

BAYHORSE SILVER INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020
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, 2020, have been prepared by the Company's management and approved by the Audit Committee and Board of Directors of the Company. The accompanying unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

Index

	Page
FINANCIAL STATEMENTS	
Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss	3
Condensed Consolidated Interim Statements of Cash Flows	4
Condensed Consolidated Interim Statements of Changes in Shareholders' Deficit	5
Notes to the Condensed Consolidated Interim Financial Statements	6 – 29

BAYHORSE SILVER INC.

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

	Note	September 30, 2020	December 31, 2019
ASSETS			
Current			
Cash		\$ 175,060	\$ 68,653
Accounts receivable		20,542	9,371
Subscriptions receivable	7	13,750	125,000
Prepaid expenses		410,105	398,302
		619,457	601,326
Non-current			
Deposit		33,961	33,961
Equipment	3	1,434,191	1,501,710
		\$ 2,087,609	\$ 2,136,997
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Accounts payable	8	\$ 571,111	\$ 791,816
Accrued liabilities	8	355,198	214,110
Flow-through premium liability	8 & 13	85,333	52,996
Current portion of convertible debenture	4	1,660,292	1,184,039
Loan payable	5 & 8	161,850	167,015
Current portion of lease liability	6	320,834	338,783
Deferred revenue		36,113	26,504
		3,190,731	2,775,263
Non-current			
Lease liability	6	423,297	635,143
Convertible debenture	4	40,069	451,034
		3,654,097	3,861,440
Shareholders' deficit			
Share capital	7	20,609,142	19,080,516
Contributed surplus	7	7,229,329	6,667,413
Deficit		(29,404,959)	(27,472,372)
		(1,566,488)	(1,724,443)
		\$ 2,087,609	\$ 2,136,997

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

"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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Mineral expenses					
Mineral property costs	9	\$ 673,574	\$ 260,678	\$ 1,136,709	\$ 687,587
Expenses					
Communications		27,409	1,338	140,656	7,032
Financing fee	4, 5, & 8	65,527	65,900	202,405	204,092
Foreign exchange and bank charges		(29,835)	23,180	38,073	(32,179)
Insurance		13,037	11,125	37,039	35,868
Lease interest	6	29,227	41,347	98,325	131,114
Management fees	8	22,500	22,500	67,500	67,500
Office and other	8	17,896	13,078	40,296	43,642
Office rent	8	9,000	9,000	27,000	27,000
Professional fees	8	40,500	43,644	127,239	131,845
Promotion		685	1,117	1,501	3,561
Share-based compensation	7 (c) & 8	-	108,956	-	296,896
Transfer, listing and filing fees		5,276	10,400	17,304	43,381
Travel		1,396	4,957	5,636	14,995
		(202,618)	(356,542)	(802,974)	(974,747)
Loss before other items		(876,192)	(617,220)	(1,939,683)	(1,662,334)
Other items					
Gain (loss) on re-measurement of convertible debenture	4	29,443	(26,463)	(65,288)	31,141
(Loss) gain on shares issued from convertible debenture	7 (b) (v)		(794)		
Deferred income tax recovery	13	63,346	3,145	81,993	3,145
Gain (loss) on shares converted from convertible debenture	7 (b) (v)	-	-	-	119,365
Loss on silver pre-sales		(8,272)	-	(9,609)	-
Net loss and comprehensive loss for the period		(791,675)	(641,332)	(1,932,587)	(1,508,683)
Weighted average number of common shares outstanding - basic and diluted		135,377,483	94,562,190	121,963,453	89,427,875
Basic and diluted loss per common share		\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

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, 2020	September 30, 2020
Operating activities		
Net loss	\$ (1,932,588)	\$ (1,508,683)
Items not involving cash:		
Foreign exchange	30,173	(26,570)
Depreciation	245,772	285,320
Stock-based compensation	-	296,896
Loss (gain) from re-measurement of convertible debentures	65,288	(31,141)
(Gain) loss on shares converted from convertible debenture	-	(119,365)
Deferred income tax recovery	(81,993)	(3,145)
Loss on silver pre-sales	9,609	-
Interest on lease liability	98,325	131,114
Changes in non-cash working capital:		
Accounts receivable	(11,171)	2,174
Prepaid expenses	(11,803)	(71,782)
Accounts payable and accrued liabilities	(74,948)	188,183
Subscriptions receivable	111,250	-
Cash used in operating activities	(1,552,086)	(856,999)
Investing activity		
Equipment	(178,253)	(88,266)
Cash used in investing activities	(178,253)	(88,266)
Financing activities		
Gross proceeds from share issuance	2,103,025	1,141,250
Share issuance costs	(83,822)	(15,959)
Options exercised during the period	97,500	75,000
Warrants exercised during the period	83,500	-
Loan payable	(5,165)	81,468
Lease liability	(358,292)	(288,445)
Cash provided by financing activities	1,836,746	993,314
Increase (decrease) in cash	106,407	48,049
Cash, beginning of the period	68,653	41,800
Cash, end of the period	\$ 175,060	\$ 89,849

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 Payable	Contributed Surplus	Deficit	Total
Balance, December 31, 2019		106,773,944	\$19,080,516	\$ -	\$6,667,413	(\$27,472,372)	(\$1,724,443)
Shares issued for cash	7 (b)	30,056,562	1,327,161	-	661,534	-	1,988,695
Shares issued for options	7 (c)	900,000	172,348	-	(74,848)	-	97,500
Shares issued for warrants	7 (d)	835,000	108,270	-	(24,770)	-	83,500
Share issuance costs	7 (b)	-	(79,153)	-	-	-	(79,153)
Net loss and comprehensive loss		-	-	-	-	(1,932,587)	(1,932,587)
Balance, September 30, 2020		138,565,506	\$20,609,142	\$ -	\$7,229,329	(\$29,404,959)	(\$1,566,488)

	Notes	Number of Shares	Share Capital	Subscription Payable	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 payable	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)

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, 2020
(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, 2020, the Company had a working capital deficit of \$2,571,274 (December 31, 2019 - \$2,572,239), 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, 2020, the Company reported a comprehensive loss of \$1,932,587 (2019 - \$1,508,683) and has an accumulated deficit of \$29,404,959 (December 31, 2019 - \$27,472,372). The Company does not have sufficient funds to meet its committed obligations for the next twelve months from September 30, 2020.

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, 2020 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.

Covid-19 Pandemic

In March 2020, the World Health Organization declared a global Covid-19 pandemic. The expected impacts on global commerce are far reaching. To date there have been significant stock market fluctuations, and the movement of people and goods has become restricted. The mineral exploration sector is expected to be impacted significantly as many local and regional governments have issued public health orders in response to Covid-19, including restricting the movement of people, which could impact the Company’s ability to access its properties and complete its exploration programs in the coming year. A continuing period of lower prices could significantly affect the economic potential of many of the Company’s current properties and may result in the Company ceasing work on, or dropping its interest in, some or all of them. As the Company does not have revenues, the ability to fund ongoing exploration is affected by the availability of financing. Due to market uncertainty the Company may be restricted in its ability to raise additional funding.

The impact of these factors on the Company is not yet determinable. However, they may have a material impact on the Company’s financial position, results of operations and cash flows in future periods. In particular, there may be heightened risk of asset impairment and liquidity or going concern uncertainty.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

As a result, impairment indicators for the Company's assets and/or a decline in their fair value could arise in 2020 if current conditions persist. The Company continues to work on revisions to its forecasts and exploration plans in light of the current conditions and will use these updated assumptions/forecasts in measurement of the carrying value of its assets going forward.

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, 2020. 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, 2019, 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.

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 were approved and authorized for issue by the Board of Directors on November 20, 2020.

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.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

3. EQUIPMENT

	Crusher Equipment	Mining Equipment	Processing Equipment	X-Ray Sorter	Power Line	TOTAL
Cost						
December 31, 2019	\$ 70,005	\$ 364,646	\$ 370,150	\$ 1,340,549	\$ 101,255	\$ 2,246,605
Additions	-	-	178,253	-	-	178,253
September 30, 2020	\$ 70,005	\$ 364,646	\$ 548,403	\$ 1,340,549	\$ 101,255	\$ 2,424,858
Accumulated depreciation						
December 31, 2019	\$ 61,208	\$ 259,088	\$ 94,700	\$ 305,178	\$ 24,721	\$ 744,895
Additions	8,539	71,904	38,410	118,909	8,010	245,772
September 30, 2020	\$ 69,747	\$ 330,992	\$ 133,110	\$ 424,087	\$ 32,731	\$ 990,667
Cost						
December 31, 2018	\$ 70,005	\$ 364,646	\$ 272,830	\$ 1,340,549	\$ 101,255	\$ 2,149,285
Additions	-	-	97,320	-	-	97,320
December 31, 2019	\$ 70,005	\$ 364,646	\$ 370,150	\$ 1,340,549	\$ 101,255	\$ 2,246,605
Accumulated depreciation						
December 31, 2018	\$ 36,350	\$ 137,884	\$ 48,572	\$ 134,343	\$ 14,020	\$ 371,169
Additions	24,858	121,204	46,128	170,835	10,701	373,726
December 31, 2019	\$ 61,208	\$ 259,088	\$ 94,700	\$ 305,178	\$ 24,721	\$ 744,895
Carrying value						
September 30, 2020	\$ 258	33,654	\$ 415,293	\$ 916,462	\$ 68,524	\$ 1,434,191
December 31, 2019	\$ 8,797	105,558	\$ 275,450	\$ 1,035,371	\$ 76,534	\$ 1,501,710

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

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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

- 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 \$65,288 (2019 - gain of \$31,141) for the nine months ended September 30, 2020.

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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

	Debenture	Contributed Surplus
	\$	\$
Balance, December 31, 2018	2,307,705	121,382
Converted to shares	(607,409)	(33,464)
Repayments	(26,466)	-
Foreign exchange loss	17,419	-
Change in fair value	(56,176)	-
Balance, December 31, 2019	1,635,073	87,918
Change in fair value	65,288	-
Balance, September 30, 2020	1,700,361	87,918
Current portion	1,660,292	-
Long-term portion	40,069	-
	1,700,361	-

The principal amounts in US dollars outstanding as at September 30, 2020 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	10,000
September 27, 2020	605,000
August 22, 2021	75,000
September 27, 2021	335,000
December 19, 2021	95,000
	\$1,285,000

5. LOAN PAYABLE

Loan payable includes two promissory notes, consisting of \$50,000 and \$84,519 and insurance premiums loan of \$27,331.

The \$50,000 (2019 - \$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 is December 31, 2020.

The \$84,519 (2019 - \$90,105) promissory note is due on May 30, 2021, is unsecured and bears interest at the rate of 12% per annum.

The balance of the insurance premium loan at September 30, 2020 is \$27,331 (December 31, 2019 - \$13,922), the original amount (\$34,583) of which is repayable on a straight-line basis over 11 months with an interest rate of 4.27% per annum and is unsecured.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

The Company borrowed US\$10,000 (December 31, 2019 - \$14,187) from a related party with a director in common. This loan has been repaid and was interest free, unsecured and had 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, 2018	\$	1,265,075
Interest accrued		169,421
Lease payments		(404,868)
Exchange adjustment		(55,702)
Carrying value, December 31, 2019	\$	973,926
Interest accrued		98,325
Lease payments		(358,291)
Exchange adjustment		30,171
Carrying value, September 30, 2020	\$	744,131
Current portion of lease liability	\$	\$ 320,834
Long-term portion of lease liability		423,297
	\$	744,131

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

7. CAPITAL STOCK

- a) Authorized
Unlimited number of common shares without par value
- b) Issued and fully paid
The Company issued the following securities during the periods indicated:

	Note	Number
Balance, December 31, 2018		79,868,451
Shares issued for private placement	7(b) (i)	18,465,000
Shares Issued for Options	7(c)	750,000
Shares issued on conversion of Debentures	7(b) (ii)	5,026,856
Shares issued for debt settlement	7(b) (iii)	2,563,637
Shares issued for Acquisition of mineral property	7(b) (iv)	100,000
Balance, December 31, 2019		106,773,944
Shares Issued for Options	7(c)	900,000
Shares Issued for Warrants	7(d)	835,000
Shares issued for private placement	7(b) (i)	30,056,562
Balance, September 30, 2020		138,565,506

- (i) During the nine months ended September 30, 2020, the Company issued a total of 6,756,562 units at a price of \$0.08 per unit for gross proceeds of \$540,525. 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 \$0.18 per share within two years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$540,525) from the private placement and accordingly, \$361,942 of the total value was allocated to the shares and \$178,583 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 \$12,670 in cash and issued 158,375 broker warrants valued at \$8,882. Graeme O'Neill, the Company's CEO and director, was issued 2,437,500 units.

During the nine months ended September 30, 2020, the Company issued a total of 5,300,000 flow-through units at a price of \$0.125 per unit for gross proceeds of \$662,500. 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 \$0.18 per share within two years from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$662,500) from the private placement and accordingly, \$355,693 of the total value was allocated to the shares, \$192,477 to the warrants and \$114,330 to flow-through premium liability. The value of the shares was based on the closing market price on the date the shares were issued, the value of the warrants was based on Black Scholes option pricing model and the flow-through premium liability was based on the difference between unit price of the flow-through units and non flow-through units. The Company paid finder's fee of \$26,950 in cash and issued 215,600 broker warrants valued at \$16,332. Graeme O'Neill, the Company's CEO and director, was issued 610,000 units and Rick Low, the Company's CFO, was issued 100,000 units.

During the nine months ended September 30, 2020, the Company issued a total of 18,000,000 units at a price of \$0.05 per unit for gross proceeds of \$900,000. Each unit

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

consists of one common share and one warrant with each warrant entitling the holder to acquire one common share at a price of \$0.10 per share within two years from the date of issuance or each 200 warrants may be exercised by the holder into one ounce of silver at an exercise price of C\$20.00 per ounce (the "Silver Option") at any time until the close of business on the day which is two years from the date of issue of the Warrant, subject to the following conditions:

- The Silver Option may only be exercised after the Company successfully mines silver from the Bayhorse property prior to the maturity date of the warrant, provided that the Company, at its sole discretion, delivers written notice to each warrant holder (the "Silver Option Notice") that they shall have the right to receive payment in kind by delivery of physical ounces of silver;
- The exercise of the Silver Option is subject to a minimum of five thousand warrants; and
- Shipping and handling costs for the delivery of physical silver is paid in advance by the warrant holder upon exercise of the Silver Option.

The Company used the relative fair value method to allocate the total consideration received (\$900,000) from the private placement and accordingly, \$ 609,526 of the total value was allocated to the shares and \$290,474 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. As the Company is not in yet in production and does not have a minerals reserve estimate, it is not practicable to estimate the fair value of the Silver Option and accordingly, no value was assigned to the Silver Option. The Company paid finder's fee of \$19,551 in cash and issued 419,020 broker warrants valued at \$12,213. Graeme O'Neill, the Company's CEO and director and Rick Low, the Company's CFO, were issued 3,300,000 and 400,000 units, respectively.

During the year ended December 31, 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. Graeme O'Neill, the Company's CEO and director and Donna Moroney, the Company's Corporate Secretary, were issued 2,660,000 and 90,000 units, respectively.

During the year ended December 31, 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 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, \$222,203 of the total value was allocated to the shares and \$107,797 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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2020

(Unaudited)

(Expressed in Canadian dollars, Unless Noted Otherwise)

finder's fee of \$3,500 in cash and issued 46,667 broker warrants valued at \$2,562. Graeme O'Neill, the Company's CEO and director was issued 1,966,666 units.

During the year ended December 31, 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. The Company used the relative fair value method to allocate the total consideration received (\$300,000) from the private placement and accordingly, \$143,664 of the total value was allocated to the shares, \$81,336 to the warrants and \$75,000 to flow-through premium liability. The value of the shares was based on the market price of the shares, the flow-through premium liability was based on the difference between unit price of the flow-through units and non flow-through units 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. Graeme O'Neill, the Company's CEO and director was issued 750,000 flow through units.

During the year ended December 31, 2019, the Company closed the closed a private placement and issued a total of 3,715,000 units at a price of \$0.125 per unit for gross proceeds of \$464,375. 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 (\$464,375) from the private placement and accordingly, \$334,994 of the total value was allocated to the shares and \$129,381 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 28,000 broker warrants valued at \$1,373. Graeme O'Neill, the Company's CEO and director was issued 1,440,000 units.

During the year ended December 31, 2019, the Company closed a non-brokered private placement consisting of 3,400,000 flow-through units at a price of \$0.125 per unit for gross proceeds of \$425,000. The Company also issued 3,400,000 transferable common share purchase warrants exercisable into one common share of the Company at an exercise price of \$0.25 cents for a period of twenty-four months from the date of issuance. The Company used the relative fair value method to allocate the total consideration received (\$425,000) from the private placement and accordingly, \$306,762 of the total value was allocated to the shares, \$118,238 to the warrants and \$nil to flow-through premium liability. The value of the shares was based on the market price of the shares, the flow-through premium liability was based on the difference between unit price of the flow-through units and non flow-through units and the value of the warrants was based on Black Scholes option pricing model. The Company paid finder's fee of \$8,750 in cash and issued 70,000 broker warrants valued at \$3,514. Graeme O'Neill, the Company's CEO and director and Rick Low, the Company's CFO, were issued 2,200,000 and 200,000 flow through units, respectively. \$125,000 of this issuance is recorded as subscriptions receivable.

- (ii) During the year ended December 31, 2019, Graeme O'Neill, the Company's CEO and director converted US\$450,000 of 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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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 year ended December 31, 2019 resulted from this transaction. Contribution surplus of \$33,102 was transferred to share capital in relation to the conversion.

During the year ended December 31, 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 year ended December 31, 2019 resulted from this transaction. Contribution surplus of \$361 was transferred to share capital in relation to the conversion.

- (iii) During the year ended December 31, 2019, the Company issued 2,563,637 shares to settle \$198,523 in convertible debenture interest and \$12,252 in accounts payable with a company controlled by Graeme O'Neill, the Company's CEO and director. A loss on debt settlement of \$59,856 for the year ended December 31, 2019 resulted from this transaction.
- (iv) During the year ended December 31, 2019, the Company issued 100,000 shares valued at \$9,500 pursuant to the option agreement for the Brandywine mineral property.

c) Contributed Surplus

Stock Options

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

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

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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

During the nine months ended September 30, 2020 and year ended December 31, 2019, 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, 2018	6,790,000	\$0.18	3.71
Options granted	4,730,000	\$0.10	4.8
Options exercised	(750,000)	\$0.10	-
Options expired	(225,000)	\$0.20	-
Options forfeited	(275,000)	\$0.21	-
Balance, December 31, 2019	10,270,000	\$0.14	3.50
Options exercised	(900,000)	\$0.11	-
Options expired	(200,000)	\$0.10	-
Options forfeited	(380,000)	\$0.16	-
Balance, September 30, 2020	8,790,000	\$0.15	2.70

There were no stock options granted for the nine months ended September 30, 2020. The details of the share based compensation granted are as follows:

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. Of these stock options, 750,000 were granted to related parties.

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. Of these stock options, 830,000 were granted to related parties.

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. Of these stock options, 420,000 were granted to related parties.

On August 13, 2019, 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. Contribution surplus of \$57,572 was transferred to share capital in relation to the exercise.

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. Of these stock options, 1,200,000 were granted to related parties.

On December 6, 2019, the Company granted 845,000 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 \$56,545 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 600,000 were granted to related parties.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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

	2019
Risk free rate of return	1.34 -1.82%
Expected life	3.86 – 3.96 years
Expected volatility	116 - 136%
Expected dividend yield	0.00%

The following stock options were outstanding and exercisable at September 30, 2020:

Number	Exercise Price	Expiry Date
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
230,000	\$0.20	July 13, 2022
1,000,000	\$0.20	September 18, 2022
800,000	\$0.25	March 6, 2023
370,000	\$0.20	May 8, 2023
1,760,000	\$0.15	September 24, 2023
560,000	\$0.10	February 12, 2024
700,000	\$0.10	May 7, 2024
350,000	\$0.10	June 17, 2024
700,000	\$0.10	August 22, 2024
750,000	\$0.10	December 6, 2024
8,890,000		

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, 2018	31,995,104	\$0.26	1.19
Warrants granted	18,693,667	\$0.18	2.01
Warrants expired	(3,430,800)	0.22	-
Balance, December 31, 2019	47,257,971	\$0.23	1.28
Warrants granted	30,849,557	\$0.14	1.60
Warrants expired	(7,800,100)	0.25	-
Warrants exercised	(835,000)	0.10	-
Balance, September 30, 2020	69,472,428	\$0.18	1.42

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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

	2020	2019
Risk free rate of return	0.25 – 0.42%	1.34 – 1.80%
Expected life	2.00 years	1.90 – 2.32 years
Expected volatility	122 – 119%	106 – 112%
Expected dividend yield	0.00%	0.00%

The following warrants were outstanding as at September 30, 2020:

Number	Exercise Price	Expiry Date
2,000,000	\$0.15	February 12, 2021
7,500,000	\$0.30	March 2, 2021
1,100,000	\$0.15	March 12, 2021
864,000	\$0.15	April 15, 2021
900,000	\$0.25	August 22, 2021
1,460,000	\$0.25	September 27, 2021
71,400	\$0.125	September 27, 2021
1,155,000	\$0.25	September 27, 2021
1,788,000	\$0.25	October 25, 2021
2,100,000	\$0.25	December 3, 2021
1,480,000	\$0.25	December 19, 2021
2,170,000	\$0.25	December 30, 2021
5,608,000	\$0.10	April 2, 2022
11,976,020	\$0.10	April 17, 2022
6,000,000	\$0.25	May 10, 2022
1,300,000	\$0.125	May 29, 2022
2,806,562	\$0.18	July 2, 2022
1,933,333	\$0.125	July 3, 2022
4,108,375	\$0.18	July 10, 2022
1,213,334	\$0.125	July 22, 2022
3,512,600	\$0.20	August 4, 2022
700,000	\$0.125	August 6, 2022
2,003,000	\$0.20	August 6, 2022
2,370,000	\$0.125	August 27, 2022
500,000	\$0.19	April 12, 2023
527,804	\$0.25	April 12, 2023
2,325,000	\$0.15	July 19, 2023
69,472,428		

On April 8, 2020, the Company received approval from the TSXV Exchange to extend the expiry dates of 6,000,000 warrants to May 10, 2022 at an exercise price of 25 cents per share. These warrants had original expiry dates of May 10, 2019 (as to 2,160,000 warrants), June 12, 2019 (as to 2,060,000 warrants) and August 2, 2020 (as to 1,780,000 warrants).

On April 8, 2020, the Company received approval from the TSXV Exchange to extend the expiry dates of 500,000 warrants at an exercise price of 25 cents per share which were scheduled to expire on April 12, 2020 to April 12, 2023.

On April 8, 2020, the Company received approval from the TSXV Exchange to extend the expiry dates of 527,804 warrants at an exercise price of 25 cents per share which were scheduled to expire on April 12, 2020 to April 12, 2023.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

On July 2, 2020, the Company received approval from the TSXV Exchange to extend the expiry dates of 2,325,000 warrants at an exercise price of 15 cents per share which were scheduled to expire on July 19, 2020 to July 19, 2023.

During the year ended December 31, 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 which were scheduled to expire on dates ranging from May 10, 2019 to September 19, 2019 to May 10, 2020.

During the year ended December 31, 2019, the Company received approval from the TSXV Exchange to extend the expiry dates of 7,500,000 warrants at an exercise price of 30 cents per share which were scheduled to expire on dates ranging from December 27, 2019 to March 2, 2020 to March 2, 2021.

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, 2020 and 2019:

	Note	Nine Months Ended	
		September 30, 2020	September 30, 2019
Management fees	(a)	\$ 67,500	\$ 67,500
Office rent	(a)	27,000	27,000
Interest and financing fee	(b)	17,234	16,260
Professional fees	(c)	90,000	91,800
Office and other - Corporate services	(d)	27,000	27,000
Share-based compensation	(e)	-	287,615
Mineral property costs – project management	(a)	67,500	67,500
		\$ 296,234	\$ 584,675

- 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").
- Interest charged at 12% per annum, compounded quarterly, and payable quarterly for overdue related party accounts payable balances.
- Fees paid to the Company's CFO, Rick Low.
- Fees paid to the Company's Corporate Secretary, Donna Moroney.
- During the nine months ended September 30, 2019, the Company issued 750,000 stock options to related parties.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

The following table summarizes payable balances to related parties as at September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Trade payable to O'Neill**	\$ 9,198	\$ 37,455
Trade (receivable from) payable to Highcard**	-	16,010
Trade payable to corporate secretary**	53,548	56,877
Trade payable to CFO**	67,745	133,908
	<u>\$ 130,491</u>	<u>\$ 244,250</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, 2020, O'Neill was issued 2,437,500 units of the Company's private placement that consisted of 6,756,562 units at a price of \$0.08 per unit for gross proceeds of \$540,525. 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 \$0.18 per share within two years from the date of issuance (note 7(b)(1)).

During the nine months ended September 30, 2020, O'Neill was issued 610,000 units and Rick Low, the Company's CFO, was issued 100,000 units of the Company's private placement that consisted of 5,300,000 flow-through units at a price of \$0.125 per unit for gross proceeds of \$662,500. 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 \$0.18 per share within two years from the date of issuance (note 7(b)(1)).

During the nine months ended September 30, 2020, O'Neill and Rick Low, the Company's CFO, were issued 3,300,000 and 400,000 units, respectively, of the Company's private placement that consisted a total of 18,000,000 units at a price of \$0.05 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 \$0.10 per share within two years from the date of issuance or each 200 warrants may be exercised by the holder into one ounce of silver at an exercise price of C\$20.00 per ounce at any time until the close of business on the day which is two years from the date of issue of the Warrant (note 7(b)(1)).

During the year ended December 31, 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 year ended December 31, 2019 resulted from this transaction. Contribution surplus of \$33,102 was transferred to share capital in relation to the conversion.

During the year ended December 31, 2019, O'Neill subscribed for 9,016,666 shares of the private placements for total proceeds of \$943,500 (note 7(b)(i)). O'Neill received 9,016,666 warrants that are exercisable from 2 to 3 years from the date of issuance at exercise prices ranging from \$0.125 to \$0.25.

During the year ended December 31, 2019, Rick Low, CFO, subscribed for 200,000 shares of the private placements for total proceeds of \$25,000 (note 7(b)(i)). Rick Low received 200,000 warrants that are exercisable 2 years from the date of issuance at an exercise price of \$0.25.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

During the year ended December 31, 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)(i)). The company controlled by Donna Moroney received 90,000 warrants that are exercisable 2 years from the date of issuance at an exercise price of \$0.15.

During the year ended December 31, 2019, the Company issued 144,146 shares to settle \$12,252 in accounts payable with a company controlled by O'Neill. A loss on debt settlement of \$2,162 for the year ended December 31, 2019 resulted from this transaction.

As at December 31, 2019, the Company has accrued liabilities of \$15,000 to O'Neill. As at December 31, 2019, the Company has a loan payable of \$14,187 (US\$10,000) to Caliber Minerals Inc., a related party with a director in common. This loan has been repaid and was interest free, unsecured and had no terms of repayment.

9. MINERAL PROPERTY AND EXPLORATION EXPENSES

	<u>Nine Months Ended</u>	
	September 30,	September 30,
	2020	2019
Acquisition and holding costs	\$ 3,084	\$ 2,960
Assays and analysis	40,979	2,270
Depreciation (Note 3)	245,772	285,320
Drilling	169,256	-
Equipment & other rentals	80,289	19,890
Geological (Note 8)	69,681	29,103
Labour	-	6,604
Other contractors	153,876	182,742
Project management (Note 8)	67,500	67,500
Property preparation	136,613	-
Supplies	69,480	43,656
Technical	48,684	2,500
Travel and accommodation	48,920	38,869
Miscellaneous	2,575	6,173
	<u>\$ 1,136,709</u>	<u>\$ 687,587</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:

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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, 2019 and has partially completed payments for 2020.

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 Inc. ("Turnagain") of Richmond, BC. The option terms are the following:

- i. The Company is required to obtain TSXV Exchange approval and execute an Option Agreement (completed December 16, 2019 with Option Date defined as December 23, 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 (paid), delivery of 100,000 common shares upon signing the Option Agreement (completed), 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 of the Option Date; and
- vi. Work expenditures of \$500,000 in year one (completed \$380,013), \$500,000 in year two, \$500,000 in year three and \$1,500,000 on or before the 5th anniversary of the Option Date.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

The Company and Turnagain agree that the Brandywine Property will be subject to a 2% Net Smelter Return Interest (NSR). The Company shall have the right, at any time during the term of the Agreement, to purchase the NSR for C\$250,000 per percentage point.

The Company and Turnagain have agreed that any Surface Rights of the Property that are owned by Turnagain and that the Company shall have exclusive use of the Surface Rights until the exhaustion of the minerals on the Property for mining operations, for the movement of equipment and removal of minerals from mining operations.

At any time during the Agreement, the Company shall have the option of acquiring full ownership in the property by paying C\$750,000 to Turnagain. Any share issuance due under the Brandywine Option Agreement after the payment shall be cancelled and the Company shall have 100% Interest in and to the Property.

c) Harrison Gold Project, Harrison, British Columbia, Canada

The Company entered into an option agreement with Bear Mountain Gold Mines Ltd, ("BMGM") a British Columbia private corporation, to earn a 50% interest in its Harrison Gold Project, Harrison, British Columbia, Canada.

The Harrison Gold Property is an advanced stage gold exploration project focused on a seven kilometer long ridge called Bear Mountain located on the southeast side of Harrison Lake, 130 kilometers east of Vancouver. BMGM has an option to acquire a 100% interest in the property from TSX.V listed Omineca Mining and Metals Ltd. ("Omineca").

The terms of the BMGM option agreement with Omineca require that BMGM incur \$2,000,000 in exploration expenditures (\$900,000 of which have been incurred to date), pay \$500,000 in cash or shares (\$100,000 of which has been paid) and issue 3,166,000 shares on or before December 31, 2020 (1,166,000 of which have been issued). In addition, Omineca is entitled to a 2% NSR (50% of which can be purchased for \$1,000,000) and up to \$500,000 in annual \$100,000 special royalty payments on the occurrence of certain trigger events.

In order to exercise the option, Bayhorse shall:

- I. Pay BMGM \$1,000 on signing of the BMGM option agreement (not completed);
- II. Pay BMGM \$9,000 cash and issue 50,000 common shares in the capital of the Company to BMGM on the Option Date, which is defined as five business days after TSX Venture Exchange approves the option agreement (Option Date is November 2, 2020) (not completed);
- III. Upon completing \$1,100,000 of expenditures up to March 31, 2021, pay \$40,000 in cash and issue 450,000 common shares in the capital of the Company to BMGM; and
- IV. Assume all the outstanding obligations of BMGM due to Omineca under the option agreement between BMGM and Omineca that requires the Company to pay \$400,000 in cash or shares to Omineca and issue 2,000,000 common shares in the capital of the Company to Omineca before December 31, 2020 (BMGM has the option to request an extension to March 31, 2021).

In recognition that Omineca is entitled to an underlying 2% Net Smelter Royalty ("NSR") on the property, the Company and BMGM agree that the Omineca NSR including the purchase of 1% of the NSR for \$1 million, shall be apportioned according to each of the Company's and BMGM's interest in the property.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
 For the Three and Nine Months Ended September 30, 2020
 (Unaudited)
 (Expressed in Canadian dollars, Unless Noted Otherwise)

d) 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. As a result, the Company reversed the accrual of US\$250,000 option payment for the year ended December 31, 2019.

10. SUPPLEMENTAL DISCLOSURE FOR SIGNIFICANT NON-CASH TRANSACTIONS

During the nine months ended September 30, 2020 and 2019, the Company had the following non-cash transactions:

	Nine Months Ended	
	September 30 2020	September 30 2019
Financing Activities		
Fair value of options transferred to share capital from contributed surplus on exercise of options	\$ 74,848	\$ -
Fair value of warrants transferred to share capital from contributed surplus on exercise of warrants	24,770	
Fair value of warrants transferred from share capital to contributed surplus for warrants attached to private placement units	(661,534)	(275,201)
Fair value of warrants issued as finder’s fee for private placements	(37,427)	(7,597)
Shares issued on conversion of Debentures	-	538,266
	\$ (599,343)	\$ 255,468

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.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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, 2020, 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, 2020 and 2019 are as follows:

		Nine Months Ended	
		September 30, 2020	September 30, 2019
Canada	\$	1,095,415	\$ 863,932
USA		837,172	644,751
	\$	1,932,587	\$ 1,508,683

By geographic areas, the Company's non-current assets as at September 30, 2020 and December 31, 2019 are as follows:

		September 30, 2020	December 31, 2019
Canada	\$	27,009	\$ 54,387
USA		1,407,182	1,481,284
	\$	1,434,191	\$ 1,535,671

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

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

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.

	Level 1	Level 2	Level 3
September 30, 2020			
Cash	\$ 175,060	\$ -	\$ -
Convertible debenture	-	-	(1,700,361)
Lease liability	-	-	(744,131)
December 31, 2019			
Cash	\$ 63,653	\$ -	\$ -
Convertible debenture	-	-	(1,635,073)
Lease liability	-	-	(973,926)

As at September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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, 2020 and year ended December 31, 2019.

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, 2020 and year ended December 31, 2019 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, 2020 and year ended December 31, 2019 is related to a change in the credit

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

risk of the lease liability. All of the change in fair value is associated with changes in market condition.

Financial Risk

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

Industry Risk

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash accounts and its receivables. This risk is managed through the use of a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's receivables relate primarily 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 denominated in US dollars.

These are all shown on the statement of loss and comprehensive loss. The Company does not engage in any hedging activities to reduce its foreign currency risk. A 10% variance in the foreign exchange rates would expose the Company to a positive or negative impact on its comprehensive loss of approximately \$288,000 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.

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

Liquidity and Funding Risk

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

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

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

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

13. COMMITMENTS

The following table summarizes the contractual maturities as at September 30, 2020 of the Company's significant financial liabilities and capital commitments, including contractual obligations for the years indicated:

	2020	2021	2022	2023	2024	Total
Accounts payable and accrued liabilities	\$ 926,309	\$ -	\$ -	\$ -	\$ -	\$ 926,309
Advance royalty payment obligations ⁽¹⁾	49,354	66,695	66,695	66,695	66,695	316,134
Ore Sorter lease payments	117,650	431,383	-	-	-	549,034
Loan Payable	161,850	-	-	-	-	161,850
Convertible Debentures ⁽²⁾	1,040,442	673,620	-	-	-	1,714,062
	\$ 2,295,606	\$ 1,171,698	\$ 66,695	\$ 66,695	\$ 66,695	\$ 3,667,389

⁽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, 2020.

During the nine months ended September 30, 2020, the Company completed a private placement of flow-through shares for gross proceeds of \$662,500 (Note 7 (b) (i)). A flow-through share premium liability of \$114,330 was recorded on the issue. The flow-through funds are required to be spent on qualified exploration programs no later than December 31, 2022. As at September 30, 2020, the Company had spent \$168,025 of the flow-through fund on qualified programs, and under the look-back rules permitted by Canadian tax authorities expects to spend the remaining funds from 2020 to 2022. The flow-through share premium liability has been reduced pro-rata by \$28,997 as at September 30, 2020 for the tax benefits that were renounced for funds spent to the September 30, 2020 and a deferred income tax recovery of \$28,997 has been recorded as at September 30, 2020.

During the year ended December 31, 2019, the Company completed a private placement of flow-through shares for gross proceeds of \$300,000 (Note 7 (b) (i)). A flow-through share premium liability of \$75,000

BAYHORSE SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars, Unless Noted Otherwise)

was recorded on the issue. The flow-through funds are required to be spent on qualified exploration programs no later than December 31, 2021. As at September 30, 2020, the Company had spent \$300,000 of the flow-through fund on qualified programs, and under the look-back rules permitted by Canadian tax authorities expects to spend the remaining funds in 2020 and 2021. The flow-through share premium liability has been reduced by \$75,000 as at September 30, 2020 for the tax benefits that were renounced for funds spent to the September 30, 2020 and a deferred income tax recovery of \$52,996 has been recorded as at September 30, 2020.

During the year ended December 31, 2019, the Company completed a private placement of flow-through shares for gross proceeds of \$425,000 (Note 7 (b) (i)). A flow-through share premium liability of \$nil was recorded on the issue. The flow-through funds are required to be spent on qualified exploration programs no later than December 31, 2021. As at September 30, 2020 and December 31, 2019, the Company had spent \$nil of the flow-through fund on qualified programs, and under the look-back rules permitted by Canadian tax authorities expects to spend the remaining funds in 2020 and 2021.

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, 2020:

- (a) On October 5, 2020 the Company granted 2,000,000 stock options to directors, officers and consultants. These stock options fully vested on the date of grant and are exercisable into one common share of the Company at \$0.20 per common share five years from the date of grant.
- (b) On October 30, 2020, the Company closed a flow-through private placement of 1,213,333 units, at \$0.15 cents per unit for gross proceeds of \$182,000. Each unit consists of one common share and one transferable common share purchase warrant exercisable into one common share of the Company at \$0.20 per common share two years from the date of issuance. The Company paid finder's fee of \$1,200 in cash and issued 14,000 broker warrants. Graeme O'Neill, a director and CEO of the Company, has subscribed for a total of 600,000 units of the private placement. Rick Low, CFO of the Company, has subscribed for a total of 150,000 units of the private placement
- (c) In October and November 2020, an aggregate of 800,000 warrants were exercised at an exercise price of \$0.10, and the Company issued 800,000 common shares for gross proceeds of \$80,000. These warrants were exercised by Graeme O'Neill, a director and CEO of the Company.