

BAYHORSE SILVER INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
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, 2018, 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.

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BAYHORSE SILVER INC.Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	September 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ 227,792	\$ 53,978
Accounts receivable		66,442	5,496
Prepaid expenses		223,298	184,609
		517,532	244,083
Non-current			
Equipment	3	1,804,100	1,772,348
		\$ 2,321,632	\$ 2,016,431
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Accounts payable	8	\$ 753,630	\$ 605,486
Accrued liabilities		424,384	455,303
Current portion of convertible debenture	4	478,898	190,127
Loan payable	5	85,323	50,000
Current portion of lease liability	6	216,714	28,744
		1,958,949	1,329,660
Non-current			
Lease liability	6	976,828	1,132,648
Convertible debenture	4	1,219,124	1,237,054
		4,154,901	3,699,362
Shareholders' deficit			
Share capital	7	16,890,066	14,710,581
Contributed surplus	7	5,597,943	4,457,935
Deficit		(24,321,278)	(20,851,447)
		(1,833,269)	(1,682,931)
		\$ 2,321,632	\$ 2,016,431

Nature of operations and going concern (note 1)**Commitments** (notes 9 and 13)**Subsequent events** (note 14)

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	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Mineral expenses					
Mineral property costs		\$ 533,483	\$ 577,210	\$ 1,912,145	\$ 1,286,904
Expenses					
Communications		48,842	1,972	159,043	13,353
Financing fee	4,5,6,8	276,249	422,643	444,029	582,901
Foreign exchange and bank charges		63,970	(35,350)	195,160	(9,810)
Insurance		10,978	2,970	37,373	4,570
Management fees	8	22,500	30,000	52,500	90,000
Office and other	8	13,459	12,102	43,181	35,248
Office rent	8	9,000	9,000	27,000	28,020
Professional fees	8	39,820	20,500	113,790	54,000
Promotion		123	2,857	3,061	9,420
Share-based compensation	7(c),8	168,988	258,945	369,303	258,945
Transfer, listing and filing fees		8,976	3,911	34,075	21,405
Travel		846	200	2,529	10,974
		(663,751)	(729,750)	(1,481,044)	(1,099,026)
Loss before other items		(1,197,234)	(1,306,960)	(3,393,189)	(2,385,930)
Other items					
Gain (loss) from re-measurement of convertible debenture	4	17,314	(14,184)	(38,828)	(221)
Loss on shares converted from convertible debenture	7(b)(iv)	-	(439,953)	(37,814)	(595,532)
Net loss and comprehensive loss for the period		(1,179,920)	(1,761,097)	(3,469,831)	(2,981,683)
Weighted average number of common shares outstanding - basic and diluted		77,518,845	51,242,622	72,234,354	46,013,964
Basic and diluted loss per common share		\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.05)

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, 2018	September 30, 2017
Operating activities		
Net loss	\$ (3,469,831)	\$ (2,981,683)
Items not involving cash:		
Foreign exchange	47,144	-
Depreciation	218,350	39,880
Stock-based compensation	369,303	258,945
Loss from re-measurement of convertible debentures	38,828	221
Loss on shares converted from convertible debenture	37,814	595,532
Warrants issued as financing fee	192,859	350,547
Shares issued for acquisition of property		80,000
Interest on lease liability	134,218	-
Changes in non-cash working capital:		
Accounts receivable	(60,946)	9,680
Prepaid expenses	(38,689)	(106,040)
Accounts payable and accrued liabilities	304,974	33,663
Current portion of convertible debenture		68,799
Cash used in operating activities	(2,225,976)	(1,650,456)
Investing activity		
Equipment	(250,102)	(409,171)
Cash used in investing activities	(250,102)	(409,171)
Financing activities		
Gross proceeds from share issuance	2,005,010	900,000
Share issuance costs	(38,688)	(79,093)
Proceeds from convertible debenture issuance	768,600	1,205,638
Convertible debenture issuance costs	(23,285)	-
Warrants exercised during the period	-	786,076
Options exercised during the period	5,000	168,190
Advances from (to) related parties	13,148	(31,667)
Loan payable	22,175	301,013
Lease liability	(102,068)	-
Cash provided by financing activities	2,649,892	3,250,157
Increase in cash	173,814	1,190,530
Cash, beginning of the period	53,978	9,699
Cash, end of the period	\$ 227,792	\$ 1,200,229

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 Interim Statement of Changes in Shareholders' Deficit
(Unaudited)

Expressed in Canadian Dollars, Unless Noted Otherwise

	Notes	Number of Shares	Share Capital	Subscription Receipts	Contributed Surplus	Deficit	Total
Balance, December 31, 2017		62,708,390	\$14,710,581	\$ -	\$4,457,935	(\$20,851,447)	(\$1,682,931)
Shares issued for cash	7 (b)	12,705,608	1,455,565	-	549,445	-	2,005,010
Share issuance costs	7 (b)	-	(45,303)	-	6,615	-	(38,688)
Fair value of warrants issued with debentures	4	-	-	-	196,586	-	196,586
Revaluation of warrants due to expiry date extension	7 (d)	-	-	-	3,787	-	3,787
Convertible debentures	4	-	-	-	40,353	-	40,353
Shares issued for options	7 (c)	50,000	8,188	-	(3,188)	-	5,000
Shares issued on conversion of debentures	7 (b)	2,679,607	598,551	-	(22,893)	-	575,658
Shares issued for debt settlement	7 (b)	1,624,846	162,484	-	-	-	162,484
Share-based compensation	7 (c)	-	-	-	369,303	-	369,303
Net loss and comprehensive loss		-	-	-	-	(3,469,831)	(3,469,831)
Balance, September 30, 2018		79,768,451	\$16,890,066	\$-	\$5,597,943	(\$24,321,278)	(\$1,833,269)
Balance, December 31, 2016		37,740,821	\$ 10,157,664	\$ -	\$3,898,457	\$ (16,301,897)	\$ (2,245,776)
Shares issued for cash	7 (b)	6,000,000	641,345	-	258,655	-	900,000
Share issuance costs	7 (b)	-	(79,093)	-	-	-	(79,093)
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
Shares issued for warrants exercised	7 (b)	4,569,100	1,058,524	-	(272,448)	-	786,076
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)

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, 2018
(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, 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 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 consolidated 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.

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, 2018. 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, 2017, 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.

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These condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 were approved and authorized for issue by the Board of Directors on November 26, 2018.

b. Basis of consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and its wholly owned subsidiary, USA based Bayhorse Silver (USA) Inc. 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

The following are new standards that the Company adopted and their impact 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.

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3. EQUIPMENT

	Crusher Equipment	Mining Equipment	Processing Equipment	X-Ray Sorter	Power Line	TOTAL
Cost						
December 31, 2017	\$ 61,030	\$ 188,735	\$ 188,504	\$ 1,316,143	\$ 87,633	\$ 1,842,045
Additions	-	175,911	60,569	-	13,622	250,102
September 30, 2018	\$ 61,030	\$ 364,646	\$ 249,073	\$ 1,316,143	\$ 101,255	\$ 2,092,147
Accumulated depreciation						
December 31, 2017	\$ 15,258	\$ 38,907	\$ 11,645	\$ -	\$ 3,887	\$ 69,697
Additions	15,258	68,140	27,430	99,979	7,543	218,350
September 30, 2018	\$ 30,516	\$ 107,047	\$ 39,075	\$ 99,979	\$ 11,430	\$ 288,047
Cost						
December 31, 2016	\$ 61,030	\$ 85,907	\$ 44,134	\$ -	\$ -	\$ 191,071
Additions	-	102,828	144,370	1,316,143	87,633	1,650,974
December 31, 2017	\$ 61,030	\$ 188,735	\$ 188,504	\$ 1,316,143	\$ 87,633	\$ 1,842,045
Accumulated depreciation						
December 31, 2016	\$ -	\$ 2,590	\$ -	\$ -	\$ -	\$ 2,590
Additions	15,258	36,317	11,645	-	3,887	67,107
December 31, 2017	\$ 15,258	\$ 38,907	\$ 11,645	\$ -	\$ 3,887	\$ 69,697
Carrying value						
September 30, 2018	\$ 30,514	\$ 257,599	\$ 209,998	\$ 1,216,164	\$ 89,825	\$ 1,804,100
December 31, 2017	\$ 45,772	\$ 149,828	\$ 176,859	\$ 1,316,143	\$ 83,746	\$ 1,772,348

The X-Ray Sorter is leased equipment and is presented as a right-of-use asset (see note 6)

4. CONVERTIBLE DEBENTURE

During the nine months ended September 30, 2018, the Company issued 118 units of US\$5,000 convertible debentures for gross proceeds of US\$590,000 (CAD\$769,003). During the year ended December 31, 2017, the Company issued 200 units of US\$5,000 convertible debentures for gross proceeds of US\$1,000,000 (CAD\$1,231,400). 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) (all of these debentures are collectively referred 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 payable annually in arrears. 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;

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- 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
 - 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 ranges from CAD \$0.125 to 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 a range of CAD \$0.20 to 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 a range of CAD \$0.125 to CAD\$0.20 per share;
- 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 ranging from US\$15.50 to US\$17.50 per ounce of silver; 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 ranging from CAD \$0.25 to CAD\$0.30 per common share.

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 14.98%, 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 loss of \$38,828 (2017 - \$14,184) for the nine months ended September 30, 2018.

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Notes to the Condensed Consolidated Interim Financial Statements
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The continuity of the Debentures and their effect on contributed surplus is provided in the following table:

	Debenture	Contributed Surplus
	\$	\$
Balance, December 31, 2016	1,511,540	146,858
Fair value of US\$1,000,000 (CAD\$1,231,409), initial measurement	1,176,495	54,914
Converted to shares	(1,321,995)	(123,693)
Foreign exchange loss	79,528	-
Change in fair value	(12,869)	-
Transaction costs	(5,518)	(270)
Balance, December 31, 2017	1,427,181	77,809
Fair value of US\$590,000 (CAD\$769,003), initial measurement	728,649	40,353
Converted to shares	(537,844)	-
Foreign exchange loss	72,007	(22,893)
Change in fair value	38,828	-
Transaction costs	(30,799)	-
Balance, September 30, 2018	1,698,022	95,269
Current portion	478,898	-
Long-term portion	1,219,124	-
	1,698,022	-

The principal amounts in US dollars outstanding as at September 30, 2018 and their maturity dates are as follows:

Maturity Date	Outstanding Principal US\$
November 7, 2018	\$100,000
February 22, 2019	50,000
May 18, 2019	15,000
August 3, 2019	30,000
September 27, 2020	605,000
August 22, 2021	225,000
September 27, 2021	365,000
	\$1,390,000

During the nine months ended September 30, 2018, the Company issued 2,360,000 warrants and during the year ended December 31, 2017, the Company issued 4,000,000 warrants to the Debenture holders. Each warrant entitles the holder to purchase one common share at a price of \$0.25 and \$0.30, respectively, for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$189,072 and \$455,323, respectively, which were expensed during the nine months ended September 30, 2018 and year ended December 31, 2017, respectively, as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

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Risk free rate of return	1.64% - 2.22%
Expected life	2.94 - 3 years
Expected volatility	99% -130%
Expected dividend yield	0.00%

During the nine months ended September 30, 2018, the Company issued 71,400 warrants and during the year ended December 31, 2017, the Company issued 128,154 warrants to Agents in connection with the Debenture issuance. Each warrant entitles the holder to purchase one common share at a price of \$0.125 and \$0.20, respectively, for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of \$7,514 and \$13,598, respectively, which were expensed during the nine months ended September 30, 2018 and year ended December 31, 2017, respectively, as financing fee. There were other issuance costs of \$23,285 and \$268 in connection with the Debentures issued in 2018 and 2017, respectively. Assumptions used for the Black Scholes option pricing model are as follows:

Risk free rate of return	1.58% - 2.22%
Expected life	1.85 - 3 years
Expected volatility	96 - 127%
Expected dividend yield	0.00%

5. LOAN PAYABLE

Loan payable includes a \$50,000 promissory note, \$22,175 loan for insurance premiums and \$13,148 (US\$10,000) loan from a related party.

The promissory note was for an initial term of 12 months, is unsecured and bears interest at the rate of 12% per annum, compounded quarterly and payable quarterly in arrears. The repayment date of the \$50,000 promissory note was December 31, 2017. The Company is currently negotiating with the lender to further extend the repayment date.

The \$22,175 loan is for insurance premiums repayable on a straight-line basis over 11 months with an interest rate of 4.68% per annum and is unsecured.

The Company borrowed \$13,148 (US\$10,000) from a related party with a director in common. This loan is interest free, unsecured and has no terms of repayment.

6. LEASE LIABILITY

On December 1, 2017, the Company entered into a 48-month lease agreement to lease the X-Ray Sorter equipment. The lease is denominated in US dollars and the lease payments are US\$6,750, US\$13,500 and US\$26,714 for months one to three, months four to twelve and months thirteen to forty-eight, respectively, from the commencement date of the lease.

The Company has recorded this lease as a right-of-use asset and lease liability in the statement of financial position as at September 30, 2018. At the commencement date of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease liability is secured with the Company's accounts receivable, all tangible and intangible personal property, cash and financial instruments. The lease payments are discounted using an interest rate 14.98%, which is the Company's incremental borrowing rate. The continuity of the lease liability is presented in the table below:

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Carrying value, December 31, 2016	\$	-
Fair value, initial measurement		1,172,490
Interest accrued		14,299
Lease payments		(8,456)
Exchange adjustment		(16,941)
Carrying value, December 31, 2017	\$	1,161,392
Interest accrued		134,205
Lease payments		(139,061)
Exchange adjustment		37,006
Carrying value, September 30, 2018	\$	1,193,542
Current portion of lease liability	\$	\$216,714
Long-term portion of lease liability		976,828
	\$	1,193,542

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, 2016		37,740,821
Shares Issued for Warrants	7(d)	4,576,800
Shares Issued for property acquisition	7(b) (i)	500,000
Shares issued for private placement	7(b) (ii)	7,500,000
Shares issued on conversion of Debentures	7(b) (iii)	11,123,869
Shares Issued for Options	7(c)	1,266,900
Balance, December 31, 2017		62,708,390
Shares issued for private placement	7(b) (iv)	12,705,608
Shares Issued for Options	7(c)	50,000
Shares issued on conversion of Debentures	7(b) (v)	2,679,607
Shares issued for debt settlement	7(b) (vi)	1,624,846
Balance, September 30, 2018		79,768,451

- (i) 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 (2016 – 500,000 common shares) with fair value of \$80,000 (2016 - \$70,000).
- (ii) During the year ended December 31, 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

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\$8,040 in cash finder's fees to an arm's length finder. There were other share issuance costs of \$70,250.

The Company also closed the first tranche of a non-brokered private placement (see 7 (i)) and issued a total of 1,500,000 units at a price of \$0.20 per unit for gross proceeds of \$300,000. 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 \$0.30 per share within two years from the date of issuance. The Company paid an aggregate amount of \$4,900 in cash and issued 24,500 broker warrants (value of \$2,853) as finder's fees to an arm's length finder.

The Company used the relative fair value method to allocate the total consideration received (\$1,200,000) from the private placements and accordingly, \$881,693 of the total value was allocated to the shares and \$318,307 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.

- (iii) During the year ended December 31, 2017, US\$1,055,000 of Debentures plus US\$144,098 in accrued interest were converted into common shares. The value of the shares issued was \$2,286,538 at a conversion prices ranging from \$0.125 to \$0.20 per share. A loss on conversion of \$661,431 for the year ended December 31, 2017 resulted from this transaction.
- (iv) During the nine months ended September 30, 2018, the Company completed the following non-brokered private placements:

The Company issued a total of 6,000,000 units at a price of \$0.20 per unit for gross proceeds of \$1,200,000. 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 \$0.30 per share within two years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$1,200,000) from the private placement and accordingly, \$807,010 of the total value was allocated to the shares and \$392,990 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.

The Company issued a total of 1,055,608 units at a price of \$0.18 per unit for gross proceeds of \$190,009. Each unit consists of one common share and one half of one warrant with each whole 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 used the relative fair value method to allocate the total consideration received (\$190,009) from the private placement and accordingly, \$153,955 of the total value was allocated to the shares and \$36,054 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.

The Company issued a total of 1,000,000 units at a price of \$0.15 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one half of one warrant with each whole warrant entitling the holder to acquire one common

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share at a price of \$0.19 per share within two years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$150,000) from the private placement and accordingly, \$119,954 of the total value was allocated to the shares and \$30,046 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.

The Company closed a non-brokered private placement consisting of 4,650,000 units at \$0.10 per unit for gross proceeds of \$465,000. Each unit consisted of one (1) common share and one half (1/2) of one transferable common share purchase warrant, with each whole warrant exercisable into one (1) common share of the Company at an exercise price of \$0.15, exercisable for a period of 24 months from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$465,000) from the private placement and accordingly, \$374,646 of the total value was allocated to the shares and \$90,354 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 nine months ended September 30, 2018, US\$395,000 of Debentures plus US\$22,194 in accrued interest were converted into common shares. The value of the shares issued was \$537,845 at conversion prices ranging from \$0.125 to \$0.215 per share. A loss on conversion of \$37,814 for the nine months ended September 30, 2018 resulted from this transaction.
- (vi) The Company issued 1,624,846 shares to settle \$91,484 in convertible debenture interest and \$71,000 in accounts payable with companies controlled by the Company's CEO (\$50,000) and CFO (\$21,000).

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

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- 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.

During the nine months ended September 30, 2018 and year ended December 31, 2017, the following were changes to the stock options of the Company:

	Number of Options	Weight Average Exercise Price	Weighted Average Life (years)
Balance, December 31, 2016	3,456,900	\$0.13	3.95
Options granted	1,750,000	\$0.20	4.90
Options exercised	(1,266,900)	\$0.14	-
Options forfeited	(10,000)	\$0.20	-
Balance, December 31, 2017	3,930,000	\$0.25	3.59
Options granted	3,400,000	\$0.19	4.8
Options exercised	(50,000)	\$0.10	-
Options expired	(285,000)	\$0.10	-
Options forfeited	(305,000)	\$0.16	-
Balance, September 30, 2018	6,690,000	\$0.18	3.95

For the nine months ended September 30, 2018, the fair value of the share based compensation recognized was \$369,303 (2017: \$258,945) as determined using the Black-Scholes Option Pricing Model. The details of the share based compensation granted are as follows:

On March 6, 2018, the Company granted 1,000,000 stock options, exercisable at \$0.25 for five years to officers, directors, consultants and employees of the Company. The fair value of the share based compensation recognized was \$155,337 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 625,000 were granted to related parties.

On May 8, 2018, the Company granted 500,000 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 \$44,978 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 330,000 were granted to related parties.

On September 24, 2018, the Company granted 1,900,000 stock options, exercisable at \$0.15 for five years to officers, directors, consultants and employees of the Company. The fair value of the share based compensation recognized was \$168,988 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 1,350,000 were granted to related parties.

For the year ended December 31, 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-

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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.

During the nine months ended September 30, 2018, 285,000 stock options expired unexercised and 305,000 stock options were forfeited due to departure of employees and consultants.

During the year ended December 31, 2017, 10,000 units of stock options were forfeited due to departure of an employee.

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

	2018	2017
Risk free rate of return	1.97 – 2.29%	1.48 – 1.72%
Expected life	3.52 – 3.61 years	3.32 – 3.57 years
Expected volatility	95 – 114%	119%
Expected dividend yield	0.00%	0.00%

The following stock options were outstanding and exercisable at September 30, 2018:

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
6,690,000		

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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, 2016	12,663,100	\$0.21	1.13
Warrants granted	11,652,654	\$0.27	1.97
Warrants cancelled	(780,000)	0.16	-
Warrants exercised	(4,576,800)	0.17	-
Balance, December 31, 2017	18,958,954	\$0.26	1.65
Warrants granted	11,856,150	\$0.25	1.81
Balance, September 30, 2018	30,815,104	\$0.26	1.35

Assumptions used in the Black Scholes option pricing model for the granted in 2018 and 2017, are as follows:

	2018	2017
Risk free rate of return	1.75 – 2.22%	0.71 – 1.66%
Expected life	1.83 – 3 years	1.81 – 2.94 years
Expected volatility	108 - 130%	76 - 102%
Expected dividend yield	0.00%	0.00%

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The following warrants were outstanding as at September 30, 2018:

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		

During the nine months ended September 30, 2018, the Company received approval from the TSXV Exchange to extend the expiry dates of the following warrants:

- 300,000 share purchase warrants at an exercise price of 20 cents per share extended to December 19, 2018, that were scheduled to expire on July 31, 2018.
- 2,000,000 share purchase warrants at an exercise price of 20 cents per share extended to January 23, 2019, that were scheduled to expire on July 31, 2018.
- 1,000,000 share purchase warrants at an exercise price of 25 cents per share extended to September 15, 2019, that were scheduled to expire on September 15, 2018.
- 400,000 share purchase warrants at an exercise price of 25 cents per share extended to November 7, 2019, that were scheduled to expire on November 7, 2018.
- 120,000 share purchase warrants at an exercise price of 25 cents per share extended to January 22, 2020, that were scheduled to expire on January 22, 2019.
- 280,000 share purchase warrants at an exercise price of 25 cents per share extended to February 22, 2020, that were scheduled to expire on February 22, 2019.
- 200,000 share purchase warrants at an exercise price of 25 cents per share extended to May 18, 2020, that were scheduled to expire on May 18, 2019.

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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, 2018 and 2017:

		Nine Months Ended	
	Note	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.

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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 Gaeorama**	72,775	70,707
Trade payable to corporate secretary**	19,327	8,460
Trade payable to CFO**	35,852	8,400
	<u>\$ 286,204</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, 2018, O'Neill subscribed for 2,310,500 shares of the private placements for total proceeds of \$462,100 (note 7(b)(iv)). 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 (note 7(b)(ii)). 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 (note 4). 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 (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, 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.

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9. MINERAL PROPERTY AND EXPLORATION EXPENSES

	<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>September 30,</u>
	<u>2018</u>	<u>2017</u>
Acquisition and holding costs	\$ 8,783	\$ 158,630
Assays and analysis	45,464	22,920
Depreciation	218,350	39,880
Drilling	-	(2,481)
Equipment & other rentals	158,480	45,627
Geological	59,599	16,354
Labour	763,046	414,462
Other contractors	9,429	89,659
Project management	88,697	91,673
Property preparation	9,425	-
Supplies	288,248	251,975
Technical	92,007	47,329
Travel and accommodation	158,021	110,457
Miscellaneous	12,596	419
	<u>\$ 1,912,145</u>	<u>\$ 1,286,904</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.

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).

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 to be responsible for 80% of the project expenditures and AMCOR was to 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

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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%.

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:

- 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 (completed);
- 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 (US\$250,000 property payment not paid; of the US\$700,000 of cumulative exploration expenditures, US\$695,042 completed);
- 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).

On February 20, 2018, the Company received a notice of default ("Notice") from Blackhawk. The Notice demands payment of the US\$250,000 option payment that was due on November 20, 2017 and states that the option agreement with Blackhawk will terminate if not paid by March 22, 2018. The Company has allowed the BTG Project Option Agreement to terminate and currently has no interest in Bridging the Gap.

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10. SUPPLEMENTAL DISCLOSURE FOR SIGNIFICANT NON-CASH TRANSACTIONS

During the nine months ended September 30, 2018 and 2017, the Company had the following non-cash transactions:

	Nine Months Ended	
	September 30	September 30
	2018	2017
Financing Activities		
Fair value of warrants transferred to share capital from contributed surplus on exercise of warrants	\$ -	\$ 272,448
Fair value of options transferred to share capital from contributed surplus on exercise of options	3,188	137,036
Fair value of warrants transferred from share capital to contributed surplus for warrants attached to private placement units	549,445	-
Fair value of warrants issued as finder's fee for private placements	6,615	
Fair value of warrants issued as finder's fee for convertible debentures	7,514	
Shares issued on conversion of Debentures	598,551	1,220,543
Shares issued for debt settlement	162,484	-
	\$ 1,327,797	\$ 1,630,027

11. SEGMENTED INFORMATION

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management in assessing performance and in determining the allocation of resources. The Company considers the business from a geographic perspective and assesses the performance of the operating segments based on measures such as net property and equipment as well as operational results.

Operating Segment

The Company's operations are limited to a single industry segment, being the acquisition, exploration and development of mineral properties.

Geographic Segments

As at September 30, 2018, the Company's operations and assets are located in Canada and the USA. By geographic areas, the Company's losses for the nine months ended September 30, 2018 and 2017 are as follows:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Canada	\$ 1,448,121	\$ 2,509,724
USA	2,021,710	471,959
	\$ 3,469,831	\$ 2,981,683

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By geographic areas, the Company's non-current assets as at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018	December 31, 2017
Canada	\$ 163,893	\$ 231,151
USA	1,640,207	1,541,197
	<u>\$ 1,804,100</u>	<u>\$ 1,772,348</u>

12. 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 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.

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;

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.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2018
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

	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, 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 (note 4) and lease liability (note 6) 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 nine months ended September 30, 2018 and year ended 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.

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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 overdue balances in accounts payable and accrued liabilities, and advances from related parties (note 8). Related party overdue payables bear interest at 12% per annum.

The Company's promissory notes payable (note 5), convertible debentures (note 4) and lease liability (note 6) 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.

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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.

13. 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:

	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 face value of the 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 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.

14. SUBSEQUENT EVENTS

The following occurred subsequent to September 30, 2018:

- (a) 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

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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.

- (b) 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.