

BAYHORSE SILVER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

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, 2019, 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, 2019	December 31, 2018
ASSETS			
Current			
Cash	\$	89,849	\$ 41,800
Accounts receivable		6,180	8,354
Prepaid expenses		287,302	215,520
		383,331	265,674
Non-current			
Deposit		33,961	36,443
Equipment	3	1,581,062	1,778,116
	\$	1,998,354	\$ 2,080,233
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Accounts payable	8	\$ 749,035	\$ 738,895
Accrued liabilities		683,527	532,775
Flow-through premium liability	7	20,596	-
Current portion of convertible debenture	4	1,229,942	541,215
Loan payable	5 & 8	157,541	76,073
Current portion of lease liability	6	332,541	242,109
		3,173,182	2,131,067
Non-current			
Lease liability	6	738,776	1,022,966
Convertible debenture	4	457,120	1,766,490
		4,369,078	4,920,523
Shareholders' deficit			
Share capital	7	18,267,938	16,900,066
Subscriptions receivable		(28,125)	-
Contributed surplus	7	6,470,393	5,831,891
Deficit		(27,080,930)	(25,572,247)
		(2,370,724)	(2,840,290)
	\$	1,998,354	\$ 2,080,233

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

Approved on behalf of the Board:

"Graeme O'Neill"
Director

"James Walker"
Director

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

BAYHORSE SILVER INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited)

Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Mineral expenses					
Mineral property costs	9	\$ 260,678	\$ 533,483	\$ 687,587	\$ 1,912,145
Expenses					
Communications		1,338	48,842	7,032	159,043
Financing fee	4, 5, & 8	107,247	276,249	335,206	444,029
Foreign exchange and bank charges		23,180	63,970	(32,179)	195,160
Insurance		11,125	10,978	35,868	37,373
Management fees	8	22,500	22,500	67,500	52,500
Office and other	8	13,078	13,459	43,642	43,181
Office rent	8	9,000	9,000	27,000	27,000
Professional fees	8	43,644	39,820	131,845	113,790
Promotion		1,117	123	3,561	3,061
Share-based compensation	7 (c) & 8	108,956	168,988	296,896	369,303
Transfer, listing and filing fees		10,400	8,976	43,381	34,075
Travel		4,957	846	14,995	2,529
		(356,542)	(663,751)	(974,747)	(1,481,044)
Loss before other items		(617,220)	(1,197,234)	(1,662,334)	(3,393,189)
Other items					
(Loss) gain on re-measurement of convertible debenture	4	(26,463)	17,314	31,141	(38,282)
(Loss) gain on shares issued from convertible debenture	7 (b) (v)	(794)	-	119,365	(37,814)
Gain on recognition of flow-through liability	7 (b) (iv)	3,145	-	3,145	-
Net loss and comprehensive loss for the period		(641,332)	(1,179,920)	(1,508,683)	(3,469,831)
Weighted average number of common shares outstanding - basic and diluted		94,562,190	77,518,845	89,427,875	72,234,354
Basic and diluted loss per common share		\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (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, 2019	September 30, 2018
Operating activities		
Net loss	\$ (1,508,683)	\$ (3,469,831)
Items not involving cash:		
Foreign exchange	(26,570)	47,144
Depreciation	285,320	218,350
Stock-based compensation	296,896	369,303
(Gain) loss from re-measurement of convertible debentures	(31,141)	38,828
(Gain) loss on shares issued from convertible debenture	(119,365)	37,814
Interest on lease liability	131,114	134,218
Gain on recognition of flow-through liability	(3,145)	-
Warrants issued as financing fee	-	37,814
Shares issued for acquisition of property	-	192,859
Changes in non-cash working capital:		
Accounts receivable	2,174	(60,946)
Prepaid expenses	(71,782)	(38,689)
Accounts payable and accrued liabilities	188,184	304,974
Cash used in operating activities	(856,999)	(2,225,976)
Investing activity		
Equipment	(88,266)	(250,102)
Cash used in investing activities	(88,266)	(250,102)
Financing activities		
Gross proceeds from share issuance	1,141,250	2,005,010
Share issuance costs	(15,959)	(38,688)
Proceeds from convertible debenture issuance		768,600
Convertible debenture issuance costs		(23,285)
Options exercised during the period	75,000	5,000
Advances from related parties	-	13,148
Loan payable	81,468	22,175
Lease liability	(288,445)	(102,068)
Cash provided by financing activities	993,314	2,649,892
Increase in cash	48,049	173,814
Cash, beginning of the period	41,800	53,978
Cash, end of the period	\$ 89,849	\$ 227,792

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 Receivable	Contributed Surplus	Deficit	Total
Balance, December 31, 2018		79,868,451	\$16,900,066	\$ -	\$5,831,891	(\$25,572,247)	(\$2,840,290)
Shares issued for cash	7 (b)	12,505,000	770,563	-	375,070	-	1,145,633
Share issuance costs	7 (b)	-	(15,959)	-	-	-	(15,959)
Subscription receivable	7 (b)	-	-	(28,125)	-	-	(28,125)
Shares issued for options exercised	7 (c)	750,000	75,000	-	-	-	75,000
Shares issued on conversion of debentures	7 (b)	5,026,856	538,268	-	(33,464)	-	504,804
Share-based compensation	7 (c)	-	-	-	296,896	-	296,896
Net loss and comprehensive loss		-	-	-	-	(1,508,683)	(1,508,683)
Balance, September 30, 2019		98,150,307	\$18,267,938	(\$28,125)	\$6,470,393	(\$27,080,930)	(\$2,370,724)
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)

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, 2019
(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 2501 - 4398 Buchanan St, Burnaby, BC, V5C 6R7, Canada.

Going Concern

The accompanying consolidated 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, 2019, the Company had a working capital deficit of \$2,789,851, 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, 2019, the Company reported a comprehensive loss of \$1,508,683 and has an accumulated deficit of \$27,080,930.

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, 2019 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, 2019. 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, 2018, 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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(Unaudited)
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These consolidated financial statements for the three and nine months ended September 30, 2019 were approved and authorized for issue by the Board of Directors on November 26, 2019.

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

There are no new standards that are expected to have a significant impact on the Company's financial position and results of operations.

3. EQUIPMENT

	Crusher Equipment	Mining Equipment	Processing Equipment	X-Ray Sorter	Power Line	TOTAL
Cost						
December 31, 2018	\$ 70,005	\$ 364,646	\$ 272,830	\$ 1,340,549	\$ 101,255	\$ 2,149,285
Additions	-	-	88,266	-	-	88,266
September 30, 2019	\$ 70,005	\$ 364,646	\$ 361,096	\$ 1,340,549	\$ 101,255	\$ 2,237,551
Accumulated depreciation						
December 31, 2018	\$ 36,350	\$ 137,884	\$ 48,572	\$ 134,343	\$ 14,020	\$ 371,169
Additions	\$ 18,650	\$ 92,956	\$ 33,445	\$ 132,197	\$ 8,072	\$ 285,320
September 30, 2019	\$ 55,000	\$ 230,840	\$ 82,017	\$ 266,540	\$ 22,092	\$ 656,489
Cost						
December 31, 2017	\$ 61,030	\$ 188,735	\$ 188,504	\$ 1,316,143	\$ 87,633	\$ 1,842,045
Additions	8,975	175,911	84,326	24,406	13,622	307,240
December 31, 2018	\$ 70,005	\$ 364,646	\$ 272,830	\$ 1,340,549	\$ 101,255	\$ 2,149,285
Accumulated depreciation						
December 31, 2017	\$ 15,258	\$ 38,907	\$ 11,645	\$ -	\$ 3,887	\$ 69,697
Additions	21,092	98,977	36,927	134,343	10,133	301,472
December 31, 2018	\$ 36,350	\$ 137,884	\$ 48,572	\$ 134,343	\$ 14,020	\$ 371,169
Carrying value						
September 30, 2019	\$ 15,005	\$ 133,806	\$ 279,079	\$ 1,074,009	\$ 79,163	\$ 1,581,062
December 31, 2018	\$ 33,655	\$ 226,762	\$ 224,258	\$ 1,206,206	\$ 87,235	\$ 1,778,116

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

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4. CONVERTIBLE DEBENTURE

During the year ended December 31, 2018, the Company issued 192 units of US\$5,000 convertible debentures for gross proceeds of US\$960,000 (CAD\$1,249,466). 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;
- 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.

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Notes to the Condensed Consolidated Interim Financial Statements
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- 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 gain of \$31,141 (2018 - loss of \$38,828) for the nine months ended September 30, 2019.

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

	Debenture	Contributed Surplus
	\$	\$
Balance, December 31, 2017	1,427,181	77,809
Fair value of US\$960,000 (CAD\$1,249,466), initial measurement	1,182,999	66,467
Converted to shares	(512,570)	(22,894)
Foreign exchange loss	63,920	-
Change in fair value	146,175	-
Balance, December 31, 2018	2,307,705	121,382
Converted to shares	(624,167)	(33,102)
Foreign exchange loss	34,665	-
Change in fair value	(31,141)	-
Balance, September 30, 2019	1,687,062	88,280
Current portion	1,229,942	-
Long-term portion	457,120	-
	1,687,062	-

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The principal amounts in US dollars outstanding as at September 30, 2019 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	75,000
September 27, 2021	340,000
December 19, 2021	95,000
	\$1,310,000

During the year ended December 31, 2018, the Company issued 3,840,000 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 \$271,343 and \$455,323, respectively, which were expensed during the year ended December 31, 2018 and year ended December 31, 2017, respectively, as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2018	2017
Risk free rate of return	1.90% - 2.22%	1.64%
Expected life	3 years	2.94 years
Expected volatility	119% - 130%	99%
Expected dividend yield	0.00%	0.00%

During the year ended December 31, 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 year ended December 31, 2018 and year ended December 31, 2017, respectively, as financing fee. There were other issuance costs of \$30,336 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:

	2018	2017
Risk free rate of return	2.22%	1.58%
Expected life	3 years	1.85 years
Expected volatility	127%	96%
Expected dividend yield	0.00%	0.00%

5. LOAN PAYABLE

Loan payable includes two promissory notes, consisting of \$50,000 and \$70,000, insurance premiums loan of \$24,453 and \$13,088 (US\$10,000) loan from a related party.

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The \$50,000 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 and is currently due.

The \$70,000 promissory note is due on November 30, 2019, is unsecured and bears interest at the rate of 12% per annum.

The balance of the insurance premium loan at September 30, 2019 is \$24,453 (2018 - \$nil), the original amount (\$35,771) of which is repayable on a straight-line basis over 10 months with an interest rate of 4.41% per annum and is unsecured.

The Company borrowed \$13,088 (US\$10,000) (December 31, 2018 - \$13,642) from a related party with a director in common. This loan is interest free, unsecured and has no terms of repayment. (note 8).

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 was amended effective on November 30, 2018. The lease is denominated in US dollars and the lease payments are US\$6,750, US\$13,500 and US\$29,400 for months one to three, months four to sixteen and months seventeen 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. 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:

Carrying value, December 31, 2017	\$	1,161,392
Interest accrued		180,212
Lease payments		(192,411)
Lease amendment		14,406
Exchange adjustment		101,476
Carrying value, December 31, 2018	\$	1,265,075
Interest accrued		130,965
Lease payments		(288,301)
Exchange adjustment		(36,422)
Carrying value, September 30, 2019	\$	1,071,317
Current portion of lease liability	\$	\$332,541
Long-term portion of lease liability		738,776
	\$	1,071,317

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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, 2017		62,708,390
Shares issued for private placement	7(b) (i)	12,705,608
Shares Issued for Options	7(c)	50,000
Shares issued on conversion of Debentures	7(b) ii)	2,679,607
Shares issued for debt settlement	7(b) (iii)	1,724,846
Balance, December 31, 2018		79,868,451
Shares issued for private placement	7(b) (iv)	12,505,000
Shares Issued for Options	7(c)	750,000
Shares issued on conversion of Debentures	7(b) (v)	5,026,856
Balance, September 30, 2019		98,150,307

- (i) During the year ended December 31, 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. There were share issuance costs of \$7,515 related to this issuance.

The Company issued a total of 1,055,608 units at a price of \$0.18 per unit for gross proceeds of \$190,010. 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 (\$190,010) from the private placement and accordingly, \$153,955 of the total value was allocated to the shares and \$36,055 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 paid an aggregate amount of \$13,301 in cash and issued 36,946 broker warrants (value of \$3,634) as finder's fees to an arm's length finder. There were other share issuance costs of \$1,735.

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 paid an aggregate amount of \$10,500 in cash and issued 35,000 broker warrants (value of \$2,981) as finder's fees to an arm's length finder. There were other share issuance costs of \$1,500.

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. There were share issuance costs of \$4,137 related to this issuance.

- (ii) During the year ended December 31, 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 \$512,570 for the Debentures and \$25,273 for the accrued interest at conversion prices ranging from \$0.125 to \$0.215 per share. A loss on conversion of \$37,814 for the year ended December 31, 2018 resulted from this transaction. Contribution surplus of \$22,894 was transferred to share capital in relation to the conversion.
- (iii) During the year ended December 31, 2018, 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). The Company also issued 100,000 shares to settle \$10,000 fee charged for the amendment to the X-Ray Sorter lease agreement.
- (iv) During the nine months ended September 30, 2019, the Company issued a total of 3,950,000 units at a price of \$0.10 per unit for gross proceeds of \$395,000. 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 \$0.15 per share within two years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$395,000) from the private placement and accordingly, \$271,118 of the total value was allocated to the shares and \$123,882 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 paid finder's fee of \$1,400 in cash and issued 14,000 broker warrants valued at \$641.

During the nine months ended September 30, 2019, the Company issued a total of 4,400,000 units at a price of \$0.075 per unit for gross proceeds of \$330,000. Each unit consists of one common share and one warrant with each warrant entitling the holder to

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acquire one common share at a price of \$0.125 per share within three years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$330,000) from the private placement and accordingly, \$220,371 of the total value was allocated to the shares and \$109,629 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 paid finder's fee of \$3,500 in cash and issued 46,667 broker warrants valued at \$2,562.

During the nine months ended September 30, 2019, the Company closed a non-brokered private placement consisting of 3,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$300,000. The Company also issued 3,000,000 transferable common share purchase warrants exercisable into one common share of the Company at an exercise price of \$0.125 cents for a period of thirty-six months from the date of issuance. Graeme O'Neill, the Company's CEO and director was issued 700,00 flow through units. The Company used the relative fair value method to allocate the total consideration received (\$300,000) from the private placement and accordingly, \$176,391 of the total value was allocated to the shares, \$99,868 to the warrants and \$23,741 to flow-through premium liability. The value of the shares and the flow-through premium liability was based on the market price of the shares, and the value of the warrants was based on Black Scholes option pricing model. The Company paid finder's fee of \$7,000 in cash and issued 70,000 broker warrants valued at \$4,393.

During the nine months ended September 30, 2019, the Company closed the first tranche of a private placement and issued a total of 1,155,000 units at a price of \$0.125 per unit for gross proceeds of \$144,375. 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 used the relative fair value method to allocate the total consideration received (\$144,375) from the private placement and accordingly, \$102,684 of the total value was allocated to the shares and \$41,691 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, 2019, US\$450,000 convertible debentures were converted into 4,806,360 common shares at a price of C\$0.125 per share and US\$12,552 of accrued interest on the convertible debentures were converted into 167,584 common shares at a price of C\$0.10 per share. A gain on conversion of \$120,159 for the nine months ended September 30, 2019 resulted from this transaction. Contribution surplus of \$33,102 was transferred to share capital in relation to the conversion.

During the nine months ended September 30, 2019, US\$5,000 convertible debentures were converted into 52,912 common shares at a price of C\$0.125 per share. A loss on conversion of \$794 for the nine months ended September 30, 2019 resulted from this transaction. Contribution surplus of \$361 was transferred to share capital in relation to the conversion.

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c) Contributed Surplus

Stock Options

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

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

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

During the nine months ended September 30, 2019 and year ended December 31, 2018, the following were changes to the stock options of the Company:

	Number of Options issued and exercisable	Weight Average Exercise Price	Weighted Average Life (years)
Balance, December 31, 2017	3,930,000	\$0.25	3.59
Options granted	3,500,000	\$0.19	4.5
Options exercised	(50,000)	\$0.10	-
Options expired	(285,000)	\$0.10	-
Options forfeited	(305,000)	\$0.16	-
Balance, December 31, 2018	6,790,000	\$0.18	3.71
Options granted	3,885,000	\$0.10	4.8
Options exercised	(750,000)	\$0.10	-
Options expired	(225,000)	\$0.20	-
Options forfeited	(275,000)	\$0.21	-
Balance, September 30, 2019	9,425,000	\$0.19	3.62

For the nine months ended September 30, 2019, the fair value of the share based compensation recognized was \$296,896 (2018 - \$369,303) 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, and consultants of the Company. The fair value of the share based compensation recognized was \$184,888 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 and consultants of the Company. The fair value of the share

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based compensation recognized was \$85,072 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 and consultants of the Company. The fair value of the share based compensation recognized was \$216,020 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 1,350,000 were granted to related parties.

On November 15, 2018, the Company granted 100,000 stock options, exercisable at \$0.15 for five years to consultants and officers of the Company. The fair value of the share based compensation recognized was \$8,887 as determined using the Black-Scholes Option Pricing Model.

On February 12, 2019, the Company granted 885,000 stock options, exercisable at \$0.10 for five years to directors, consultants and officers of the Company. The fair value of the share based compensation recognized was \$81,174 as determined using the Black-Scholes Option Pricing Model.

On May 19, 2019, the Company granted 1,100,000 stock options, exercisable at \$0.10 for five years to directors, consultants and officers of the Company. The fair value of the share based compensation recognized was \$70,204 as determined using the Black-Scholes Option Pricing Model.

On June 17, 2019, the Company granted 500,000 stock options, exercisable at \$0.10 for five years to directors, consultants and officers of the Company. The fair value of the share based compensation recognized was \$36,562 as determined using the Black-Scholes Option Pricing Model.

On August 13, Graeme O'Neill, the Company's CEO and director, exercised 750,000 stock options at an exercise price of \$0.10 for gross proceeds of \$75,000 to the Company.

On August 22, 2019, the Company granted 1,400,000 stock options, exercisable at \$0.10 for five years to directors, consultants and officers of the Company. The fair value of the share based compensation recognized was \$108,956 as determined using the Black-Scholes Option Pricing Model.

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

	2019	2018
Risk free rate of return	1.34 -1.82%	1.97 – 2.29%
Expected life	3.86 – 3.96 years	3.52 – 3.61 years
Expected volatility	123 - 136%	95 – 114%
Expected dividend yield	0.00%	0.00%

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The following stock options were outstanding and exercisable at September 30, 2019:

Number	Exercise Price	Expiry Date
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
250,000	\$0.20	July 13, 2022
1,000,000	\$0.20	September 18, 2022
850,000	\$0.25	March 6, 2023
460,000	\$0.20	May 8, 2023
1,860,000	\$0.15	September 24, 2023
100,000	\$0.15	November 15, 2023
585,000	\$0.10	February 12, 2024
750,000	\$0.10	May 7, 2024
400,000	\$0.10	June 17, 2024
1,400,000	\$0.10	August 22, 2024
9,425,000		

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, 2017	18,958,954	\$0.26	1.65
Warrants granted	13,336,150	\$0.25	1.71
Warrants expired	(300,000)	0.20	-
Balance, December 31, 2018	31,995,104	\$0.26	1.19
Warrants granted	12,635,667	\$0.14	2.30
Warrants expired	(3,000,000)	0.22	-
Balance, September 30, 2019	41,630,771	\$0.23	1.25

Assumptions used in the Black Scholes option pricing model for the granted in 2019 and 2018, are as follows:

	2019	2018
Risk free rate of return	1.34 – 1.80%	1.75 – 2.22%
Expected life	1.90 – 2.32 years	1.83 – 3 years
Expected volatility	106 – 112%	108 - 130%
Expected dividend yield	0.00%	0.00%

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The following warrants were outstanding as at September 30, 2019:

Number	Exercise Price	Expiry Date
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
9,000,000	\$0.25	May 10, 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
1,480,000	\$0.25	December 19, 2021
2,000,000	\$0.15	February 12, 2021
1,100,000	\$0.15	March 12, 2021
864,000	\$0.15	April 15, 2021
1,300,000	\$0.125	May 29, 2022
1,933,333	\$0.125	July 3, 2022
1,213,334	\$0.125	July 22, 2022
700,000	\$0.125	August 6, 2022
2,370,000	\$0.125	August 27, 2022
1,155,000	\$0.25	September 27, 2021
41,630,771		

During the year ended December 31, 2018, the Company received approval from the TSXV Exchange to extend the expiry dates of the following warrants:

- 1,000,000 share purchase warrants at an exercise price of 25 cents per share extended to September 15, 2019, which were scheduled to expire on September 15, 2018. An additional \$936 was recorded to the value of the warrants due to this extension.
- 400,000 share purchase warrants at an exercise price of 25 cents per share extended to November 7, 2019, which were scheduled to expire on November 7, 2018. An additional \$2,121 was recorded to the value of the warrants due to this extension.
- 120,000 share purchase warrants at an exercise price of 25 cents per share extended to January 22, 2020, which were scheduled to expire on January 22, 2019. An additional \$730 was recorded to the value of the warrants due to this extension.
- 280,000 share purchase warrants at an exercise price of 25 cents per share extended to February 22, 2020, which 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, which were scheduled to expire on May 18, 2019.

During the nine months ended September 30, 2019, the Company received approval from the TSXV Exchange to extend the expiry dates of 9,000,000 warrants at an exercise price of 25 cents per share to May 10, 2020, which were scheduled to expire on dates ranging from May 10, 2019 to September 19, 2019.

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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, 2019 and 2018:

	Note	Nine Months Ended	
		September 30, 2019	September 30, 2018
Management fees	(a)	\$ 67,500	\$ 52,500
Office rent	(a)	27,000	27,000
Interest and financing fee	(b)	16,260	4,768
Professional fees	(c)	91,800	78,000
Office and other - Corporate services	(d)	27,000	27,000
Share-based compensation	(e)	287,615	246,842
Mineral property costs – geological	(f)	-	58,115
Mineral property costs – project management	(a)	67,500	82,500
		\$ 584,675	\$ 576,725

- 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, 2019, the Company issued 3,200,000 (2018 - 2,305,000) stock options to related parties.
- f) Geological costs were accrued or paid to Gaeaorama (a company controlled by Clay Conway, director for Bayhorse Silver (USA) Inc.) 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, 2019 and December 31, 2018.

	September 30, 2019	December 31, 2018
Trade payable to O'Neill**	\$ 14,675	\$ 26,420
Cash advanced to the Company by O'Neill	-	20,320
Trade (receivable from) payable to Highcard**	9,839	(2,389)
Trade payable to a Gaeorama**	83,413	80,552
Trade payable to corporate secretary**	51,142	30,162
Trade payable to CFO**	144,177	43,693
	<u>\$ 303,246</u>	<u>\$ 198,758</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, 2019, O'Neill converted US\$450,000 convertible debentures into 4,806,360 common shares at a price of C\$0.125 per share and US\$12,552 of accrued interest on the convertible debentures into 167,584 common shares at a price of C\$0.10 per share. A gain on conversion of \$120,159 for the nine months ended September 30, 2019 resulted from this transaction. Contribution surplus of \$33,102 was transferred to share capital in relation to the conversion.

During the nine months ended September 30, 2019, O'Neill subscribed for 6,016,666 shares of the private placements for total proceeds of \$568,500 (note 7(b)(iv)). O'Neill received 6,016,666 warrants that are exercisable from 2 to 3 years from the date of issuance at exercise price ranging from \$0.125 to \$0.25.

During the nine months ended September 30, 2019, a company controlled by Donna Moroney subscribed for 90,000 shares of the private placements for total proceeds of \$9,000 (note 7(b)(iv)). The company controlled by Donna Moroney received 90,000 warrants that are exercisable 2 years from the date of issuance at exercise price of \$0.15.

During the year ended December 31, 2018, O'Neill subscribed for 5,480,500 shares of the private placements for total proceeds of \$779,100 (note 7(b)(i)). O'Neill received 3,895,500 warrants that are exercisable 2 years from the date of issuance at exercise prices of \$0.15 - \$0.30.

During the year ended December 31, 2018, O'Neill subscribed for 90 units of US\$5,000 convertible debenture with total proceeds of US\$450,000 (note 4). O'Neill received 1,800,000 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 year ended December 31, 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, 2018, Rick Low, CFO, subscribed for 5 units of US\$5,000 convertible debenture with total proceeds of US\$25,000 (note 4). Rick Low received 100,000 warrants that are exercisable 3 years from the date of issuance at exercise price of \$0.25.

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As at September 30, 2019, the Company has a loan payable of \$13,088 (US\$10,000) (December 31, 2018 - \$13,642) to Caliber Minerals Inc., a related party with a director in common. This loan is interest free, unsecured and has no terms of repayment.

9. MINERAL PROPERTY AND EXPLORATION EXPENSES

	<u>Nine Months Ended</u>	
	September 30, 2019	September 30, 2018
Acquisition and holding costs	\$ 2,960	\$ 8,783
Assays and analysis	2,270	45,464
Depreciation (Note 3)	285,320	218,350
Equipment & other rentals	19,890	158,480
Geological (Note 8)	29,103	59,599
Labour	6,604	763,046
Other contractors	182,742	9,429
Project management (Note 8)	67,500	88,697
Property preparation		9,425
Supplies	43,656	288,248
Technical	2,500	92,007
Travel and accommodation	38,869	158,021
Miscellaneous	6,173	12,596
	<u>\$ 687,587</u>	<u>\$ 1,912,145</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, 2018 and has partially completed payments for 2019.

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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 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) Brandywine, British Columbia

On April 5, 2019, the Company entered into a letter of intent for an Option Agreement to acquire an 80% interest in the Brandywine precious metals-rich, volcanogenic massive sulphide deposit located near Squamish, BC from Turnagain Resources of Richmond, BC. The option terms are the following:

- i. The Company is required to obtain TSXV Exchange approval and execute an Option Agreement by October 31, 2019.
- ii. A non-refundable deposit of \$1,000 upon entering into the letter of intent (paid), followed by payment of \$9,000 on signing of the Option Agreement, delivery of 100,000 common shares upon signing the Option Agreement, and incurring \$3,000,000 of work over 5 years;
- iii. Issuance of 200,000 common shares which will occur on 1st anniversary of the Option date;
- iv. Additional cash payment of \$40,000 and further 300,000 common shares on 2nd anniversary of the Option date;
- v. 300,000 common shares issued in each of 3rd to 5th anniversaries; and
- vi. Work expenditures of \$500,000 in year one, \$500,000 in year two, \$500,000 in year three and \$1,500,000 on or before the 5th anniversary of the Option date.

c) 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.

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.

BAYHORSE SILVER INC.

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For the Three and Nine Months Ended September 30, 2019
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

10. SUPPLEMENTAL DISCLOSURE FOR SIGNIFICANT NON-CASH TRANSACTIONS

During the nine months ended September 30, 2019 and 2018, the Company had the following non-cash transactions:

	Nine Months Ended	
	September 30	September 30
	2019	2018
Financing Activities		
Fair value of options transferred to share capital from contributed surplus on exercise of options	\$ -	\$ 3,188
Fair value of warrants transferred from share capital to contributed surplus for warrants attached to private placement units	(275,201)	(549,445)
Fair value of warrants issued as finder's fee for private placements	(7,597)	(6,615)
Fair value of warrants issued as finder's fee for convertible debentures	-	(7,514)
Shares issued on conversion of Debentures	538,266	598,551
Shares issued for debt settlement	-	162,484
	\$ 255,468	\$ 200,649

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.

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Geographic Segments

As at September 30, 2019, the Company's operations and assets are located in Canada and the USA. By geographic areas, the Company's losses for nine months ended September 30, 2019 and 2018 are as follows:

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Canada	\$ 863,932	\$ 1,448,121
USA	644,751	2,021,710
	<u>\$ 1,508,683</u>	<u>\$ 3,469,831</u>

By geographic areas, the Company's non-current assets as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Canada	\$ 74,216	\$ 141,474
USA	1,506,846	1,673,085
	<u>\$ 1,581,062</u>	<u>\$ 3,469,831</u>

12. FINANCIAL INSTRUMENTS, MANAGEMENT OF CAPITAL AND FINANCIAL RISK

Capital 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.

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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, 2019			
Cash	\$ 89,849	\$ -	\$ -
Convertible debenture	-	-	(1,687,062)
Lease liability	-	-	(1,071,317)
December 31, 2018			
Cash	\$ 41,800	\$ -	\$ -
Convertible debenture	-	-	(2,307,705)
Lease liability	-	-	(1,265,075)

As at September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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, 2019 and year ended December 31, 2018.

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, 2019 and year ended December 31, 2018 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, 2019 and year ended December 31, 2018 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:

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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 liability.

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 \$359,000 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.

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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.

13. COMMITMENTS

The following table summarizes the contractual maturities as at September 30, 2019 of the Company's significant financial liabilities and capital commitments, including contractual obligations for the years indicated:

	2019	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	\$ 1,432,562	\$ -	\$ -	\$ -	\$ -	\$ 1,432,562
Advance royalty payment obligations ⁽¹⁾	62,242	66,215	66,215	66,215	66,215	327,102
Ore Sorter lease payments	116,803	467,213	428,289	-	-	1,012,305
Promissory Notes and loans	157,541	-	-	-	-	157,541
Convertible Debentures ⁽²⁾	258,239	801,202	675,393	-	-	1,734,833
	\$ 2,027,387	\$ 1,334,630	\$ 1,169,897	\$ 66,215	\$ 66,215	\$ 4,664,344

⁽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, 2019.

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.

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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 EVENT

The following occurred subsequent to September 30, 2019:

- (a) On October 25, 2019, the Company closed the second tranche a non-brokered private placement consisting of 1,760,000 units at a price of \$0.125 per unit for gross proceeds of \$220,000. 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 \$3,500 cash finder's fee and issued 28,000 broker warrants exercisable into one common share of the Company at an exercise price of \$0.25 cents for a period of two years from the date of issuance.