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**HONEY BADGER SILVER INC. (FORMERLY HONEY BADGER  
EXPLORATION INC.)**

**Consolidated Interim Financial Statements**

**(Unaudited)**

For the Three and Nine Months Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

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## **HONEY BADGER SILVER INC.(FORMERLY HONEY BADGER EXPLORATION INC.)**

### **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND NOTICE TO READER**

The accompanying unaudited condensed interim financial statements of Honey Badger Silver Inc., formerly Honey Badger Exploration Inc., (the “Company”), for the nine months ended September 30, 2020 are the responsibility of the Company’s management (“Management”) and have been prepared by Management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated interim financial statements in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) for condensed interim financial statements.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor. The Company’s independent auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by the Chartered Professionals Accountants of Canada for a review of condensed interim financial statements by an entity’s auditor.

**Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**  
**Consolidated Statements of Financial Position**  
*(Expressed in Canadian dollars)*  
(Unaudited)

	Notes	September 30, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	537,066	315,558
Taxes and other receivables		35,120	108,125
Prepaid expenses		3,892	5,915
Marketable securities	5	7,059	
<b>Total Assets</b>		<b>583,136</b>	429,598
<b>Liabilities and Shareholders' Equity (Deficit)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6	182,475	278,275
Flow-through provision	7	265,031	265,031
		<b>447,506</b>	
<b>Total Liabilities</b>			543,306
<b>Shareholders' Equity (Deficit)</b>			
Share capital	8	9,814,783	9,540,406
Contributed surplus	8	3,536,232	3,088,049
Accumulated deficit		(13,215,385)	(12,742,163)
<b>Total Shareholders' Equity (Deficit)</b>		<b>135,630</b>	(113,708)
<b>Total Liabilities and Shareholders' Equity (Deficit)</b>		<b>583,136</b>	429,598
<b>Nature of operations and Going Concern (Note 1)</b>			
<b>Commitments (Note 9)</b>			

These financial statements are authorized for issuance by the Board of Directors on November 19, 2020.

<b>Approved on behalf of the Board of Directors:</b>	(Signed) “Eduardo Baer”	(Signed) “Chad Gilfillan”
	Director	Director

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

**Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
*(Expressed in Canadian dollars)*  
(Unaudited)

	Notes	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
<b>Expenses</b>					
Exploration expenditures	10, 11	4,785	173,080	51,720	528,789
Salaries, professional and consulting fees	9	173,876	62,834	270,683	161,098
General and administrative		11,553	11,903	32,975	69,598
Shareholder communication		7,182	-	25,068	-
Share-based compensation		225,000	-	225,000	-
Part XII.6 tax		-	(6,664)	-	(60,055)
Loss before finance items and other items		(422,396)	(241,153)	(605,456)	(701,496)
Other income		-	39	-	142
Gain on marketable securities	5	65,180	-	124,873	-
Foreign exchange gain (loss)		-	-	95	-
<b>Net Income (Loss) and comprehensive income (loss)</b>		<b>(414,951)</b>	<b>(164,266)</b>	<b>(473,223)</b>	<b>(498,585)</b>
<b>Loss per share - basic and diluted</b>		<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.00)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>		<b>85,959,536</b>	83,951,418	<b>85,959,536</b>	83,951,418

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

**Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**  
**Consolidated Statements of Cash Flows**  
*(Expressed in Canadian Dollars)*  
(Unaudited)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
	\$	\$
<b>Operating activities</b>		
Loss for the year	(473,223)	(498,585)
Items not affecting cash:		120,000
Deferred premium on flow-through shares	-	(60,055)
Share-based compensation	225,000	-
Gain on marketable securities	(7,059)	-
Net change in non-cash working capital items:		
Taxes and other receivables	73,005	(117,843)
Prepaid expenses	2025	(1,628)
Accounts payable and accrued liabilities	(95,800)	135,660
<b>Net cash used in operating activities</b>	<b>(276,052)</b>	<b>(422,450)</b>
<b>Financing activities</b>		
Proceeds from private placements	500,000	-
Share issue costs	(12,700)	-
Exercise of warrants	10,260	-
<b>Net cash provided by financing activities</b>	<b>497,560</b>	<b>-</b>
<b>Change in cash and cash equivalents</b>	<b>221,508</b>	<b>422,450</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>315,558</b>	<b>1,132,962</b>
<b>Cash and cash equivalents, end of period</b>	<b>537,066</b>	<b>710,511</b>

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

**Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**  
**Statements of Changes in Shareholders' Equity (Deficit)**  
*(Expressed in Canadian dollars)*  
(Unaudited)

	Common Shares	Share Capital	Contributed Surplus	Accumulated Deficit	Total
		\$	\$	\$	\$
<b>Balance, January 1, 2019</b>	<b>74,730,824</b>	<b>9,300,406</b>	<b>1,924,086</b>	<b>(11,718,242)</b>	<b>670,212</b>
Fair value of shares issued for property acquisition	6,000,000	120,000	-		120,000
Loss for the period				(498,585)	(498,585)
<b>Balance, September 30, 2019</b>	<b>80,370,824</b>	<b>9,540,406</b>	<b>3,088,049</b>	<b>(12,742,163)</b>	<b>(113,708)</b>
<b>Balance, December 31, 2019</b>	<b>80,370,824</b>	<b>9,540,406</b>	<b>3,088,049</b>	<b>(12,742,163)</b>	<b>(113,708)</b>
Private placements	12,500,000	500,000	-	-	500,000
Fair value of warrants issued	-	(232,704)	232,704	-	-
Share issue costs	-	(12,700)			(12,700)
Exercise of warrants	182,400	19,781	(9,521)		10,260
Share-based compensation	-	-	225,000		225,000
Loss for the period	-	-	-	(473,223)	(473,223)
<b>Balance, September 30, 2020</b>	<b>93,053,224</b>	<b>9,814,783</b>	<b>3,536,232</b>	<b>13,215,385</b>	<b>135,630</b>

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

# **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

## **Notes to Consolidated Interim financial statements**

**(Expressed in Canadian dollars, unless otherwise noted)**

*For the nine months ended September 30, 2020 and 2019*

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### **1. Nature of operations and going concern**

Honey Badger Silver Inc., formerly Honey Badger Exploration Inc., (the "Company") was founded in 1992 for the purpose of the acquisition, exploration, and development of mining properties. The Company's head office and the primary location of its registered records is 145 Wellington Street West, Suite 1001, Toronto, Ontario M5J 1H8. The Company owns two wholly owned subsidiaries, 606596 Alberta Ltd and Thunder Bay Silver and Cobalt Corp.

The accompanying consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company is currently in the exploration stage and has not commenced commercial operations.

For the nine months ended September 30, 2020, the Company had a loss of \$473,223, (December 31, 2019 – \$1,023,921) and an accumulated deficit of \$13,215,385 (December 31, 2019 - \$12,742,163).

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue operations and fund its mining interest expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. These conditions cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore need to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

#### **Novel Coronavirus ("COVID-19")**

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

### **2. Significant Accounting Policies**

#### ***a) Statement of compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS comprise IFRSs, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"s) and the former Standing Interpretations Committee ("SIC"s).

#### ***b) Basis of presentation***

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

## **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

### **Notes to consolidated financial statements**

*For the nine months ended September 30, 2020 and 2019*

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#### **2. Significant Accounting Policies (continued)**

**c) *Basis of consolidation***

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries 606596 Alberta Ltd. and The Thunder Bay Silver & Cobalt Corp., both of which are not active and have no assets in the current or prior year. All intercompany balances and transactions have been eliminated.

**d) *Foreign currencies***

The presentation and functional currency of the Company is the Canadian dollar.

**e) *Cash and cash equivalents***

Cash and cash equivalents include cash, demand deposits and short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents have maturities of three months or less at the date of acquisition. Interest earned is included in finance income on the statement of profit or loss.

**f) *Marketable Securities***

Marketable securities consist of equity securities over which the Company does not have control or significant influence.

**g) *Mineral properties and exploration expenditures***

The Company expenses all costs relating to the acquisition of, exploration for and development of mineral claims and credits all revenues received against the exploration expenditures. Such costs include, but are not limited to acquisition costs, geological, geophysical studies, exploratory drilling and sampling.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations.

Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

**h) *Asset retirement obligation***

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, provides guidance relating to asset retirement obligations. An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and charged to expenses as an exploration cost, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflect the time value of money are used to calculate the net present value. The related liability is adjusted each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

As at September 30, 2020 and 2019, the Company had no asset retirement obligations.

## **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

### **Notes to consolidated financial statements**

*For the nine months ended September 30, 2020 and 2019*

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#### **2. Significant Accounting Policies (continued)**

##### *i) Flow-through shares*

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is deferred and recognized as other income as the expenditures are incurred, and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures. The Company may also be subject to a Part XIII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

##### *j) Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share purchase warrants are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

Proceeds received on the issuance of units, consisting of common shares and share purchase warrants, are allocated to common shares and warrants on a relative fair value basis whereby the common shares are valued based on the quoted market price of the common shares at the time the units are issued, and the share purchase warrants are valued using the Black-Scholes option pricing model.

##### *k) Income taxes*

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in loss and comprehensive loss depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

##### *l) Share-based payment transactions*

The stock option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

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#### 2. Significant Accounting Policies (continued)

##### l) *Share-based payment transactions (continued)*

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each period end, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are granted to non-employees and some or all goods and services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

##### m) *Loss per share*

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

##### n) *New standard adopted by the Company*

The following standards were adopted by the Company as of January 1, 2019. The impact of the adoption of these standards and the new accounting policies are disclosed below.

##### ***IFRS 16 Leases (“IFRS 16”)***

IFRS 16 was issued in January 2016 and replaced IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The adoption of IFRS 16 did not have any financial statement impact on the Company’s statements of financial position at transition on January 1, 2019, as the Company does not have any leases in place.

##### o) *Financial Assets and Liabilities*

IFRS 9 – Financial instruments (“IFRS 9”) includes guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVTOCI”) based on the business model in which they are held and the characteristics of their contractual cash flows.

##### Financial Assets

Within the scope of IFRS 9, financial assets are classified as financial assets at amortized costs, FVTPL or FVTOCI, as appropriate. The Company classifies its financial assets as amortized cost or FVTPL.

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

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## 2. Significant Accounting Policies (continued)

### *o) Financial Assets and Liabilities (continued)*

#### *Amortized cost*

Financial assets classified as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

#### *Fair value through profit and loss*

Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in net loss.

#### *Classification*

The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus or minus, in the case of financial assets not classified as FVTPL, directly attributable transaction costs. The Company's financial assets include cash and cash equivalents and taxes and other receivables.

#### *Recognition and measurement*

Financial assets are initially recognized at fair value plus transaction costs.

#### *Determination of fair values*

The determination of fair value requires judgement and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of securities based on quoted trading prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period.

#### *Impairment of financial assets*

Financial assets not measured at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amounts of the Company's financial assets are reviewed at each reporting date to determine if there is any indication of impairment. As at September 30, 2020, the fair values of the financial assets approximate their amortized costs due to their short-term nature.

#### *Financial instruments recorded at fair value*

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

## **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

### **Notes to consolidated financial statements**

*For the nine months ended September 30, 2020 and 2019*

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## **2. Significant Accounting Policies (continued)**

### *o) Financial Assets and Liabilities (continued)*

#### Financial liabilities

Financial liabilities are measured at amortized cost.

#### *Amortized cost*

Financial liabilities measured at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective yield basis is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

As at September 30, 2020, the fair values of accounts payable and accrued liabilities approximate their amortized costs due to the short-term nature of the financial liabilities.

#### *Derecognition of financial liabilities*

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

## **3. Significant accounting judgements, estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires management to make judgement, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Judgements, estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the financial statements.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could have an effect on the amounts recognized in the financial statements relate to the following:

#### *Going concern*

The preparation of the financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 1 of the financial statements.

#### *Deferred taxes*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

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#### 3. Significant accounting judgements, estimates and assumptions (continued)

##### *Deferred Flow-Through Premium Estimates*

Recorded costs of flow-through share premium liabilities reflect premiums received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainties and requires the Company to assess the value of non-flow-through shares. The determination is subjective and does not necessarily provide a reliable single measure of the fair value of the premium liability. The fair values of the flow-through premiums are disclosed in Note 6 of the financial statements.

##### *Share-based compensation*

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 8(b) of the financial statements.

#### 4. Cash and cash equivalents

As at September 30, 2020 and December 31, 2019, cash and cash equivalents were held as follows:

	<b>September 30, 2020</b>	December 31, 2019
Cash deposits	\$ <b>527,066</b>	\$ 305,558
Term deposits	<b>10,000</b>	10,000
	<b>\$ 537,066</b>	\$ 315,558

#### 5. Marketable Securities

On March 19, 2020 the Company received 1,342,280 shares in Blue Thunder Mining Inc. ("BLUE") in exchange for consulting services provided to BLUE during 2019. During the nine months ended September 30, 2020, the Company sold 1,281,000 shares. The income was treated as gain on marketable securities in the statement of loss and comprehensive loss. On June 8, 2020 the Company received an additional 3,200,000 shares in BLUE for consulting fees rendered during 2019. These shares are subject to a 4 months hold and restricted from trading until October 8, 2020. At September 30, 2020 the value of the marketable securities was \$7,059. The Company has a 3.3% holding in BLUE including restricted and unrestricted shares.

#### 6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	<b>September 30, 2020</b>	December 31, 2019
Accounts payable	\$ <b>111,875</b>	\$ 263,580
Accrued liabilities	<b>70,600</b>	14,695
	<b>\$ 182,475</b>	\$ 278,275

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

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#### 7. Deferred flow-through premium

The following table sets out the changes to the deferred premium balances:

	Total
<b>Balance – January 1, 2019</b>	\$ 117,083
Decrease of deferred premium	(60,055)
<b>Balance - September 30, 2019</b>	<b>\$ 57,028</b>
<b>Balance - January 1, 2020</b>	-
Decrease of deferred premium	-
<b>Balance – September 30, 2020</b>	<b>\$ -</b>

#### 8. Flow-through provision

During the year ended December 31, 2014:

- The Company recorded a contingent provision of \$100,973 for the subscriber liability related to the 2011 F/T series, which was calculated using a 35% combined rate applied against the estimated CEE shortfall.

During the year ended December 31, 2015:

- The Company increased the contingent provision to a total of \$335,015 consisting of \$102,000 for the subscriber liability related to the 2011 F/T series, which was calculated using a 35% combined rate applied against the estimated CEE shortfall, and \$132,042 for the Part XII.6 taxes.

During the year ended December 31, 2016:

- Based on the results of a CRA audit for the years ended December 31, 2011 and 2012 it was determined there was a shortfall of \$1,022,839 in qualified CEEs for the 2011 F/T Series. As a result:
  - The 2011 contingent provision for the obligation to 2011 FT series subscribers was increased by \$155,021 to \$357,994, which was calculated using a 35% combined rate applied against the estimated CEE shortfall.
  - The provision for Part XII.6 taxes was increased by \$100,973. Upon receiving an invoice from the CRA for a total of \$233,015 in Part XII.6 taxes and penalties, this amount was reclassified to accounts payable.
- The Company determined there was a shortfall of \$206,571 in qualified CEEs for the 2014 F/T Series. As a result, a contingent provision for the obligation to 2014 FT series subscribers was recognized of \$72,300, which was calculated using a 35% combined rate applied against the estimated CEE shortfall. All Part XII.6 taxes related to the 2014 F/T series and the associated shortfall were expensed during the year ended December 31, 2015 and have been paid to the CRA.
- During the three months ended September 30, 2020, the Company made a cash payment of \$nil (September 30, 2019 – \$nil) pursuant to the indemnity under the flow-through financings. On November 15, 2017, the Company completed a share-for-debt transaction whereby the Company agreed to settle certain of its flow-through obligations totalling \$165,061 through the issuance of common shares.

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

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#### 8. Flow-through provision (continued)

The following table sets out the changes to the provision for the obligation to flow-through subscribers:

Balance – January 1, 2017	\$ 430,294
Reclassification to accounts payable	(202)
Shares issued to settle obligations	(165,061)
Balance – January 31, 2018	\$ 265,031
Balance – January 31, 2019	\$ 265,031
Balance – January 31, 2020	\$ 265,031
<b>Balance – September 30, 2020</b>	<b>\$ 265,031</b>

#### 7. Shareholders' deficit

##### a) Common shares

The Company's authorized capital stock includes an unlimited number of common shares (issued 93,053,224 common shares) having no par value.

##### *Common shares issued for property*

On August 7, 2019 the Company issued 6,000,000 common shares, valued at \$240,000, in connection with the Cairngorm option agreement ( *Note 11 – Mineral Properties*).

#### 7. Shareholders' deficit (continued)

On August 21, 2020, the Company closed a non-brokered private placement offering of securities for total gross proceeds of \$500,000 consisting of units (the "Units") at a price of \$0.04 per Unit, with each Unit comprised of one common share (a "Share") of the Company and one Share purchase warrant (a "Warrant") with each Warrant being exercisable to acquire one Share at a price of \$0.05 per share for a period of 24 months. The securities issued in the Offering are subject to a statutory four months hold period.

##### b) Stock Options

The Company has a stock option plan (the "Plan") pursuant to which the Company's Board of Directors may grant incentive stock options to directors, officers, employees and consultants at the discretion of the Board of Directors. The exercise price of the options cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The Board, in accordance with applicable Exchange or other regulatory requirements, if any, will determined the vesting period. There is no minimum vesting period unless the optionee is engaged in investor relation activities, The maximum aggregate number of common shares under option at any time under the Plan cannot exceed 10% of the issued shares. The fair value of the share-based compensation is recognized as contributed surplus upon vesting.

On August 28, 2020, the Company granted 3,750,000 stock options (September 30, 2019 – nil) to directors, employees, officers and consultants at an exercise price of \$0.06 per common share. These five-year options vested immediately upon grant. The fair value of the stock options granted was estimated to be \$225,000 and is included in the statements of loss and comprehensive loss for the nine months ended September 30, 2020.

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

#### 7. Shareholders' deficit (continued)

Outstanding stock options at September 30, 2020 were as follows:

Number of Stock Options Outstanding	Black-Scholes Value	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (Years)
1,600,000	81,600	\$ 0.065	October 10, 2020	0.06
315,000	16,065	0.065	November 15, 2020	0.16
850,000	48,824	0.055	February 20, 2021	0.43
1,975,000	196,470	0.100	August 20, 2023	2.92
3,750,000	225,000	0.060	August 28, 2025	4.95
<b>8,490,000</b>	<b>567,959</b>	<b>\$ 0.070</b>		<b>2.93</b>

#### c) Warrants

The Company has issued warrants as part of equity financings. The fair value of warrants is recognized upon issuance as an equity reserve until expiration or exercise.

Warrants have been granted pursuant to equity financings as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2019	18,375,077	\$ 0.14
Granted	12,500,000	0.05
Exercised	182,400	0.06
Expired	(4,857,000)	0.08
<b>Balance, September 30, 2020</b>	<b>25,835,677</b>	<b>\$ 0.08</b>

Warrants outstanding and exercisable as at September 30, 2020 were as follows:

Grant Date	Expiry Date	Exercise Price	Number of Warrants	Remaining life
October 25, 2017	October 25, 2020	0.100	1,216,667	0.07
October 25, 2017	October 25, 2020	0.075	2,337,858	0.07
October 25, 2017	October 25, 2020	0.056	108,000	0.07
December 13, 2017	December 13, 2020	0.100	2,016,667	0.20
December 13, 2017	December 13, 2020	0.075	1,088,889	0.20
December 13, 2017	December 13, 2020	0.056	72,000	0.20
May 17, 2018	May 17, 2021	0.160	4,275,000	0.63
May 17, 2018	May 17, 2021	0.100	984,846	0.63
June 5, 2018	June 5, 2021	0.160	1,062,500	0.68
June 5, 2018	June 5, 2021	0.100	173,250	0.68
August 21, 2020	August 21, 2022	0.050	12,500,000	1.89
		<b>\$ 0.08</b>	<b>25,835,677</b>	<b>1.11</b>

## Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)

### Notes to consolidated financial statements

For the nine months ended September 30, 2020 and 2019

#### 7. Related party disclosures

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors and the executive management team. The executive management team comprises the Chief Executive Office, Chief Financial Officer and Vice President of Corporate Development.

Compensation for key management personnel of the Company was as follows:

	<b>September 30, 2020</b>	September 30, 2019
Short-term benefits <sup>(1)</sup>	\$ 138,347	\$ 63,424
Share-based compensation	<b>189,000</b>	-
	<b>\$ 327,347</b>	<b>\$ 63,424</b>

<sup>(1)</sup> Included in salaries, professional fees and exploration expenditures

#### 8. Mineral properties

##### *Exploration and Evaluation Expenditures*

The following table summarizes the cumulative exploration and evaluation expenditures the Company has incurred on its various properties:

	<b>Thunder Bay</b>	<b>LG Diamond &amp; Wemindji</b>	<b>Other</b>	<b>Total</b>
<b>Balance, January 1, 2019</b>	\$ 1,756,754	\$ 539,587	\$ 3,311,800	\$ 5,608,141
Property acquisition	120,000	-	-	120,000
Exploration expenditures	528,798	-	-	528,798
<b>Balance, September 30, 2019</b>	<b>\$ 2,405,552</b>	<b>\$ 539,587</b>	<b>-</b>	<b>\$ 3,311,800</b>
<b>Balance, January 1, 2020</b>	<b>2,867,416</b>	<b>\$ 539,587</b>	<b>\$ 3,311,800</b>	<b>6,718,803</b>
Exploration expenditures	51,720	-	-	51,720
<b>Balance, September 30, 2020</b>	<b>\$ 2,919,136</b>	<b>\$ 539,587</b>	<b>\$ 3,311,800</b>	<b>6,770,523</b>

##### **Thunder Bay Properties, Ontario**

###### *Thunder Bay Silver & Cobalt Corp.*

On June 7, 2018, the Company acquired Thunder Bay Silver & Cobalt Corp., a private company, which increased the Company's interests in the Thunder Bay area. Under the terms of the acquisition, the Company issued 7,000,000 common shares, valued at \$1,050,000 and made a cash payment of \$53,000. Thunder Bay Silver Cobalt Corp held no other assets other than the mineral claims.

During the year ended December 31, 2018, the Company staked additional ground in the Thunder Bay area, within a prospective silver, cobalt, zinc, lead and gold district.

On April 11, 2020, the Company cancelled 960 claims. 70 claims making up the main block of Lily of the Valley and 890 claims surrounding the MSM high priority group that was protected with renewals and an exclusion application.

## **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

### **Notes to consolidated financial statements**

*For the nine months ended September 30, 2020 and 2019*

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#### **8. Mineral properties (continued)**

##### *Beaver Silver Property.*

On July 19, 2018, the Company entered into an option agreement to acquire up to a 100% interest in the Beaver Silver Property from Cairngorm Mines Ltd. Under the terms of the option agreement, the Company may exercise the option over a three-year period, by making cash payments totalling \$75,000, issuing common shares with a market value of \$410,000 over the option period and incurring exploration expenditures of \$750,000 over the option period.

On August 10, 2018, the Company made a cash payment of \$75,000 and issued 357,143 common shares, valued at \$42,857, in connection with the Cairngorm option agreement.

On August 7, 2019 the Company issued 6,000,000 common shares, valued at \$240,000, in connection with the Cairngorm option agreement.

##### **LG Diamond Property, Quebec**

During the year ended December 31, 2015, the Company entered into an agreement to acquire the LG Diamond Project located in the James Bay Region of Quebec. As consideration, the Company issued 10,000,000 common shares at a value of \$0.01 each and granted a 2% Net Smelter Royalty (“NSR”). One half, or 1% of the NSR can be bought back for \$1,000,000 and the remaining 1% for \$2,000,000.

##### **Wemindji Property, Quebec**

During the year ended December 31, 2016, the Company entered into an agreement to acquire the Wemindji Property, which consists of certain claims located in the James Bay region of Québec. The acquisition costs consisted of the payment of \$10,000 cash (paid) and the issuance of 4,000,000 common shares (issued) of the Company with a fair value of \$120,000. The Company also granted a 2% NSR to the property vendors. The NSR may be bought back from the vendors for \$2,000,000.

##### **Other Properties**

###### *Barite-Zinc Property, Quebec*

On August 8, 2017, the Company acquired certain claims located in southeastern Quebec (the “Barite-Zinc Property”) by issuing 8,000,000 common shares valued at \$500,000 and granted a 2% NSR to the property vendor. The Company may re-purchase the NSR for \$1,000,000. The Company did not renew these claims which lapsed in April 2018.

###### *Blue Thunder, Quebec*

The Company has a 10% interest in certain mineral claims as at September 30, 2020.

#### **9. Commitments and contingencies**

##### **Flow-Through Expenditure Commitments**

The Company completed flow-through share financings that involve a commitment to incur Canadian Exploration Expenditures (“CEEs”) prior to the end of specific calendar years and to renounce the CEE tax deductions to the subscribers. As at September 30, 2020 the Company had a CEE shortfall of \$Nil. (December 31, 2019: \$31,830).

#### **10. Capital management**

As of September 30, 2020, the Company had a working capital deficit of \$135,630.

There were no changes in the Company's approach to capital management during the three months ended September 30, 2020.

In managing liquidity, the Company's primary objective is to ensure the entity can continue as a going concern while raising additional funding to meet its obligations as they come due. The Company's operations to date have been funded by issuing equity.

## **Honey Badger Silver Inc. (Formerly Honey Badger Exploration Inc.)**

### **Notes to consolidated financial statements**

*For the nine months ended September 30, 2020 and 2019*

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#### **12. Capital management (continued)**

The Company's investment policy is to invest excess cash in very low risk financial instruments such as term deposits or by holding funds in high yield savings accounts with major Canadian banks. Financial instruments are exposed to certain financial risks, which may include currency risk, credit risk, liquidity risk and interest rate risk.

The Company's mineral property interests are all in the exploration stage, as such the Company is dependent on external financing to fund its exploration activities and administrative costs. Management continues to assess the merits of mineral properties on an ongoing basis and may seek to acquire new properties or to increase ownership interests if it believes there is sufficient geologic and economic potential.

Management mitigates the risk and uncertainty associated with raising additional capital in current economic conditions through cost control measures that minimizes discretionary disbursements and reduces exploration expenditures that are deemed of limited strategic value.

The Company manages the capital structure (consisting of shareholders' deficit) on an ongoing basis and makes adjustments in response to changes in economic conditions and risk characteristics of its underlying assets. Adjustments to the Company capital structure may involve the issue of new shares, issue of new debt, acquisition or disposition of assets, or adjustments to the amounts held in cash and cash equivalents.

The Company is not subject to any externally imposed capital requirements other than flow-through spending.

#### **13. Financial instrument risk factors**

The following disclosures are to enable users of the consolidated financial statements to evaluate the nature and extent of risks arising from financial instruments at the end of the reporting year:

##### ***a) Credit risk***

The Company's credit risk is the risk of counterparty default on cash and cash equivalents held on deposit with financial institutions. The Company manages this risk by ensuring that deposits are only held with large Canadian banks and financial institutions. The Company's receivables related to sales taxes have negligible counterparty default risk. The Company's receivables related to companies related by common management are subject to counterparty default risk.

##### ***b) Liquidity risk***

The Company's liquidity risk is the risk that Company has insufficient funds to settle its contractual financial liabilities. The Company manages this risk by ensuring sufficient funds are available as contractual cash flows become due.

As at September 30, 2020, the Company had a cash balance of \$537,066 (December 31, 2019 - \$315,558) to settle current liabilities of \$447,506 (December 31, 2019 - \$543,306). While the Company has been successful in obtaining required funding in the past, there is no assurance that future financings will be available.

##### ***c) Market risks***

The Company's market risk arises from changes in interest rates and commodity prices that could have an impact on profit or loss. This includes:

- Interest rate risk, is the sensitivity of the fair value or of the future cash flows of a financial instrument to changes in interest rates. The Company does not have any financial assets or liabilities that were subject to variable interest rates.
- Commodity price risks, particularly with respect to diamonds, is the sensitivity of the fair value of or of the future cash flows of mineral assets. The Company manages this risk by continually monitoring base and precious metal prices and commodity price trends to determine the appropriate timing for funding the exploration of its mineral assets, or for the acquisition or disposition of mineral assets.
- Currency risk, is the sensitivity of the fair value or of the future cash flows of financial instruments to changes in foreign exchange rates. The Company does not have any financial assets or liabilities that were subject to variable foreign exchange rates and as such the Company is not subject to currency risk.