common shares did not trade or where trading was limited. Additionally, the trading price of common shares may be subject to wide fluctuations in response to operating results, results of exploration, market conditions and other events and factors outside the control of the Company. In addition, the stock market has experienced extreme price and volume fluctuations which have affected the market price of junior exploration companies. There can be no assurance that significant price fluctuations will not occur in the future.

17. DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company’s residual assets.

As at February 26, 2019, the Company has 23,797,840 common shares issued and outstanding.

As at February 26, 2019, the Company has outstanding warrants as follows:

Number	Exercise Price per Share	Expiry Date
166,667	\$0.15	June 12, 2020
33,333	\$0.225	June 12, 2020
6,000,000	\$0.10	July 23, 2020
6,200,000		

As at February 26, 2019, the Company has outstanding options as follows:

Number	Exercise Price per Share	Expiry Date
366,667	\$0.30	March 23, 2020
10,000	\$0.90	July 5, 2020
10,000	\$1.23	November 23, 2020
386,667		

18. COMMITMENTS, EXPECTED OR UNEXPECTED EVENTS, OR UNCERTAINTIES

The Company is party to a property option agreement to acquire mineral properties.

The Company is party to various consulting, investor relations and employment agreements.

Other than disclosed in this Report, the Company does not have any commitments, expected or unexpected events, or uncertainties.

19. BOARD OF DIRECTORS AND OFFICERS

The directors of the Company are Mark Fields (Interim President and Interim Chief Executive Officer), Richard Gilliam, Andrew Hancharyk and Jason Cubitt. Sandra Wong is the Chief Financial Officer and Corporate Secretary.

20. CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

This Management's Discussion and Analysis contains "forward-looking statements, within the meaning of applicable Canadian Securities legislation", that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price of gold and copper, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", or "might" be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, level of activity, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: risks relating to the integration of acquisitions, risk relating to international operations, the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold and copper; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; fluctuations in metal prices; as well as those risk factors discussed or referred to in the Company's Management's Discussion and Analysis for the three months ended December 31, 2018 filed with the securities regulatory authorities in Canada and available at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to

differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

21. MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Company and all the information in this Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and the minority of its members are independent directors. The Committee meets at least once a year with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors. The Company's auditors have full and free access to the Audit Committee.

On behalf of the Board,

DISCOVERY HARBOUR RESOURCES CORP.

Mark Fields
Interim President and Interim Chief Executive Officer