

BAYHORSE SILVER INC.

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MANAGEMENT'S DISCUSSION & ANALYSIS

Accompanying the September 30, 2018 Condensed Consolidated Interim Financial Statements

This Management's Discussion & Analysis ("MD&A"), prepared as of November 26, 2018, is intended to be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2018, and related notes thereto, which have been reported in Canadian dollars (unless noted otherwise), and prepared in accordance with International Financial Reporting Standards ("IFRS"). Amounts in this MD&A are stated in Canadian dollars unless noted otherwise.

This discussion relates to the operations of Bayhorse Silver Inc. (the "**Company**"), during the period up to the date of this MD&A, being November 26, 2018.

Additional information, including press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and is available under the Company's profile at www.sedar.com.

OVERVIEW

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's consolidated financial statements include the records of the Company's wholly owned US based subsidiary, Bayhorse Silver (USA) Inc. 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 Company is a junior natural resource company engaged in the acquisition, exploration and development of natural resource properties. The Company is yet to receive any revenue from its mineral exploration operations. Accordingly, the Company has no operating income or cash flows. As a result, the Company has relied almost exclusively upon equity and debt financing activities, which is not expected to significantly change in the immediate future.

RECENT HIGHLIGHTS

- Acquired 100% interest in the mining lease at the Bayhorse Silver Mine.
- Opened and commenced mining in the newly discovered and developed Legend zone and reopened the formerly productive Sunshine mineralized zone at the Bayhorse Silver Mine.
- Commissioned to a fully operational state the Steinert KSS100 X-Ray Transmissive "X-Ray Sorter" at the Bayhorse Silver Mine and shipped the first upgraded mineralization from the X-Ray Sorter to

Mineral Solutions of Coeur D'Alene, Idaho, USA for further processing to determine whether refined silver can be established from the process cost effectively.

- Completed non-brokered private placement financings and raised gross proceeds of over \$2.75 million.
- intersected and accessed all the historical 1984 mine workings within the silver-copper mineralized zone at the Bayhorse Silver Mine.
- filed on SEDAR a National Instrument 43-101 Technical Report on a Maiden Inferred Mineral Resource for the Bayhorse Silver Mine comprising 292,300 short tons at an average grade of 21.65 troy ounces per ton (opt) silver (Ag) at a cutoff of 7.5 opt Ag, for a total of 6,328,400 oz silver.

OVERALL PERFORMANCE / DISCUSSION OF OPERATIONS

The Company's business is the acquisition, financing, and exploration of prospective mineral properties in areas of low political risk, close to support facilities and with ready access.

Mineral Properties

The Company has a 100% interest in the Bayhorse Silver Mine, Oregon USA.

Bayhorse Silver Mine Property, Oregon State

The Company entered into an Option and Joint Venture Agreement dated December 4, 2013 among Bayhorse Silver Mine, LLC, and American Cordillera Mining Corporation with 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.

The Company earned its 80% interest in the Bayhorse Silver Mine by making a cash payment of \$25,000, and making the following additional share issuances and property expenditures, all of which have been completed:

Share issuances

- Issue 1,500,000 common shares.

Property expenditures

- Incur cumulative expenditures of US\$1,500,000 on or before the fifth anniversary of the Option date (December 17, 2018).

As of September 30, 2018, the cumulative exploration expenditure incurred was US\$4,201,427.

The Company is required to make minimum advance royalty payments of US\$50,000 annually on June 26, of which the Company has completed payments up to June 26, 2017.

In accordance with the provisions of the option agreement, the Company was be responsible for 80% of the project expenditures and AMCOR was be responsible for 20% of the expenditures going forward. Provisions in the option agreement allowed for dilution of either joint venture parties'

interest in the joint venture and, when either party's interest fell below 10% based on participating project expenditures, their interest shall be converted to a 1% net smelter royalty and the surviving party shall hold a 100% interest to the mining lease.

On May 15, 2017, the Company completed all necessary terms to exercise its option to acquire an 80% interest in the Leasehold Interest in the Claim known as the Bayhorse Silver Mine and as such, a Joint Venture ("JV") was deemed to have been formed with the following JV Interests:

- AMCOR deemed JV expenditures of \$320,000 (20% interest)
- Bayhorse Silver Inc. deemed JV expenditures of \$1,600,000 (80% interest)

On December 31, 2017, AMCOR confirmed that they did not wish to participate in funding the JV that has been established between Bayhorse Silver Inc. and AMCOR. AMCOR accepted a dilution of their interest in the JV to nil and Bayhorse Silver Inc. therefore increased its interest to 100%.

Maiden Resource Estimate

The Company completed and filed on SEDAR a National Instrument 43-101 Technical Report on a Maiden Inferred Mineral Resource for the Bayhorse Silver Mine comprising 292,300 short tons at an average grade of 21.65 troy ounces per ton (opt) silver (Ag) at a cutoff of 7.5 opt Ag, for a total of 6,328,400 oz silver. Mr. Michael Dufresne, M.Sc., P.Geol., P.Geo., has supervised the preparation of and takes responsibility for the Mineral Resource Estimate, and is the President and a Principal of APEX Geoscience Ltd. Mr. Dufresne is independent of the Company and is a Qualified Person and Consultant to the Company.

An additional conceptual exploration target of 200,000 to 250,000 tons at a range of grades of 10 to 20 opt Ag for a range of 2 million to 5 million ounces of silver has been modelled. The additional exploration target is conceptual in nature, there has been insufficient exploration to define a mineral resource for the exploration target and it is uncertain if further exploration will result in the definition of additional resources.

APEX Geoscience Ltd. (APEX) of Edmonton, Alberta has provided the Inferred Mineral Resource Estimate in Table 1 below that is primarily based upon historic underground channel sampling and drilling, supported and confirmed by recent underground sampling by APEX and Bayhorse personnel. A total of 364 channel or drillhole samples have been used in the estimate. Silver grades for composites have been capped at 135 opt, which resulted in the capping of seven composites. The resource was calculated using inverse distance squared (ID2) and all blocks intersecting the known and modelled underground workings were removed. At a lower cut-off grade of 7.5 opt Ag, the mineralized material removed from the resource was approximately 20,700 tons at an average grade of 24.34 opt Ag for a total of 503,000 ounces of contained Ag. Based upon historic reports of mining, this is in line with what has thought to have been removed historically. The Bayhorse Silver Mine is reported to have produced at an average grade of 35 opt Ag in the 1920's, and the last time it was mined in 1984, the grades averaged 16.7 opt Ag.

Table 1: Bayhorse Inferred Mineral Resource Estimate for silver at a variety of lower cut-off grades. The current mineral resource is bolded.

Classification*	Ag Cutoff (ounces per ton - opt)**	Tonnage (in Short Tons)	Ag Grade (ounces per short ton - opt)	Ag Grade (parts per million)***	Contained Ag*** (troy ounces)
Inferred	0	312,800	20.51	703.3	6,417,300
	2.5	305,800	20.94	718.1	6,404,100
	5	301,700	21.18	726.0	6,388,900
	7.5	292,300	21.65	742.4	6,328,400
	10	275,500	22.43	769.0	6,178,100
	12.5	253,700	23.39	801.9	5,934,000

* Inferred mineral resources are not mineral reserves. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. There has been insufficient exploration to allow for the classification of the inferred resources tabulated above as an indicated or measured mineral resource, however, it is reasonably expected that the majority of the inferred mineral resources could be upgraded to indicated mineral resources with continued exploration. There is no guarantee that any part of the mineral resources discussed herein will be converted into a mineral reserve in the future. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues. The Mineral Resources have been classified according to the CIM Definition Standards for Mineral Resources and Mineral Reserves (May 2014).

**A price of \$US15/oz Ag with a conceptual underground mining and processing cost of \$100US/ton has been utilized to derive the favoured lower cut-off for Ag of 7.5 opt.

***Grade in ppm and contained ounces may not add due to rounding.

The Company is not basing any decision to produce silver and other metals on a feasibility study of mineral reserves demonstrating economic and technical viability and also advises there is increased uncertainty and specific economic and technical risks of failure with any production decision. These risks include drop in price of commodities produced, namely silver, copper, lead, and zinc, from the pricing used to make the production decision, failure of the grades of the produced material to fall within the parameters used to make the production decision and increase in mining costs due to changes within the mine during development and mining procedures. There are also metallurgical recovery changes that cannot be anticipated at the time of production.

APEX has estimated a remnant maiden inferred mineral resource for the historic Bayhorse Silver Mine utilizing a total of 364 underground channel and drillhole samples including 20 underground drillholes that have intersected or bracket mineralization. Modeled 3D geologic 'solids' were used to constrain mineralization in the block model and grades for silver were interpolated into blocks by Inverse Distance Squared (ID2). The Bayhorse Silver mineralized zone is hosted within a rhyolite that is structurally controlled along a modest dipping thrust fault. Geological 3D solids were developed using cross-sections and level plans in conjunction with modern surveys to constrain the mineralization at the historic Bayhorse Silver Mine. East and west domains were created to accommodate elevation differences in the mineralization. In both cases a rough cutoff value of about 2 opt Ag was used to define and wireframe the 3D solids.

Based upon statistical treatment of the silver data for each of the two mineralized domains capping was employed at 135 opt Ag but had little effect on the overall estimate. A 2.0 m composite length was selected to approximate a potential underground mining height for the Bayhorse mineralized

zone. In both zones, uniform down-hole composites were formed honoring the domain boundaries. Variography on the composite data was used to model prominent search directions for silver in the two domains. Silver was modeled along strike (Azimuth 099° Plunge -1° to the north), dip (Azimuth 189° Dip -18°) and across dip (Azimuth 186° Dip 72°). Separate block models were completed for each of the two remnant domains and the mined out areas within those domains. The block model was dimensioned at 4 x 4 x 4 m with sub-blocking down to 1 x 1 x 1 m in order to fit to the mineralization solids for the Bayhorse mineralized zone. Based on available data the historic underground workings at the historic Bayhorse Mine were block modelled separately within the mineralized zone and were not included in the mineral resource estimate.

Specific gravity measurements were done on recent sample pulps by ALS Chemex and American Assay Laboratories based upon Archimedes methodology and resulted in 29 measurements for mineralization of different grades within the Bayhorse mineralized zone. Based upon this data blocks within the Bayhorse mineralized zone were assigned an average specific gravity of 2.80 g/cm³.

Grades for silver were interpolated into blocks by ID2 using the search ellipsoid dimensions and orientation established by variography. For the Bayhorse block models, the grade interpolation was completed in a series of passes with expanding search ellipsoids. As a verification tool for the selected ID2 block model, the composite average grades, the ID2 block model average grade and an average grade of an OK (ordinary Kriging) block model were compared along 20 m windows east - west, north - south and 5 m windows with elevation. Block grades matched the composite grades relatively well with no significant bias indicated in any of the modelled domains.

No economic evaluations have been completed on the Bayhorse mineralized zone, and as a result an economic cut-off for the mineralized zone is unknown. However, for the purposes of reporting mineral resources on the Project, current silver metal prices and current US\$-CDN\$ exchange rate were reviewed. In addition, a number of small operating mines were surveyed and reviewed for their existing operating costs for mining and processing. It was found that a lower silver cut-off grade corresponding to 7.5 opt Ag should be adequate for the mineral resource estimation and satisfy reasonable prospects for eventual future extraction. The Ag grade was determined for each estimated block utilizing a price for silver of US\$15/oz. and 90% recovery. Conceptual mining and processing costs were estimated at \$US100 per ton of mineralized material for the purposes of establishing the lower cut-off grade for the mineral resource.

Mining Progress

The Company now has established through engineering and testing work that the Bayhorse Mine mineralization is amenable through X-Ray Sorting and Dense Media processing to be readily upgraded to direct shipping material. The Company has conducted mucking out and timbering operations inside the Bayhorse Mine and opened the secondary escape-way as required by MSHA regulations.

The Company has completed the excavation of over 1,100 feet of underground haulage-ways and drifts. A secondary escape-way has been established and the necessary underground services (ventilation, water and air lines) have been installed. The Company has also completed the installation of a primary crushing circuit and the Steinert Ore-Sorter.

The Company has established an all-weather storage pad outside the main portal and is ready to erect a cover over the pad to ensure any mineralized material stored outside the Mine for processing through the Company's Steinert Ore-Sorter, will not be affected by winter conditions, such as snow and ice.

Since reopening the western end of the underground workings the Company has inspected and rehabilitated a number of the historic slusher drifts that were installed by Silver King Mines in the 1980's in preparation for mining the western zone of the deposit, much of which is unmined. The historical western most workings comprise a horizontal distance of about 320 feet (~95 m) from the western end of Big Dog Zone. The mineralization is flat lying to shallow south dipping above the main historic haulage-way for approximately 30 - 40 feet. To the north, the mineralization then appears to incline upward toward the north at approximately 45 to 70 degrees for another 60-70 feet for a total horizontal across strike width of approximately 100 feet. The southern end of the flat lying area of mineralization appears to dip to the south. An underground drilling program is proposed to test the north and south extensions to the mineralization.

The thickness of the mineralization has historically been reported as between 20 feet to 40 feet. The Company has developed a 20 foot vertical raise from the main haulage level up in mineralization, and was still in mineralization at 30 feet. The raise and working stope is 50 feet south of, and towards what was reported by Silver King Mines as a 1,000 ton block of mineralized material, The raise and working stope are being developed in mineralized material and suggest the block identified on the historic plans 50 feet to the north may be more extensive than historically reported. The Company has extracted a bulk sample from the raise and stope in excess of 1,200 tons of mineralized material already from this zone and has commenced storing it on the all-weather pad.

The Bayhorse silver mineralization comprises mainly tetrahedrite-tennantite, that is the main copper-silver mineral and, including the other metallic minerals, such as chalcopyrite, sphalerite, galena and pyrite will be concentrated and upgraded into a dry concentrate through the use of the Steinert ore-sorter. A sampling protocol is being instituted along with QAQC inserted samples to determine ongoing head grades of the material being bulk sampled and processed through the Ore-Sorter and gravity separation for the fines.

Samples taken from the extracted material have been assayed and the Company has received assay results from metallurgical samples. Three 8 kg (17lb) metallurgical samples were taken from a homogenous 50 kg channel sample. From each 8kg sample, three 0.7 kg (1.5 lb) were taken and submitted for assay and the results were 175.3 oz/t Ag (5,452.42 g/t), 166.6 oz/t Ag (5,175.60 g/t), and 169.7 oz/t Ag (5,278.25 g/t) per ton respectively. Two duplicates from the same sample group as well as a further sample from a separate channel sample were also submitted for assay. The two duplicate samples assayed 186.2 oz/t Ag (5791.47 g/t) and 147 oz/t Ag (4,572 g/t) respectively, while the third sample assayed 91.2 oz/t Ag (2,836.63 g/t).

The metallurgical grades sampled are considered "direct to smelter" grade and can be shipped to a smelter without further processing. The metallurgical samples have been submitted, along with the completed assay certificates, to three identified smelters, in order to establish confirmed pricing agreements for the proposed delivery of Bayhorse Silver concentrate.

One of the smelters to whom the metallurgical samples have been submitted is Minerals Solutions LLC (Minerals) of Coeur D Alene Idaho, a Joint Venture between Liberty Refiners LLC (Liberty) of Hayden, Idaho and Irish Metals LLC (Irish) of Coeur D' Alene, Idaho. The Company has a Letter of

Intent with Minerals to process a portion of its upgraded shipping material directly into pure refinery grade 4 X Nine silver. By grinding its upgraded shipping material to -80 mesh at the Mine, the Company is better able to provide material that meets Minerals’ specifications for refining. Upon receipt and acceptance of definitive terms, the Company will commence deliveries of upgraded shipping material to Minerals.

Based on the Company’s actual costs experienced to date for the Bayhorse mine, the Company’s cost for mining the mineralized material is approximately US\$41 per ton, US\$11 per ton for processing through the crushing circuit and the Steinert Ore-Sorter and approximately US\$35 per ton for mine general and administrative costs.

Leach Testing

Mineralized material was submitted to Metals US, of Missoula, Montana, for leach testing to establish whether silver and the secondary metals (copper, zinc, antimony, lead) can be recovered more economically than via flotation by using their Total Metals Recovery Process. Test results received from Metals US indicate near total silver recovery from the recent two stage leaching test program conducted for the Company. In the leaching test (hydrometallurgical process) on 25 kg of Bayhorse Silver Mine mineralized material grading 25.6 oz/ton (796 g/ton) silver, near total recovery of the silver was achieved as shown in the table below. Using ion exchange purification and reduction, the resultant silver can be formed into pure silver bars.

Summary of 2 Stage Silver leach results		ppm Ag
Head assay	grams Ag/ton of ore	796
Tails after leaching	grams Ag/ton of ore	<2
Ag in leach solutions	grams Ag/ton of ore	792

With the successful completion of the initial leach test, the Company is ready to scale the testing process. The Company has shipped approximately one ton of crushed development material to Metals US for larger scale testing. The results of this test will be reported when available.

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.

Due to the lack of significant results from the Company’s drill program on the BTG property in 2016 and 2017, the Company allowed the BTG Project Option Agreement to terminate in the first quarter of 2018 and currently does not have any interest in Bridging the Gap.

MINERAL PROPERTY AND EXPLORATION EXPENSES BY PROPERTY

Mineral expenses by property in Canadian dollars for the nine months ended September 30, 2018 and 2017 are as follows:

Nine Months Ended September 30, 2018			
	Bayhorse	Bridging The Gap	Total
Acquisition and holding costs	\$ -	\$ 8,783	\$ 8,783
Assays and analysis	41,357	4,106	45,464
Depreciation	218,350	-	218,350
Drilling	-	-	-
Equipment & other rentals	158,480	-	158,480
Geological	56,943	2,656	59,599
Labour	761,408	1,638	763,046
Other contractors	9,429	-	9,429
Project management	68,638	20,059	88,697
Property preparation	9,425	-	9,425
Supplies	283,581	4,667	288,248
Technical	92,007	-	92,007
Travel and accommodation	157,331	690	158,021
Miscellaneous	12,158	438	12,596
	\$ 1,869,107	\$ 43,038	\$ 1,912,145

Nine months ended September 30, 2017			
	Bayhorse	Bridging The Gap	Total
Acquisition and holding costs	\$ 80,000	\$ 78,630	\$ 158,630
Assays and analysis	22,920	-	22,920
Depreciation	39,880	-	39,880
Drilling	-	(2,481)	(2,481)
Equipment & other rentals	45,627	-	45,627
Geological costs	13,397	2,957	16,354
Labour	414,464	-	414,464
Other contractors	50,725	38,934	89,659
Project management	77,909	13,764	91,673
Supplies	251,955	17	251,972
Technical	42,067	5,262	47,329
Travel and accommodation	108,414	2,044	110,458
Miscellaneous	419	-	419
	\$ 1,147,777	\$ 139,127	\$ 1,286,904

SUMMARY OF QUARTERLY FINANCIAL RESULTS

A summary of the last eight quarterly financial results is as follows:

Three Months Ended	General administrative expenses (\$)	Exploration Expenses (\$)	(Net Loss) (\$)	Loss per Share (\$)
30 Sep 2018	663,751	533,483	(1,179,920)	(0.02)
30 Jun 2018	299,623	669,631	(987,633)	(0.01)
31 Mar 2018	517,670	709,031	(1,302,278)	(0.02)
31 Dec 2017	211,440	1,277,880	(1,567,867)	(0.03)
30 Sep 2017	729,750	577,210	(1,761,097)	(0.03)
30 Jun 2017	144,532	457,249	(615,491)	(0.01)
31 Mar 2017	224,744	252,445	(605,095)	(0.01)
31 Dec 2016	451,853	821,449	(593,755)	(0.02)

Exploration expenses for the quarter ended December 31, 2017 and 2016 were higher due to acquisition and drilling costs at Bridging the Gap and project preparation costs at Bayhorse. Expenses for the quarters ended September 30, 2018, September 30, 2016 and December 31, 2015 were higher due to the cost of warrants issued with the Debentures. Expenses were higher for the quarters ended September 30, 2018, March 31, 2018 and June 30, 2016 due to the cost of stock options granted. Exploration expenses for the quarters ended June 30, 2018, March 31, 2018 and June 30, 2017 were higher mainly due to increased labour cost as the Company reopened the mineralized zone at the Bayhorse Mine. General administrative expenses decreased for the quarter ended June 30, 2017 mainly because there was no stock-based compensation. General and administration expenses increased for the quarter ended December 31, 2017 because there were no stock options granted. General and administration expenses increased for the quarter ended September 30, 2017 mainly due to the cost of warrants issued with the Debentures and the cost of stock options issued. Exploration expense increased for the quarter ended September 30, 2017 mainly due to increased mining preparation activity at the Bayhorse mine. The Company recorded a loss on conversion of convertible debenture resulting in the increase in net loss for the quarter ended September 30, 2017.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2018

The following table sets forth Expense items with variances between the three months ended September 30, 2018 and 2017.

	<u>Three Months Ended</u>		Increase (Decrease)
	September 30, 2018	September 30, 2017	
Mineral property costs	\$ 533,483	\$ 577,210	\$ (43,727)
Expenses			
Communications	48,842	1,972	46,870
Financing fee	276,249	422,643	(146,394)
Foreign exchange and bank charges	63,970	(35,350)	99,320
Insurance	10,978	2,970	8,008
Management fees	22,500	30,000	(7,500)
Office and other	13,459	12,102	1,357
Office rent	9,000	9,000	-
Professional fees	39,820	20,500	19,320
Promotion	123	2,857	(2,734)
Share-based compensation	168,988	258,945	(89,957)
Transfer, listing and filing fees	8,976	3,911	5,065
Travel	846	200	646
	\$ (663,751)	\$ (729,750)	\$ 65,999
Total	(1,197,234)	(1,306,960)	(109,726)

Exploration expenditures decreased slightly for the three months ended September 30, 2018 compared to the same period last year as costs for Bridging the Gap were not incurred.

The increase in communications for the 2018 period compared to the 2017 period was mainly due to the engagement of consultants in the 2018 period.

The decrease in financing fee for the 2018 period compared to the 2017 period was mainly due to the higher levels of warrants issued with the convertible debentures recorded as financing fees, financing costs on the loan for the X-Ray sorting equipment and interest on the convertible debentures during the 2017 period.

Foreign exchange and bank charges increased for the 2018 period compared to the 2017 period primarily due to the exchange rate changes for the US dollar as the Company's convertible debentures and lease liability are denominated in US dollars.

The increase in insurance expense for the 2018 period compared to the 2017 period was mainly due to insurance premiums for the Company's equipment and general liability as the Company had more equipment in the 2018 period.

The decrease in management fees for the 2018 period compared to the 2017 period was mainly due to allocation of management fees to exploration expense as management was directly involved with exploration activities.

Professional fees increased for the 2018 period over the comparable period in 2017 mainly because additional consultants were engaged in 2018.

Share-based compensation decreased for the 2018 period compared to the 2017 period because the value of stock options granted in 2018 was lower due to the lower market price of the Company's shares in 2018.

Transfer, listing and filing fees increased in 2018 compared to the 2017 period primarily due to additional filing fees for the various financing activities in 2018.

The Company's Debentures are 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 and as such is classified as fair value through profit and loss ("FVTPL") and all changes in fair value are recorded in profit and loss. Accordingly, the Company recorded a gain of \$17,314 (2017 – \$14,184 loss) for the three months ended September 30, 2018. The Company recorded a loss on shares converted from convertible debenture of \$nil (2017 - \$439,953) for the three months ended September 30, 2018 due to the conversion of Debentures into common shares when the market price of the shares was different than the conversion price.

Nine Months Ended September 30, 2018

The following table sets forth Expense items with variances between the nine months ended September 30, 2018 and 2017.

	<u>Nine Months Ended</u>		
	September 30, 2018	September 30, 2017	Increase (Decrease)
Mineral property costs	\$ 1,912,145	\$ 1,286,904	\$ 625,241
Expenses			
Communications	159,043	13,353	145,690
Financing fee	444,029	582,901	(138,872)
Foreign exchange and bank charges	195,160	(9,810)	204,970
Insurance	37,373	4,570	32,803
Management fees	52,500	90,000	(37,500)
Office and other	43,181	35,248	7,933
Office rent	27,000	28,020	(1,020)
Professional fees	113,790	54,000	59,790
Promotion	3,061	9,420	(6,359)
Share-based compensation	369,303	258,945	110,358
Transfer, listing and filing fees	34,075	21,405	12,670
Travel	2,529	10,974	(8,445)
	\$ (1,481,044)	\$ (1,099,026)	\$ (382,018)
Total	(3,393,189)	(2,385,930)	1,007,259

Exploration expenditures increased for the nine months ended September 30, 2018 compared to the same period last year mainly due to increased labour cost, depreciation and equipment rental costs as the Company reopened the mineralized zone at the Bayhorse mine.

The increase in communications for the 2018 period compared to the 2017 period was mainly due to the engagement of consultants.

The decrease in financing fee for the 2018 period compared to the 2017 period was mainly due to the higher levels of warrants issued with the convertible debentures recorded as financing fees, financing costs on the loan for the X-Ray sorting equipment and interest on the convertible debentures during the 2017 period.

Foreign exchange and bank charges increased for the 2018 period compared to the 2018 period primarily due to the exchange rate changes for the US dollar as the Company's convertible debentures and lease liability are denominated in US dollars.

The increase in insurance expense for the 2018 period compared to the 2017 period was mainly due to insurance premiums for the Company's equipment and general liability as the Company had more equipment in the 2018 period.

The decrease in management fees for the 2018 period compared to the 2017 period was mainly due to allocation of management fees to exploration expense as management was directly involved with exploration activities.

Office and other increased for the 2018 period over the comparable period in 2017 mainly because of increased activity in 2018.

Professional fees increased for the 2018 period over the comparable period in 2017 mainly because additional consultants were engaged in 2018.

Promotion decreased for the 2018 period over the comparable period in 2017 mainly because there were fewer promotional activities in 2018.

Share-based compensation increased for the 2018 period compared to the 2017 period because the company granted more stock options during the 2018 period than in the 2017 period.

Transfer, listing and filing fees increased in 2018 compared to the 2017 period primarily due to additional filing fees for the various financing activities in 2018.

Travel expense decreased in the current period compared to the comparable period in 2017. The decrease was due increased travel for financing and project related activities for 2017.

The Company's Debentures are 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 and as such is classified as fair value through profit and loss ("FVTPL") and all changes in fair value are recorded in profit and loss. Accordingly, the Company recorded a loss of \$38,828 (2017 – \$221) for the nine months ended September 30, 2018. The Company recorded a loss on shares converted from convertible debenture of \$37,814 (2017 - \$595,532) for the nine months ended September



30, 2018 due to the conversion of Debentures into common shares when the market price of the shares was different than the conversion price.

LIQUIDITY, CAPITAL RESOURCES, COMMITMENTS AND CONTINGENCIES

Working Capital and Cash

The Company's cash increased by \$173,814 to **\$227,792** during the nine months ended September 30, 2018. Cash used in operations was \$2,225,976 mainly for exploration expenses, communications and professional costs.

During the nine months ended September 30, 2018, the Company received gross proceeds of \$2,005,010 from private placements of shares issued and gross proceeds of \$768,600 from private placements of convertible debentures issued. During the same period, the Company purchased \$250,102 worth of equipment and made \$102,068 in lease liability payments.

Going Concern

The Company has not yet put into commercial production any of its mineral properties and as such has no operating revenues or cash flows. Accordingly, the Company is dependent on the equity and debt markets as its sole source of operating working capital, and the Company's capital resources are largely determined by the strength of the junior resource capital markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to it.

The Company is in the mineral exploration and development business and is exposed to a number of risks and uncertainties inherent to the mineral resource industry. This activity is capital intensive at all stages and subject to fluctuations in metal prices, market sentiment, currencies, inflation and other risks. The Company currently has no source of material revenues, and relies primarily on equity and debt financings to fund its exploration, development and administrative activities. Material increases or decreases in the Company's liquidity will be substantially determined by the success or failure of its exploration and development activities, as well as its continued ability to raise capital. The current severe recessionary credit conditions have significantly limited the Company's ability to raise financing through its usual methods and if these conditions persist they will materially decrease the Company's liquidity and capital resources.

The Company's unaudited 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, 2018, the Company had a working capital deficit of \$1,441,417 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, 2018, the Company reported a comprehensive loss of \$3,469,831 and has an accumulated deficit of \$24,321,278. The Company's continued existence is dependent upon its ability to raise additional capital, the continuing support of its creditors, and ultimately, the attainment of profitable operations and positive cash flows. While management has been successful in obtaining additional sources of finance in the past, there can be no assurance that it will be able to do so in the future. 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 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.

Capital Management

The Company manages its capital structure, being its share capital, and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. At September 30, 2018, the Company had share capital of \$16,890,066, \$1,455,726 of Debentures and lease liability of \$1,193,542. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Planning, annual budgeting, cash flow forecasting and implementing controls over major investment decisions are primary tools used to manage the Company's capital.

The Company's investment policy is to hold cash in interest bearing bank accounts.

The Company currently has no source of revenues. As such, the Company is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes to the Company's approach to capital management during the nine months ended September 30, 2018. The Company is not subject to externally imposed capital requirements.

Contractual Obligations

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

	2018	2019	2020	2021	2022	Total
Accounts payable and accrued liabilities	\$ 1,178,014	\$ -	\$ -	\$ -	\$ -	\$1,178,014
Advance royalty payment obligations ⁽¹⁾	64,725	64,725	64,725	64,725	64,725	323,625
Ore Sorter lease payments	69,532	414,971	414,971	276,647	-	1,176,121
Promissory Notes and loans	85,323	-	-	-	-	85,323
Convertible Debentures ⁽²⁾	129,450	122,978	783,173	763,755	-	1,799,355
	\$ 1,527,045	\$ 602,673	\$1,262,868	\$1,105,127	\$ 64,725	\$4,562,439

⁽¹⁾ Represents advance royalty payments for the Bayhorse mineral property.

⁽²⁾ The convertible debentures may be converted to common shares and may not result in a cash outflow. The amount represents the actual debt obligation and not its fair value at September 30, 2018.

On August 14, 2017, the Company signed a Letter of Intent ("LOI") with Minerals. 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.

Subsequent Events

The following occurred subsequent to September 30, 2018:

On November 15, 2018, the Company announced the increase to US\$1,250,000 of its previously announced non-brokered private placement of a US\$5,000 12% Convertible Debenture Unit financing. The Debenture shall bear interest at a rate of twelve (12%) percent per annum, payable annually in arrears. Additionally, at the election of the Holders, the Debenture will be convertible into common shares of the Company at C\$0.125 cents per share in accordance with the policies of the TSXV Exchange, or, conditional upon notification by the Company of silver production, the Debenture holder may elect to convert the Debenture principal and accrued interest into ounces of silver at a conversion rate of US\$15.50 an ounce. The Company may, twelve months after the date of issue, elect to redeem the US\$5,000 Debentures, in part or in full, at a price of US\$5,600 per each redeemed Debenture, plus payment of all accrued amounts due in respect of the redeemed Debentures. Each Debenture shall entitle the Holder to twenty thousand Warrants the "Debenture Warrants") exercisable into common shares of the Company at Canadian \$0.25 per Debenture Warrant Share until three years from the date of issue. The Company has completed US\$590,000 of this placement.

On November 15, 2018, the Company granted 100,000 stock options to consultants of the Company exercisable at \$0.15 for five years from the grant date.

TRANSACTIONS BETWEEN RELATED PARTIES

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.

	Note	Nine Months Ended	
		September 30 2018	September 30 2017
Management fees	(a)	\$ 52,500	\$ 90,000
Office	(a)	27,000	27,000
Interest and financing fee	(b)	4,768	22,614
Professional fees	(c)	78,000	38,000
Office and other - Corporate services	(d)	27,000	19,770
Share-based compensation	(e)	246,842	232,254
Mineral property costs – geological	(f)	58,115	-
Mineral property costs – project management	(a)	82,500	15,000
		\$ 576,725	\$ 444,638

- (a) Management fees and office rental fees were paid to Highcard Exploration Inc. ("Highcard"), a company controlled by Graeme O'Neill, the CEO and director of the Company ("O'Neill").
- (b) Interest charged at 12% per annum, compounded quarterly, and payable quarterly for overdue related party accounts payable balances.
- (c) Fees paid to the Company's CFO, Rick Low.
- (d) Fees paid to the Company's Corporate Secretary, Donna Moroney.
- (e) During the nine months ended September 30, 2018, the Company issued 2,305,000 (2017: 1,510,000) stock options to related parties.
- (f) Geological costs were accrued or paid to Gaeaorama (a company controlled by Clay Conway, director) for work performed on the Bayhorse Silver Mine and Bridging the Gap property.

The following table summarizes payable balances to related parties as at September 30, 2018 and December 31, 2017.

	September 30 2018	December 31 2017
Trade payable to O'Neill**	\$ 43,527	\$ 97,768
Cash advanced to the Company by O'Neill	103,615	-
Trade payable to Highcard**	11,108	27,800
Trade payable to a Gaeaorama**	72,775	70,707
Trade payable to corporate secretary**	19,327	8,460
Trade payable to CFO**	35,852	8,400
	\$ 286,204	\$ 159,801

**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, 2018, O'Neill subscribed for 2,310,500 shares of the private placements for total proceeds of \$462,100. O'Neill received 2,310,500 warrants that are exercisable 2 years from the date of issuance at exercise price of \$0.30.

During the year ended December 31, 2017, O'Neill subscribed for 2,730,768 (2017 – nil) shares of the private placements for total proceeds of \$467,115. O'Neill received 1,580,768 and 1,150,000 warrants that are exercisable 2 years from the date of issuance at exercise price of \$0.25 and \$0.30, respectively.

During the nine months ended September 30, 2018, O'Neill subscribed for 35 units of US\$5,000 convertible debenture with total proceeds of US\$175,000. O'Neill received 700,000 warrants that are exercisable 3 years from the date of issuance at exercise price of \$0.25. During the year ended December 31, 2017, O'Neill subscribed for 61 units of US\$5,000 convertible debenture with total proceeds of US\$305,000. 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, 2018, O'Neill converted US\$305,000 of convertible debentures and the Company issued 2,077,165 common shares.

During the year ended December 31, 2017, O'Neill converted 5 units of US\$5,000 convertible debenture into 274,052 shares of the Company.

During the nine months ended September 30, 2018, Rick Low, CFO, subscribed for 3 units of US\$5,000 convertible debenture with total proceeds of US\$15,000 (note 4). As at September 30, 2018, the US\$15,000 was receivable from Rick Low, but was subsequently received by the Company. Rick Low received 60,000 warrants that are exercisable 3 years from the date of issuance at exercise price of \$0.25.

As at September 30, 2018, the Company has a loan payable of \$13,148 (US\$10,000) to Caliber Minerals Inc., a related party with a director in common. This loan is interest free, unsecured and has no terms of repayment.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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;

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, 2018			
Cash	\$ 227,792	\$ -	-
Convertible debenture	-	-	(1,698,022)
Lease liability	-	-	(1,193,542)
December 31, 2017			
Cash	\$ 53,978	\$ -	-
Convertible debenture	-	-	(1,427,181)
Lease liability	-	-	(1,161,392)

As at September 30, 2018 and December 31, 2017, the Company believes that the carrying value of 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, 2018 and December 31, 2017, the carrying values of convertible debenture and lease liability have 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, 2018 and year ended December 31, 2017.

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, 2018 and year ended December 31, 2017 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.
- The fair value of the lease liability 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 lease liability for the three and nine months ended September 30, 2018 and December 31, 2017 is related to a change in the credit risk of the lease liability. 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 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. 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 and lease liability 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,
- Debentures and interest payments denominated in US dollars, and
- Lease payments.

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 \$353,098 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 that are overdue, and advances from related parties. Related party payables that are overdue bear interest at 12% per annum.

The Company's promissory notes payable, convertible debentures and lease liability 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 property in which the Company currently has an interest is 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.

OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at the date of this report, 79,768,451 shares were issued and outstanding.

As at the date of this report, the following stock options were outstanding and exercisable:

Number	Exercise Price	Expiry Date
225,000	\$0.20	February 26, 2019
200,000	\$0.10	January 8, 2020
25,000	\$0.10	December 1, 2020
200,000	\$0.125	June 23, 2021
225,000	\$0.12	June 30, 2021
1,000,000	\$0.15	December 5, 2021
120,000	\$0.125	December 20, 2021
345,000	\$0.20	July 13, 2022
1,000,000	\$0.20	September 18, 2022
950,000	\$0.25	March 6, 2023
500,000	\$0.20	May 8, 2023
1,900,000	\$0.15	September 24, 2023
100,000	\$0.15	November 15, 2023
6,790,000		

As at the date of this report, the following warrants were outstanding and exercisable:

Number	Exercise Price	Expiry Date
300,000	\$0.20	December 19, 2018
2,000,000	\$0.20	January 23, 2019
2,160,000	\$0.25	May 10, 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
1,000,000	\$0.25	September 15, 2019
2,000,000	\$0.25	September 19, 2019
400,000	\$0.25	November 7, 2019
1,524,500	\$0.30	December 27, 2019
2,231,500	\$0.30	January 20, 2020
120,000	\$0.25	January 22, 2020
280,000	\$0.25	February 22, 2020
3,768,500	\$0.30	March 2, 2020
564,750	\$0.25	April 12, 2020
200,000	\$0.25	May 18, 2020
6,300	\$0.125	May 18, 2020
535,000	\$0.19	May 29, 2020
2,325,000	\$0.15	July 19, 2020
128,154	\$0.20	September 27, 2020
4,000,000	\$0.30	September 27, 2020
900,000	\$0.25	August 22, 2021
1,460,000	\$0.25	September 27, 2021
71,400	\$0.125	September 27, 2021
30,815,104		

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

- i. Valuation of equity instruments - The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them.
- ii. Valuation of derivatives – certain derivatives issued by the Company are valued using the Black Scholes Option Pricing Model. The Black Scholes Option Pricing Model is a formula that is used to determine the fair value of a call or put option based on factors such as underlying stock volatility, days to expiration, and others. The key inputs used by the Company in its Black Scholes Option Pricing Model are further disclosed in the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2018. Changes in the inputs to the valuation model could impact the carrying value of the derivatives and the amount of unrealized gains or losses recognized in profit or loss.
- iii. Valuation of convertible loan – the Company's convertible loans are valued using the present value of the future cash flows. This method is used based on underlying factors such as the current interest rate, foreign exchange rate, and Company's ability to make all interest payments on timely basis. The key input used by the Company in this calculation are further disclosed in the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2018. Changes in the input to the calculation could impact the carrying value of the convertible loan and the amount of unrealized gains or losses recognized in profit or loss.
- iv. Valuation of lease liability loan – the Company's lease liability is valued using the present value of the future cash flows. This method is based on underlying factors such as the current interest rate, foreign exchange rate, and Company's ability to make all lease payments on a timely basis. Changes in the inputs to the calculation could impact the carrying value of the lease liability and the amount of interest expense recognized in profit or loss.

- v. Deferred income taxes – The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

- i. The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year.
- ii. The determination of functional currency. Management has determined that the functional currency of the Company is the Canadian dollar.
- iii. The determination or absence of asset retirement obligation.
- iv. Determination of categories of financial assets and financial liabilities involves assessments made by management.
- v. Assessment of impairment, recoverability of the carrying value of financial assets.
- vi. Refundable tax credits and flow-through expenditures - The Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits. The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management's judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities can materially increase the flow-through premium liability and outstanding commitments.

NEW ACCOUNTING PRONOUNCEMENTS

The following are new standards that the Company adopted and their impact on the on the Company's 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. The Company adopted this standard on January 1, 2018 and will account for any revenues from mining operations under this standard when the revenue stage is achieved.

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. The Company adopted this standard on January 1, 2018 with no material impact on its financial position and results of operations.

RISKS AND UNCERTAINTIES

Certain risks are faced by the Company, which could affect its financial position. In general, they relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior resource companies is affected by commodity prices, global economic conditions and economic conditions and government policies in the countries of operation, among other things. These conditions are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise capital.

The Company's working capital and liquidity fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the its mineral property option agreement. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interest in the property covered by the agreement. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

The Company's properties are in the exploration stage and without known reserves. Exploration and development of natural resources involves substantial expenditures and a high degree of risk. Few exploration properties are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes-off its mineral properties from time to time and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

FORWARD LOOKING INFORMATION

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of exploration properties. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of November 26, 2018.



Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Such risks and other factors include, among others, risks related to integration of acquisitions; risks related to operations; 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 metals; 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, as well as those factors discussed in the section entitled "Risks and Uncertainties." Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.

Except as required under applicable securities law, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or others. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties."

QUALIFIED PERSON

All technical information about the Company's mineral properties contained in this MD&A has been prepared under the supervision and approval of Dr. Clay Conway, Ph.D., P.Geol, a director of the Company, who is a "qualified person" within the meaning of National Instrument 43-101.