

BAYHORSE SILVER INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017
(Unaudited)
Expressed in Canadian dollars, Unless Noted Otherwise

Management's Comments on Unaudited Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Bayhorse Silver Inc. for the three and nine months ended September 30, 2017, have been prepared by the Company's management and approved by the Audit Committee and Board of Directors of the Company. The accompanying unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

Index

	Page
FINANCIAL STATEMENTS	
Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss	3
Condensed Consolidated Interim Statements of Cash Flows	4
Condensed Consolidated Interim Statements of Changes in Shareholders' Deficit	5
Notes to the Condensed Consolidated Interim Financial Statements	6 – 25

BAYHORSE SILVER INC.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	September 30, 2017	December 31, 2016
ASSETS			
Current			
Cash		\$ 1,200,229	\$ 9,699
Advances to a related party	8	44,154	12,487
GST receivable		4,078	13,758
Prepaid expenses		171,340	65,300
		1,419,801	101,244
Non-current			
Equipment	3	557,772	188,481
		\$ 1,977,573	\$ 289,725
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Accounts payable	8	\$ 557,669	\$ 471,578
Accrued liabilities		225,673	493,933
Current portion of convertible debenture	4	287,222	208,603
Loan payable	5	309,463	8,450
Promissory note and interest payable	6	54,715	50,000
		1,434,742	1,232,564
Non-current			
Convertible debenture	4	1,424,344	1,302,937
		2,859,086	2,535,501
Shareholders' deficit			
Share capital	7	14,080,696	10,157,664
Contributed surplus	7	4,321,371	3,898,457
Deficit		(19,283,580)	(16,301,897)
		(881,513)	(2,245,776)
		\$ 1,977,573	\$ 289,725

Nature of operations and going concern (Note 1)**Commitments** (Notes 9 and 12)**Subsequent events** (Note 13)

Approved on behalf of the Board:

"Graeme O'Neill"
Director

"Clay Conway"
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BAYHORSE SILVER INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited)

Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Mineral expenses					
Mineral property costs	9	\$ 577,210	\$ 315,935	\$ 1,286,904	\$ 613,119
Expenses					
Communications		1,972	2,400	13,353	4,115
Financing fee	4, 6 & 8(b)	422,643	563,509	582,901	721,613
Foreign exchange and bank charges		(35,350)	(42,169)	(9,810)	(49,848)
Insurance		2,970	-	4,570	7,466
Management fees	8 (a)	30,000	30,000	90,000	90,000
Office and other	8 (d)	12,102	22,953	35,248	43,060
Office rent	8 (a)	9,000	7,200	28,020	21,600
Professional fees	8 (c)	20,500	16,170	54,000	45,660
Promotion		2,857	7,788	9,420	43,321
Share-based compensation	7 (c)	258,945	-	258,945	111,627
Transfer, listing and filing fees		3,911	10,633	21,405	28,808
Travel		200	9,043	10,974	17,305
		(729,750)	(627,527)	(1,099,026)	(1,084,727)
Loss before other items		(1,306,960)	(943,462)	(2,385,930)	(1,697,846)
Other items					
Loss from re-measurement of convertible debenture	4	(14,184)	(79,579)	(221)	(53,737)
Loss on shares converted from convertible debenture	4	(439,953)	-	(595,532)	-
Net loss and comprehensive loss for the period		(1,761,097)	(1,023,041)	(2,981,683)	(1,751,583)
Weighted average number of common shares outstanding - basic and diluted		51,242,622	28,018,724	46,013,964	28,018,724
Basic and diluted loss per common share		\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.06)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BAYHORSE SILVER INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
Expressed in Canadian Dollars, Unless Noted Otherwise

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Operating activities		
Net loss	(2,981,683)	(1,751,583)
Items not involving cash:		
Depreciation	39,880	
Stock-based compensation	258,945	111,627
Loss from re-measurement of convertible debentures	221	53,737
Loss on shares converted from convertible debenture	595,532	-
Warrants issued as financing fee	350,547	539,060
Shares issued for acquisition of property	80,000	
Changes in non-cash working capital:		
Loan interest accrued on promissory note	4,715	(39,198)
GST receivable	9,680	(1,687)
Prepaid expenses	(106,040)	(136,843)
Accounts payable and accrued liabilities	28,948	191,527
Current portion of convertible debenture	68,799	69,718
Cash used in operating activities	(1,650,456)	(963,642)
Investing activity		
Equipment	(409,171)	(113,137)
Cash used in investing activities	(409,171)	(113,137)
Financing activities		
Proceeds from private placement	900,000	-
Share issuance costs	(79,093)	-
Options exercised during the period	168,190	55,000
Warrants exercised during the period	786,076	405,565
Advances to related parties	(31,667)	(9,755)
Subscription payable	-	20,000
Loan payable	301,013	-
Promissory note payable	-	(203,615)
Proceeds from convertible debenture	1,205,638	1,119,502
Cash provided by financing activities	3,250,157	1,386,697
Increase in cash	1,190,530	309,918
Cash, beginning of the period	9,699	922
Cash, end of the period	1,200,229	310,840

Supplemental cash flow information (Note 10)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BAYHORSE SILVER INC.

Condensed Consolidated Statement of Changes in Shareholders' Deficit

(Unaudited)

Expressed in Canadian Dollars, (Unless Noted Otherwise)

	Note	Number of Shares	Share Capital	Subscriptions Payable	Contributed Surplus	Deficit	Total
Balance, December 31, 2016		37,740,821	\$10,157,664	-	\$3,898,457	(\$16,301,897)	(\$2,245,776)
Shares issued for warrants	7 (d)	4,569,100	1,058,524		(272,448)	-	786,076
Shares issued for options	7 (c)	1,116,900	305,226		(137,036)	-	168,190
Shares issued on conversion of Debentures	7 (b)	9,512,785	1,917,030		(35,749)	-	1,881,281
Private placement	7 (b)	6,000,000	641,345		258,655	-	900,000
Share issuance costs	7 (b)		(79,093)		-	-	(79,093)
Property acquisition	7 (b)	500,000	80,000		-	-	80,000
Fair value of warrants granted with debentures	4	-	-	-	350,547	-	350,547
Share-based compensation	7 (c)	-	-		258,945	-	258,945
Net loss and comprehensive loss		-	-		-	(2,981,683)	(2,981,683)
Balance, September 30, 2017		59,439,606	\$14,080,696	-	\$4,321,371	(\$19,283,580)	(\$881,513)
Balance, January 1, 2016		27,903,517	\$8,557,473	-	\$3,349,266	(\$13,962,643)	(\$2,055,904)
Shares issued for options	7 (c)	550,000	55,000	-	-	-	55,000
Options exercised	7 (c)	-	35,589	-	(35,589)	-	-
Share issued for warrants	7 (d)	4,138,200	471,375	-	-	-	471,375
Warrants exercised	7 (d)	-	214,955	-	(214,955)	-	-
Shares issued for debt settlement	7 (b)	2,232,143	250,000	-	-	-	250,000
Fair value of warrants granted with debentures	4	-	-	-	539,060	-	539,060
Convertible debenture	4	-	-	-	113,450	-	113,450
Share-based compensation	7 (c)	-	-	-	111,627	-	111,627
Subscription payable	7 (b)	-	-	20,000	-	-	20,000
Net loss and comprehensive loss		-	-	-	-	(1,751,583)	(1,751,583)
Balance, September 30, 2016		34,823,860	\$9,584,392	\$20,000	\$3,862,859	(\$15,714,226)	(\$2,246,975)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

1. NATURE OF OPERATIONS AND GOING CONCERN

Bayhorse Silver Inc. (the "Company") was incorporated under the Canada Business Corporations Act on April 6, 2004 and continued its incorporation into British Columbia on May 3, 2010. The Company is engaged in the acquisition and exploration of mineral property interests.

The Company is listed on the TSX-V under ticker symbol BHS as a Tier 2 mining issuer, the Frankfurt Exchange, Germany, under the symbol 7KXN, and in the US under the symbol KXPLF.

The address of the Company's corporate office and principal place of business is 137 Ranelagh Ave, Burnaby, British Columbia, V5B 3N2, Canada.

Going Concern

The accompanying condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At September 30, 2017, the Company had a working capital deficit of \$14,941, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the nine months ended September 30, 2017, the Company reported a comprehensive loss of \$2,981,683 and has incurred accumulated losses of \$19,283,580 since inception.

The Company is dependent on equity and debt financings to fund its operations. The recoverability of the underlying value of assets is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

2. BASIS OF PRESENTATION

a. Statement of Compliance

These unaudited consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2017. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies applied are the same as those applied in the Company's most recent annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 were approved and authorized for issue by the Board of Directors on November 28, 2017.

b. Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary, US based Bayhorse Silver (USA) Inc., and its wholly owned subsidiary, New Zealand based Kent Exploration NZ Limited ("Kent NZ") up to June 23, 2016, after which Kent NZ was dissolved and no longer consolidated. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions, balances and any unrealized gains and losses from intercompany transactions are eliminated in preparing the consolidated financial statements.

c. New Accounting Pronouncements

There have been no new and/or revised standards and interpretations issued by the IASB or IFRIC adopted by the Company effective January 1, 2017 that have had a material impact on the consolidated financial statements of the Company.

The Company is currently evaluating the following standards issued but not yet in effect and has not yet determined the impact on its financial position and results of operations:

IFRS 15, Revenue from Contracts with Customers – On May 28, 2014, the IASB issued IFRS 15 that provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

IFRS 16, Leases - On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The standard is effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and interim periods thereafter. Early adoption is permitted.

3. EQUIPMENT

During the nine months ended September 30, 2017, the Company purchased or made deposits for mining and processing equipment totaling \$409,171 (2016 - \$nil). During the year ended December 31, 2016, the

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

Company purchased or made deposits for mining and processing equipment totaling \$191,071. As a result, the Company recorded depreciation of \$21,367 and \$39,880 for the three and nine months ended September 30, 2017 (2016 - \$nil), respectively. The net carrying value of equipment as at September 30, 2017 is \$557,772 (December 31, 2016 - \$188,481).

4. CONVERTIBLE DEBENTURE

During the three months ended September 30, 2017, the Company issued 200 units of US\$5,000 convertible debentures ("2017 Debentures") for gross proceeds of US\$1,000,000 (CAD\$1,241,700). During the year ended December 31, 2016, the Company issued 180 units of US\$5,000 convertible debentures for gross proceeds of US\$900,000 (CAD\$1,187,601). During the year ended December 31, 2015, the Company issued 70 units of US\$5,000 debentures for gross proceeds of US\$350,000 (CAD\$458,945) (debentures issued in 2016 and 2015 are collectively referred to as "2016 Debentures"). The 2017 Debentures and 2016 Debentures are collectively referred to as "Debentures." Key features of these Debentures are as follows:

- Term
 - three years from the date of issuance;
- Interest payments
 - 12% per annum, calculated and compounded monthly and not in advance, and the first six months of interest payable on the first anniversary and bi-annually thereafter. Interest on all overdue amounts of principal or interest, is calculated and compounded daily at the same rate, from the date that the such amount of principal or interest becomes due to the actual date of payment;
- The Company's redemption right
 - The Company may redeem the Debenture at any time after the first anniversary of the date of its issuance upon the following terms and conditions:
 - The Company must advise the holder in writing not less than 30 days prior to the date of redemption of its intention to exercise its redemption rights;
 - Redemption price will be at least the full principal portion plus accrued interest up until the redemption date;
- Conversion right to shares
 - For the 2017 Debentures - Debenture holders ("Holders") have the option to convert the principal and unpaid accrued interests into shares at any time during the period from four months from the date of issuance and the second anniversary of such date. Redemption price is the CAD \$0.20 per share during the first year of the term, and in the second year of the term in the event the common shares of the Corporation trade for a 30 day period at CAD\$0.30 per share or higher, the average of thirty days trading less a twenty (20%) percent discount as permitted by the rules of the TSX-V, but in no case less than CAD\$0.20 per share;
 - For the 2016 Debentures - Holders have the option to convert the principal and unpaid accrued interests into shares at any time during the period from four months from the date of issuance and the second anniversary of such date. Redemption price is CAD\$0.125 per share during the first year of the term, and in the second year of the term in the event the common shares of the Corporation trade for a 30 day period at CAD\$0.20 per share or higher, the average of thirty days trading less a twenty (20%) percent discount as permitted by the rules of the TSX-V, but in no case less than CAD\$0.125 per share

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

- Conversion right to silver
 - In the event the Company successfully mines silver from the Bayhorse property prior to the maturity date of the Debenture, Holders have the option to convert the Principal and unpaid accrued interests into one the following options:
 - Physical ounces of silver at a price of US\$17.50 per ounce of silver for the 2017 Debentures and US\$15.50 per ounce of silver for the 2016 Debentures; or
 - Receive the net proceeds from the sale by the Company of silver that would otherwise have been delivered to the Holders.
- Bonus warrants
 - Each US\$5,000 Holder receives 20,000 warrants with each warrant exercisable into one common share of the Company for 3 years from date of issuance at an exercise price of CAD\$0.30 per common share for warrants issued in connection with the 2017 Debentures and CAD\$0.25 per common share for warrants issued in connection with the 2016 Debentures.

Fair Value Measurement

The Debenture is denominated in US dollars but the conversion price is denominated in Canadian dollars. The number of shares to be converted varies based on the foreign exchange rate at conversion date. The amount of interest payment also varies based on the foreign exchange rate on interest payment dates. The Debenture issued by the Company is a hybrid instrument, containing a loan component and embedded derivatives.

All of these financial instruments are classified as fair value through profit and loss ("FVTPL") and all changes in fair value are recorded in profit and loss. The fair value of the Debenture is measured using the present value of future cash flows with a market discount rate of 17%, which is based on a comparable instrument. On initial recognition, the Debenture is recorded at fair value with any excess from proceeds being credited to contributed surplus.

All Debentures are re-measured at their fair value at each reporting date with all changes in fair value recorded in profit and loss. Accordingly, the Company recorded a total loss of \$14,184 (2016 - \$79,579) for the three months ended September 30, 2017 and a total loss of \$221 (2016: \$53,737) for the nine months ended September 30, 2017. The total amount of interest for the 12-month period subsequent to September 30, 2017 will be approximately \$218,423 and therefore is included in current liability.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
 For the Three and Nine Months Ended September 30, 2017
 (Unaudited)
 (Expressed in Canadian dollars, Unless Noted Otherwise)

The continuity of the Debentures and their effect on contributed surplus is provided in the following table.

	Debenture	Contributed Surplus
	\$	\$
Balance, December 31, 2014	-	-
Fair value of US\$350,000 (CAD\$458,945), initial measurement	420,327	38,618
Change in fair value at year end	20,347	-
Balance, December 31, 2015	440,674	38,618
Fair value of US\$900,000 (CAD\$1,187,601), initial measurement	1,075,718	111,883
Converted to shares	(29,560)	(3,118)
Change in fair value	29,771	-
Transaction costs	(5,063)	(525)
Balance, December 31, 2016	1,511,540	146,858
Fair value of US\$1,000,000 (CAD\$1,231,409), initial measurement	1,182,608	65,205
Converted to shares	(1,051,160)	(104,073)
Change in fair value	(221)	-
Balance, September 30, 2017	1,642,767	107,990
Current portion	218,423	-
Long-term portion	1,424,344	-
	1,642,767	-

During the nine months ended September 30, 2017, the Company issued 4,000,000 warrants to the 2017 Debenture holders. Each warrant entitles the holder to purchase one common share at a price of \$0.30 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$336,949, which was expensed during the nine months ended September 30, 2017 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2017
Risk free rate of return	1.58%
Expected life	1.85 years
Expected volatility	96%
Expected dividend yield	0.00%

During the nine months ended September 30, 2017, the Company issued 128,154 warrants to Agents in connection with the 2017 Debenture issuance. Each warrant entitles the holder to purchase one common share at a price of \$0.20 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$13,598, which was expensed during the nine months ended September 30, 2017 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2017
Risk free rate of return	1.58%
Expected life	1.85 years
Expected volatility	96%
Expected dividend yield	0.00%

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

During the year ended December 31, 2016, the Company issued 3,600,000 (2015: 1,400,000) warrants to the Debenture holders. Each warrant entitles the holder to purchase one common share at a price of \$0.25 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$519,019 (2015: \$69,827), which was expensed during the year ended December 31, 2016 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2016	2015
Risk free rate of return	0.60-0.77%	0.81-0.92%
Expected life	3 years	3 years
Expected volatility	123 – 135%	130-133%
Expected dividend yield	0.00%	0.00%

During the year ended December 31, 2016, the Company issued 145,600 (2015: Nil) warrants to Agents in connection with the convertible debenture issuance. Each warrant entitles the holder to purchase one common share at a price of \$0.125 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$25,485 (2015: \$Nil), which was expensed during the year ended December 31, 2016 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2016	2015
Risk free rate of return	0.73-0.77%	-
Expected life	2.09 years	-
Expected volatility	132 – 135%	-
Expected dividend yield	0.00%	-

5. LOAN PAYABLE

On July 29, 2014, the Company received a loan of \$8,450 from a related party. The loan is interest free and has no fixed term of payment.

On April 28, 2017, the Company entered into an Interim Financing Loan agreement for US\$803,988 with NFS Leasing, Inc. to acquire ore sorting equipment for its Bayhorse mine. In accordance with the terms of payment to the manufacturer of the equipment, the loan funds will be advanced as follows: (a) US\$241,196 as non-refundable deposit within 30 days of April 28, 2017; (b) US\$401,994 as non-refundable deposit within 10 days of written notice from the equipment manufacturer that the equipment is ready for shipment; and (c) US\$160,798 within 30 days of delivery of the equipment to the Bayhorse mine site. The loan carries an interest rate of 14.98% per annum and is intended to be converted into a 48 month lease with NFS Leasing, Inc. at the time when the equipment is delivered, but no later than December 1, 2017. Interest accrued on the loan is due and payable upon commencement of the lease. The lease payments will be US\$6,750, US\$13,500 and US\$26,713.71 for months one to three, months four to twelve and months thirteen to forty-eight, respectively, from the commencement date of the lease. As at September 30, 2017, NFS Leasing, Inc. has advanced \$301,013, which the Company has recorded as loan payable. In addition, the Company has accrued interest of \$17,911 on this loan payable as at September 30, 2017. The loan from NFS Leasing, Inc. is secured with the Company's accounts receivable, all tangible and intangible personal property, cash and financial instruments.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

6. PROMISSORY NOTES PAYABLE

Balance at December 31, 2015		296,000
Repayment of principal and interest (d)		(160,778)
Interest accrued		25,857
Transfer to convertible debenture (e)		(111,079)
Balance at December 31, 2016	\$	50,000
Interest accrued		4,715
Balance at September 30, 2017	\$	54,715

- a) During the year ended December 31, 2014, the Company received a loan for the sum of \$210,000 from three lenders. The loan is for a term of 12 months, is unsecured and bears interest at the rate of 12% per annum, compounded quarterly and payable quarterly in arrears. The Company issued a promissory note ("PN") for the loan and, as additional consideration for the loan, the Company has issued 420,000 bonus shares that are equal to 20% of the principal amount of the Loan issued at a deemed price of \$0.10 per share or CAD\$29,400.
- b) In October, 2015, the Company paid total principal and accrued interest to one of the PN holders that amounted to \$15,000 and \$3,061, respectively.
- c) During the year ended December 31, 2015, the Company issued an additional promissory note to an existing loan provider and an arms' length party. This promissory note is to replace the existing interest free loan of \$50,000. This promissory note carries the same interest payment terms as the PN concluded on December 30, 2015.
- d) In September, 2016, the Company paid total principal and total accrued interest to the PN holders that amounted to \$131,000 and \$29,778, respectively.
- e) During the year ended December 31, 2016, a related party (the Company's CEO) used the promissory notes outstanding to him to purchase Debentures described in Note 4 and reducing his PN principal including interest to \$Nil.

On December 30, 2015, the Company concluded a new promissory note ("New Agreement") with the PN holders to replace all of the above PN. Pursuant to the New Agreement, the PN holders extended the expiry date to December 30, 2016, with the rate of interest on the outstanding loan principal of \$296,000 remaining the same. In the event that any payment under this PN is not paid when due on December 30, 2016, the Company agrees to pay, in addition to the principal and interest, attorneys' fees not exceeding a sum equal to 15% of the then outstanding balance owing on the New Agreement, plus all other reasonable expenses incurred by the PN holders in exercising any of its right and remedies upon default. The Company has negotiated with the one remaining PN holder to extend the repayment date of the \$50,000 promissory note to December 31, 2017.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

7. CAPITAL STOCK

- a) Authorized
Unlimited number of common shares without par value
- b) Issued and fully paid

The Company issued the following securities during the periods indicated:

	Note	Number
Balance, December 31, 2015		27,903,517
Shares Issued for Warrants	10(d)	5,500,100
Shares Issued for Options	10(c)	1,328,100
Shares issued for debt settlement	10(b) (i)	2,232,143
Shares issued on conversion of Debentures	10(b) (ii)	276,961
Shares issued for mineral property	10(b) (iii)	500,000
Balance, December 31, 2016		37,740,821
Shares Issued for Warrants	10(d)	4,569,100
Shares Issued for property acquisition	10(b) (iii)	500,000
Shares issued for private placement	10(b) (iv)	6,000,000
Shares issued on conversion of Debentures	10(b) (v)	9,512,785
Shares Issued for Options	10(c)	1,116,900
Balance, September 30, 2017		59,439,606

- (i) On July 14, 2016 the Company issued a total of 2,232,143 common shares with a fair value of \$312,500. The common shares (2,000,000) were issued to settle \$224,000 of debt outstanding to Highcard Exploration Inc. The Company's Chief Executive Officer and director (Graeme O'Neill) is the sole shareholder of Highcard Exploration Inc. The remaining 232,143 common shares were issued to settle \$26,000 of debt outstanding to Graeme O'Neill. A loss on settlement of debt was recorded in the amount of \$62,500 for the year ended December 31, 2016 for this transaction.
- (ii) During 2016, US\$25,000 of Debentures plus US\$1,077 in accrued interest were converted into common shares. The value of the shares issued was \$34,620 at a conversion price was \$0.125 per share. A loss on conversion of \$12,463 resulted from this transaction for the year ended December 31, 2016.
- (iii) Pursuant to the Option and Joint Venture Agreement dated December 4, 2013 with American Cordillera Mining Corporation and its wholly-owned subsidiary Amcor Exploration Inc. (collectively, "AMCOR"), the Company issued on May 15, 2017, 500,000 common shares with fair value of \$80,000.
- (iv) During the nine months ended September 30, 2017, the company closed a non-brokered private placement and issued a total of 6,000,000 units at a price of \$0.15 per unit for gross proceeds of \$900,000. Each unit consists of one common share and one warrant with each warrant entitling the holder to acquire one common share at a price of \$0.25 per share within two years from the date of issuance. The Company paid an aggregate amount of \$8,040 in cash finder's fees to an arm's length finder.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2017

(Unaudited)

(Expressed in Canadian dollars, Unless Noted Otherwise)

The Company used the relative fair value method to allocate the total consideration received from the private placement and accordingly, \$641,345 of the total value was allocated to the shares and \$258,655 to the warrants. The value of the shares was based on the closing market price on the date the shares were issued and the value of the warrants was based on Black Scholes option pricing model.

- (v) During the three months ended September 30, 2017, US\$455,000 of Debentures plus US\$83,769 in accrued interest were converted into common shares. The value of the shares issued was \$669,074 at a conversion prices ranging from \$0.125 to \$0.20 per share. A loss on conversion of \$439,953 (2016 - \$nil), for the three months ended September 30, 2017 resulted from this transaction. During the nine months ended September 30, 2017, US\$845,000 of Debentures plus US\$110,016 in accrued interest were converted into common shares. The value of the shares issued was \$1,220,543 at a conversion prices ranging from \$0.125 to \$0.20 per share. A loss on conversion of \$595,532 (2016 - \$nil) for the nine months ended September 30, 2017 resulted from this transaction.

c) Contributed Surplus

Stock Options

Pursuant to the Company's stock option plan (the "Plan"), the Company's board of directors may from time to time authorize the issue of options to eligible persons. The option price for the options shall be not less than the discounted market price on the grant date. The expiry date for each option shall be set by the board at the time of issue of the option and shall not be more than five years after the grant date. Options shall not be assignable (or transferable) by the Optionee.

The number of shares which may be issuable under the Plan and all of the Company's other previously established or proposed share compensation arrangements, within a one-year period:

- to any one Optionee, shall not exceed 5% of the total number of issued and outstanding shares on the grant date on a non-diluted basis;
- to insiders as a group shall not exceed 10% of the total number of issued and outstanding shares on the grant date on a non-diluted basis;
- to any one consultant shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on the grant date on a non-diluted basis; and
- all eligible persons who undertake investor relations activities shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on the grant date on a fully-diluted basis.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

During the nine months ended September 30, 2017 and year ended December 31, 2016, the Company granted, exercised and cancelled the following incentive stock options to officers, directors, and consultants:

	Number of Options	Weight Average Exercise Price	Weighted Average Life (years)
Balance, December 31, 2015	2,615,000	\$0.11	3.79
Options granted	2,245,000	\$0.14	4.77
Options exercised	(1,328,100)	\$0.10	-
Options cancelled	(75,000)	\$0.10	-
Balance, December 31, 2016	3,456,900	\$0.13	3.95
Options granted	1,750,000	\$0.20	4.90
Options exercised	(1,116,900)	\$0.15	-
Options cancelled	(10,000)	\$0.20	-
Balance, September 30, 2017	4,080,000	\$0.11	3.73

For the nine months ended September 30, 2017, the fair value of the share based compensation recognized was \$ \$258,945 as determined using the Black-Scholes Option Pricing Model. The details of the share based compensation granted are as follows:

On July 13, 2017, the Company granted 750,000 stock options, exercisable at \$0.20 for five years to officers, directors, consultants and employees of the Company. The fair value of the share based compensation recognized was \$83,409 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 510,000 were granted to related parties.

On September 18, 2017, the Company granted 1,000,000 stock options, exercisable at \$0.20 for five years. The fair value of the share based compensation recognized was \$175,536 as determined using the Black-Scholes Option Pricing Model. All of these stock options, were granted to the CEO (Graeme O'Neill) who is a related party of the Company.

For the year ended December 31, 2016, the fair value of the share based compensation recognized was \$288,561 as determined using the Black-Scholes Option Pricing Model. The details of the share based compensation granted are as follows:

On December 20, 2016, the Company granted incentive stock options to directors, to purchase up to an aggregate of 120,000 common shares at an exercise price of \$0.125 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was \$13,590 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 120,000 were granted to related parties.

On December 5, 2016, the Company granted incentive stock options to officers and consultants to purchase up to an aggregate of 1,200,000 common shares at an exercise price of \$0.15 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was \$161,739 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 700,000 were granted to related parties.

On June 30, 2016, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 225,000 common shares at an exercise price of \$0.12 per share, exercisable for a term of five years from the date of grant. The fair value of

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
 For the Three and Nine Months Ended September 30, 2017
 (Unaudited)
 (Expressed in Canadian dollars, Unless Noted Otherwise)

the share based compensation recognized was \$30,092 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 210,000 were granted to related parties. On June 23, 2016, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 700,000 common shares at an exercise price of \$0.125 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was \$83,140 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 500,000 were granted to related parties. On November 18, 2015, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 575,000 common shares at an exercise price of \$0.10 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was \$33,908 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 400,000 were granted to related parties.

During the nine months ended September 30, 2017, the Company cancelled 10,000 units of stock options due to departure of an employee. During the year ended December 31, 2016, the Company cancelled 75,000 units of stock options due to departure of the officers and consultants.

Assumptions used for the Black Scholes option pricing model are as follows:

	2017	2016
Risk free rate of return	1.48 – 1.72%	0.57 – 1.2%
Expected life	3.32 – 3.57 years	3.55 years
Expected volatility	119%	124 - 135%
Expected dividend yield	0.00%	0.00%

The following stock options were outstanding and exercisable at September 30, 2017:

Number	Exercise Price	Expiry Date
385,000	\$0.10	August 12, 2018
225,000	\$0.20	February 26, 2019
50,000	\$0.10	June 23, 2019
50,000	\$0.10	September 26, 2019
250,000	\$0.10	January 8, 2020
75,000	\$0.10	December 1, 2020
200,000	\$0.125	June 23, 2021
225,000	\$0.12	June 30, 2021
1,100,000	\$0.15	December 5, 2021
120,000	\$0.125	December 20, 2021
400,000	\$0.20	July 13, 2022
1,000,000	\$0.20	September 18, 2022
4,080,000		

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

d) Warrants

The following table provides a continuity of warrants outstanding for the periods indicated:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance, December 31, 2015	14,531,000	\$0.16	1.13
Warrants granted	3,745,600	\$0.25	2.59
Warrants cancelled	(113,400)	\$0.20	-
Warrants exercised	(5,500,100)	\$0.12	-
Balance, December 31, 2016	12,663,100	\$0.21	1.13
Warrants granted	10,194,154	\$0.27	2.22
Warrants cancelled	(846,000)	0.16	-
Warrants exercised	(4,569,100)	0.17	-
Balance, September 30, 2017	17,442,154	\$0.25	1.87

Assumptions used in the Black Scholes option pricing model for the 10,194,154 warrants granted in connection with the private placement during the nine months ended September 30, 2017, are as follows:

Risk free rate of return	0.71 – 1.58%
Expected life	1.85 years
Expected volatility	96 - 107%
Expected dividend yield	0.00%

The following warrants were outstanding as at September 30, 2017:

Number	Exercise Price	Expiry Date
2,300,000	\$0.20	July 31, 2018
1,000,000	\$0.25	September 15, 2018
400,000	\$0.25	November 7, 2018
120,000	\$0.25	January 22, 2019
280,000	\$0.25	February 22, 2019
2,160,000	\$0.25	May 10, 2019
214,000	\$0.25	May 18, 2019
220,000	\$0.25	June 6, 2019
2,060,000	\$0.25	June 12, 2019
1,780,000	\$0.25	August 2, 2019
240,000	\$0.25	August 3, 2019
540,000	\$0.25	August 10, 2019
2,000,000	\$0.25	September 19, 2019
128,154	\$0.20	September 27, 2020
4,000,000	\$0.30	September 27, 2020
17,442,154		

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

On April 25, 2017, the Company approved the extension of 4,900,000 share purchase warrants expiring on July 31, 2017 for an additional 12 month period to July 31, 2018. The exercise price of these warrants is \$0.20.

8. RELATED PARTY TRANSACTIONS*Key management personnel compensation*

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts.

The following table summarizes transactions with related parties during the nine months ended September 30, 2017 and 2016:

		<u>Nine months ended</u>	
	Note	September 30 2017	September 30 2016
Management fees	(a)	\$ 90,000	\$ 90,000
Office	(a)	27,000	21,600
Interest and Financing fee	(b)	22,614	-
Professional fees	(c)	38,000	45,000
Office and other - Corporate services	(d)	19,770	18,000
Share-based compensation	(e)	232,254	111,627
Mineral property costs – project management	(f)	15,000	-
		<u>\$ 444,638</u>	<u>\$ 286,227</u>

- a) Management fees and office rental fees were paid to Highcard Exploration Inc. ("Highcard"), a company controlled by Graeme O'Neill, the CEO, President and director of the Company ("O'Neill").
- b) Interest charged at 12% per annum, compounded quarterly, and payable quarterly for outstanding related party accounts payable balances.
- c) Fees paid to the Company's former CFO, Anike Li and fees paid to the Company's current CFO, Rick Low.
- d) Fees paid to the Company's Corporate Secretary, Donna Moroney.
- e) During the nine months ended September 30, 2017, the Company issued 1,510,000 (2016: 925,000) stock options to related parties.
- f) Management fees were paid to Highcard.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

The following table summarizes payable balances to related parties as at September 30, 2017 and December 31, 2016.

	September 30 2017	December 31 2016
Trade payable to O'Neill**	\$ 258,800	\$ 102,888
Trade payable to Highcard**	55,585	31,950
Trade payable to a director of the Company**	-	19,776
Trade payable to corporate secretary**	4,590	5,187
Trade payable to CFO**	6,300	-
	<u>\$ 325,275</u>	<u>\$ 159,801</u>

**These trade payables bear an interest rate of 12% per annum on overdue amounts, compounded quarterly, and payable quarterly.

During the nine months ended September 30, 2017, O'Neill subscribed for 61 units of US\$5,000 convertible debenture with total proceeds of US\$305,000 (Note 4). O'Neill received 1,220,000 warrants that are exercisable 3 years from the date of issuance at exercise price of \$0.30.

During the nine months ended September 30, 2016, O'Neill subscribed for 28 units of US\$5,000 convertible debenture with total proceeds of US\$140,000 (Note 4). O'Neill received 560,000 warrants that are exercisable 3 years from the date of issuance at exercise price of \$0.25.

During the nine months ended September 30, 2016, the former CFO of the Company subscribed for 3 units of US\$5,000 convertible debenture with total proceeds of US\$15,000 (Note 5) and received 60,000 warrants that are exercisable 3 years from the date of issuance at exercisable price of \$0.25.

During the nine months ended September 30, 2017, O'Neill subscribed for 1,580,768 (2016 – nil) shares of the private placement with total proceeds of \$237,115 (Note 7(b)(iv)). O'Neill received 1,580,768 warrants that are exercisable 2 years from the date of issuance at exercise price of \$0.25.

During the nine months ended September 30, 2017, O'Neill converted 5 units (2016 – nil) of US\$5,000 convertible debenture into 274,052 shares of the Company.

The plan of arrangement that was approved by the Company's shareholders at the annual and special meeting held on December 13, 2013, pursuant to which the Company's shareholders receive one share in a subsidiary company, Silcom Systems Inc., ("Silcom") for every 4 common shares of the Company held, was approved by the court on January 24, 2014. Accordingly, on February 13, 2014, the Company completed the plan of arrangement at a \$100,000 adjusted cost base for Silcom as follows:

\$100,000 4,797,128 shares for \$0.02 cents

As at September 30, 2017, the Company had \$50,154 (December 31, 2016: \$12,487) in advance receivable from Silcom. The loan is unsecured, non-interest bearing with no set terms of repayment.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

9. MINERAL PROPERTY AND EXPLORATION EXPENSES

	<u>Nine Months Ended</u>	
	September 30, 2017	September 30, 2016
Acquisition and holding costs	\$ 158,630	\$ 36,981
Assays and analysis	22,920	10,641
Depreciation	39,880	-
Drilling	(2,481)	125,772
Equipment & other rentals	45,627	57,425
Geological costs	16,354	12,438
Labour	414,462	-
Other contractors	89,659	-
Project management	91,673	197,362
Supplies	251,975	118,103
Technical	47,329	-
Travel and accommodation	110,457	53,473
Miscellaneous	419	924
	<u>\$ 1,286,904</u>	<u>\$ 613,119</u>

a) Bayhorse Silver Mine Property, Oregon State

The Company entered into an Option and Joint Venture Agreement dated December 4, 2013 with American Cordillera Mining Corporation and its wholly-owned subsidiary Amcor Exploration Inc. (collectively, "AMCOR") of Spokane Washington, whereby the Company was granted an option (the "Option") to acquire an 80% interest in AMCOR's 100% leasehold interest from Bayhorse Silver Mine LLC in certain mineral claims commonly referred to as the Bayhorse Silver Mine located in Baker County, Oregon.

In order to earn its 80% interest in the Bayhorse Silver Mine the Company is required to make a cash payment of \$25,000 (paid), and the following additional payments:

Share issuances

- On or before December 17, 2014, issue 500,000 common shares (issued);
- On or before December 17, 2016, issue 500,000 common shares (issued - cumulative 1,000,000); and
- On or before December 17, 2018, issue 500,000 common shares (issued - cumulative 1,500,000 shares).

Property expenditures

- On or before the first anniversary of the Option Date (December 17, 2014), incur a minimum of US\$100,000 of Expenditures (completed);
- On or before the second anniversary of the Option Date (December 17, 2015), incur a further US\$100,000 of Expenditures (cumulative US\$200,000) (completed);
- On or before the third anniversary of the Option Date (December 17, 2016), incur a further US\$300,000 of Expenditures; of which the aggregate total of US\$500,000 for the first three anniversaries is a firm commitment (cumulative US\$500,000) (completed);

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

- On or before the fourth anniversary of the Option date (December 17, 2017), incur a further US\$500,000 of Expenditures (cumulative US\$1,000,000) (completed); and
- On or before the fifth anniversary of the Option date (December 17, 2018), incur a further US\$500,000 of Expenditures (cumulative US\$1,500,000) (completed).

Advance royalty payments

- Minimum advance royalty payment of US\$20,000 on June 26, 2014 (completed);
- Minimum advance royalty payment of US\$30,000 on June 26, 2015 (completed);
- Minimum advance royalty payment of US\$40,000 on June 26, 2016 (completed); and
- Minimum advance royalty payment of US\$60,000 on June 26, 2017 and annually thereafter (not completed).

b) Bridging the Gap (Government Gulch) Property, Idaho

On November 20, 2015, the Company entered into an Option Agreement with Blackhawk Mining L.L.C. ("Blackhawk") to acquire a 75% undivided right, title and interest in the Government Gulch Property in the Coeur d'Alene Mining District in Idaho.

In order to earn its 75% interest in the Government Gulch Property, the Company is required to make an aggregate payment of US\$25,000 to Blackhawk, and incur not less than an aggregate of US\$3,000,000 of expenditures on the Property as follows (the Company is in negotiations to defer these expenditures):

- A non-refundable deposit to Blackhawk of US\$5,000 on signing the agreement (paid);
- A cash payment of US\$20,000 to Blackhawk on the option date (November 20, 2015) (paid);
- On or before the first anniversary of the option date (November 20, 2016), incur a minimum of US\$600,000 of Expenditures, of which US\$250,000 shall be a property payment to Blackhawk (as at September 30, 2017, the US\$350,000 of required Expenditures has been completed and US\$125,000 was paid. The remaining US\$125,000 was paid subsequent to September 30, 2017);
- On or before the second anniversary of the Option Date (November 20, 2017), incur a further US\$600,000 of Expenditures; which is a firm commitment of which US\$250,000 shall be a property payment to Blackhawk (cumulative US\$1,200,000);
- On or before the third anniversary of the Option Date (November 20, 2018), incur a further US\$600,000 of Expenditures (cumulative US\$1,800,000);
- On or before the fourth anniversary of the Option date (November 20, 2019), incur a further US\$600,000 of Expenditures (cumulative US\$2,400,000); and
- On or before the fifth anniversary of the Option date (November 20, 2020), incur a further US\$600,000 of Expenditures (cumulative US\$3,000,000).

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

10. SUPPLEMENTAL DISCLOSURE FOR SIGNIFICANT NON-CASH TRANSACTIONS

During the nine months ended September 30, 2017 and 2016, the Company had the following non-cash transactions:

	Nine Months Ended	
	September 30	September 30
	2017	2016
Financing Activities		
Fair value of warrants transferred to share capital from contributed surplus on exercise of warrants	\$ 272,448	\$ 214,955
Fair value of options transferred to share capital from contributed surplus on exercise of options	137,036	35,589
Shares issued on conversion of Debentures	1,220,543	-
Shares issued to settle related party accounts payable	-	315,810
	\$ 1,630,027	\$ 566,354

11. FINANCIAL INSTRUMENTS, MANAGEMENT OF CAPITAL AND FINANCIAL RISKCapital Requirements

The Company is not subject to externally imposed capital requirements but must maintain the minimum listing requirements in order to maintain its TSX-V listing. The Company manages its capital structure based on the funds available to the Company, in order to fund its general and administration expenses, support acquisition, maintenance, exploration, and development of mineral properties.

The Board of Directors has not established any quantitative return on capital criteria for management, instead relying on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration stage so the Company is dependent on external financing to fund its activities. In order to carry out activities and administration, the Company will spend its existing working capital and raise additional amounts as needed.

Financial Instruments*Fair Value of financial instrument*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

	Level 1	Level 2	Level 3
September 30, 2017			
Cash	\$ 1,200,229	\$ -	\$ -
Convertible debenture	-	-	(1,642,767)
December 31, 2016			
Cash	\$ 9,699	\$ -	\$ -
Convertible debenture	-	-	(1,511,540)

As at September 30, 2017 and December 31, 2016, the Company believes that the carrying value of cash, receivables, loan payable, promissory note payable, account payables, and accrued liabilities approximate their fair value because of their nature and relatively short maturity dates or duration.

As at September 30, 2017 and December 31, 2016, the carrying value of convertible debenture (Note 4) has been assessed based on the fair value hierarchy described above and are classified as Level 3.

There were no transfers between Level 1, 2 and 3 for the nine months ended September 30, 2017 and year ended December 31, 2016.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of the loan component of the Debenture is based on the present value of expected future cash flows at the discount rate that would have applied to the financial instrument without conversion or other embedded derivative features. None of the fair value change in the Debenture for the nine months ended September 30, 2017 and year ended December 30, 2016 is related to a change in the credit risk of the Debenture. All of the change in fair value is associated with changes in market condition.

Financial Risk

A discussion of the Company's use of financial instruments and their associated risk is provided below:

Industry Risk

The Company is engaged primarily in the mineral exploration field and manages related industry risk issues directly. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash accounts

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

and its receivables. This risk is managed through the use of a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's receivables relate to GST recoverable from the Government of Canada and its related party "Silcom". The risk associated with its receivables is minimal.

Currency Risk

The Company's functional currency is the Canadian dollar. There is moderate foreign exchange risk to the Company as it incurs significant mineral property-related expenditures in the USA and its Debentures are denominated in US dollars. The Company is also exposed to foreign exchange risk arising from:

- Cash balances held in US dollars,
- Accounts payable denominated in US dollars, and
- Debentures and interest payments denominated in US dollars.

These are all shown on the statement of loss and comprehensive loss. The Company does not engage in any hedging activities to reduce its foreign currency risk. A 10% variance in the foreign exchange rates would expose the Company to a positive or negative impact on its comprehensive loss of approximately \$192,000 per year.

Interest Rate Risk

The Company has interest rate risk with respect to interest that can be charged on the balances in accounts payable and accrued liabilities, and advances from related parties (Note 8). Related party payables bear interest at 12% per annum.

The Company's promissory notes payable (Note 6) and convertible debentures (Note 4) accrue interest at fixed rate; therefore, the Company is not exposed to interest rate risk on these instruments.

Liquidity and Funding Risk

Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as high.

The Company is not subject to externally imposed capital requirements but must maintain the minimum listing requirements in order to maintain its TSX-V listing. The Company manages its capital structure based on the funds available to the Company, in order to fund its general and administration expenses, support acquisition, maintenance, exploration and development of mineral properties.

The board of directors has not established any quantitative return on capital criteria for management, instead relying on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration stage so the Company is dependent on external financing to fund its activities. In order to carry out activities and administration, the Company will spend its existing working capital and raise additional amounts as needed.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2017
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

12. COMMITMENTS

The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations for the years indicated:

	2017	2018	2019	2020	2021	Total
Accounts payable and accrued liabilities	\$ 783,342	\$ -	\$ -	\$ -	\$ -	\$ 783,342
Agreement obligations ⁽¹⁾	1,420,857	748,800	748,800	748,800	-	3,667,257
Advance royalty payment obligations	58,656	74,880	74,880	74,880	74,880	358,176
Loan Payable	309,463	-	-	-	-	309,463
Promissory Notes	54,715	-	-	-	-	54,715
Convertible Debentures ⁽²⁾	68,799	124,800	349,440	1,248,000	-	1,791,039
	\$ 2,695,832	\$ 948,480	\$ 1,173,120	\$ 2,071,680	\$ 74,880	\$ 6,963,992

⁽¹⁾ Agreement obligations include all purchase commitments, option payments and expenditure obligations for the Company's mineral properties.

⁽²⁾ The convertible debentures may be converted to common shares and may not result in a cash outflow. The amount represents the actual face value of the debt obligation and not its fair value at September 30, 2017.

The Company has signed a Letter of Intent ("LOI") with Minerals Solutions LLC ("Minerals") of Coeur d'Alene, which is a Joint Venture between Liberty Refiners LLC ("Liberty") of Hayden, Idaho and Irish Metals LLC ("Irish") of Coeur d'Alene, Idaho. Under the LOI, the Company undertakes to provide to Minerals direct shipping material from the Bayhorse Silver Mine, Oregon, USA. Minerals will concentrate, process, refine and sell, or return refined silver to the Company. The Company has undertaken to provide direct shipping material, at a minimum 3,000 grams per ton silver to Minerals, commencing October 1, 2017. Under the terms of the LOI, the Company will provide Minerals with a minimum 1,000 kg direct shipping sample to establish the cost of processing that will form the basis for a formal processing agreement.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

13. SUBSEQUENT EVENTS

The following are transactions that occurred subsequent to September 30, 2017:

- The Company received proceeds of \$5,000 from the exercise of 50,000 stock options and issued 50,000 common shares.
- The Company issued 1,611,084 common shares on the conversion of US\$185,000 of Debentures plus US\$30,316 in accrued interest. The value of the shares issued was \$277,607.
- NFS Leasing, Inc. advanced a further US\$562,792 for the ore sorting equipment for its Bayhorse mine as described in Note 5. This final advance brings the total advanced to US\$803,988, which the Company has recorded as loan payable.