

**BAROYECA GOLD & SILVER INC.**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**Three Months Ended  
August 31, 2017**

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**BAROYECA GOLD & SILVER INC.**  
**August 31, 2017**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BAROYECA GOLD & SILVER INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)  
(Unaudited – See Notice)

		August 31, 2017		May 31, 2017
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash	\$	37,052	\$	55,561
Amounts receivable		2,994		2,982
Prepaid expenses		16,827		14,881
		<b>56,873</b>		<b>73,424</b>
Exploration advances		241		241
Equipment – Note 4		63,524		81,775
Exploration and evaluation assets – Note 5		1,032,549		1,191,283
	\$	<b>1,153,187</b>	\$	<b>1,346,723</b>
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable and accrued liabilities – Note 7 and 8	\$	2,140,505	\$	2,205,527
Advance payable – Note 15		20,000		20,000
Line of credit – Note 7		39		14,965
		<b>2,160,544</b>		<b>2,240,492</b>
Loan Payable – Note 12		341,802		367,191
		<b>2,502,346</b>		<b>2,607,683</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>				
Capital Stock – Note 6		4,673,373		4,673,373
Subscription received in advance		25,000		25,000
Agent options – Note 6		100,629		100,629
Reserves		683,742		683,742
Deficit		(6,821,389)		(6,745,727)
Accumulated other comprehensive income		(10,514)		2,023
		<b>(1,349,159)</b>		<b>(1,260,960)</b>
	\$	<b>1,153,187</b>	\$	<b>1,346,723</b>

**NATURE AND CONTINUANCE OF OPERATIONS** (Note 1)  
**SUBSEQUENT EVENT** (Note 17)

**Approved on behalf of the Board:**

*"Richard Wilson"*

Richard Wilson – Director

*"Douglas Eacrett"*

Douglas Eacrett – Director

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

**BAROYECA GOLD & SILVER INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(LOSS)**  
(Expressed in Canadian dollars)  
(Unaudited – See Notice)

	<b>Three Months Ended August 31, 2017</b>	<b>Three Months Ended August 31, 2016</b>
<b>EXPENSES</b>		
Depreciation – Note 4	\$ 12,735	\$ 18,951
Foreign exchange loss (gain)	1	(401)
Bank charges	1,285	1,237
Finance costs – Note 13	26,020	21,854
Insurance	5,192	3,185
Management fees – Note 7	15,000	15,000
Office and miscellaneous	3,487	872
Professional fees	4,939	1,263
Transfer agent and filing fees	1,775	643
Travel and promotion	5,228	2,745
<b>NET LOSS FOR THE PERIOD</b>	<b>(75,662)</b>	<b>(65,349)</b>
<b>Translation adjustment</b>	<b>(12,537)</b>	<b>(757)</b>
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(88,199)</b>	<b>(66,106)</b>
<b>LOSS PER SHARE</b>		
<i>Basic and diluted</i>	\$ (0.00)	\$ (0.00)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>46,169,938</b>	<b>46,169,938</b>

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

**BAROYECA GOLD & SILVER INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)  
(Unaudited – See Notice)

	<b>Three Months Ended August 31, 2017</b>	<b>Three Months Ended August 31, 2016</b>
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (75,662)	\$ (65,349)
Adjusted for items not involving cash:		
Depreciation	12,735	18,951
Unrealized foreign exchange loss	1	(401)
Amortized finance costs (gain)	852	754
Net changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	(29)	(28)
Decrease (increase) in prepaid expenses	(3,087)	3,184
Increase (decrease) in accounts payable and accrued liabilities	(22,760)	1,522
Increase (decrease) in due to related parties	(92,415)	19,552
	<b>(180,365)</b>	<b>(21,815)</b>
<b>INVESTING ACTIVITIES</b>		
Mineral property expenditures, net of recovery	164,020	11,543
<b>EFFECT OF FOREIGN EXCHANGE RATE</b>	<b>(2,164)</b>	<b>3,764</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(18,509)</b>	<b>(6,508)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>55,561</b>	<b>10,554</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 37,052</b>	<b>\$ 4,046</b>

For supplemental disclosure with respect to cash flows, see Note 11.

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

**BAROYECA GOLD & SILVER INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
(Expressed in Canadian Dollars)  
(Unaudited – See Notice)

	<i>Capital Stock</i>		<i>Subscription Received in advance</i>	<i>Agent Options</i>	<i>Reserves</i>	<i>Deficit</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Total Shareholders' Equity (Deficiency)</i>
	<i>Number of Shares</i>	<i>Amount</i>						
<b>Balance, May 31, 2017</b>	46,169,938	\$ 4,673,373	25,000	\$ 100,629	\$ 683,742	\$ (6,745,727)	\$ 2,023	\$ (1,260,960)
Net loss for the period	-	-	-	-	-	(75,662)	-	(75,662)
Translation adjustment	-	-	-	-	-	-	(12,537)	(12,537)
<b>Balance, August 31, 2017</b>	<b>46,169,938</b>	<b>\$ 4,673,373</b>	<b>25,000</b>	<b>\$ 100,629</b>	<b>\$ 683,742</b>	<b>\$ (6,821,389)</b>	<b>\$ (10,514)</b>	<b>\$ (1,349,159)</b>
<b>Balance, May 31, 2016</b>	46,169,938	\$ 4,673,373	-	\$ 100,629	\$ 683,742	\$ (6,441,905)	\$ (7,782)	\$ (991,943)
Net loss for the period	-	-	-	-	-	(65,349)	-	(65,349)
Translation adjustment	-	-	-	-	-	-	(757)	(757)
<b>Balance, August 31, 2016</b>	<b>46,169,938</b>	<b>\$ 4,673,373</b>		<b>\$ 100,629</b>	<b>\$ 683,742</b>	<b>\$ (6,507,254)</b>	<b>\$ (8,539)</b>	<b>\$ (1,058,049)</b>

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

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2017**  
(Expressed in Canadian dollars)  
(Unaudited – See Notice)

**NOTE 1 - NATURE AND CONTINUANCE OF OPERATIONS**

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**General business description**

Baroyeca Gold & Silver Inc. (the "Company") was incorporated under the laws of British Columbia on February 17, 2006. The Company's registered office is located at Suite 1008 - 409 Granville Street, Vancouver, British Columbia. The Company's principal business activities include the acquisition and exploration of its exploration and evaluation assets. During the year ended May 31, 2008, the Company incorporated a wholly-owned subsidiary, Baroyeca Gold & Silver de Mexico, S.A. de C.V. under the laws of Mexico. In June 2011, the Company incorporated two new wholly-owned subsidiaries, Tombstone Gold & Silver Inc. and Tombstone Resources Inc., under the laws of Arizona.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration and development programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is primarily dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

<b>Working capital deficiency</b>	<b>August 31, 2017</b>	<b>May 31, 2017</b>
Working capital	\$ (2,103,671)	\$ (2,167,068)
Deficit	\$ (6,821,389)	\$ (6,745,727)

**NOTE 2 – BASIS OF PREPARATION**

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The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on **October 30, 2017**.

**Statement of Compliance to IFRS**

These unaudited condensed interim financial statements have been prepared in accordance with International Accounts Standards 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2017**  
(Expressed in Canadian dollars)  
(Unaudited – See Notice)

**NOTE 2 – BASIS OF PREPARATION**

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**Principles of Consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Baroyeca Gold & Silver de Mexico, S.A. de C.V., Tombstone Gold & Silver Inc. and Tombstone Resources Inc. All inter-company transactions were eliminated upon consolidation.

These condensed financial statements have been presented in Canadian dollars, unless otherwise noted.

**Use of Estimates and Significant Accounting Judgements**

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared.

Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

*Critical judgments in applying accounting policies*

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1, as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the Company and its Mexican Subsidiary has been determined to be the Canadian dollar. The Company has determined that the functional currency of its US subsidiaries is the United States dollar.

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 – BASIS OF PREPARATION – CONT'D**

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**Significant Estimates**

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

*Fair value of stock options and warrants*

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of shareholders' equity.

*Income 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 income 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 future income tax provisions or recoveries could be affected.

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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(Unaudited – See Notice)

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

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**Foreign currency translation**

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company and its Mexican Subsidiary is the Canadian dollar, and the functional currency of the US Subsidiaries is the United States dollar.

Accordingly, the accounts of the US Subsidiaries are translated into Canadian dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;
- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and
- exchange gains and losses arising from translation are included in accumulated other comprehensive income (loss).

Transactions occurring in currencies other than the functional currency of the entity recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

**Cash and cash equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at August 31, 2017 and May 31, 2017 there were no cash equivalents.

**Equipment**

Equipment is recorded at cost less accumulated depreciation and impairment charges. Such cost consists of the purchase price, any costs directly attributable to bringing the equipment to the location and condition necessary for its intended use. Depreciation of equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- mining equipment: 5 to 15 years
- Office equipment: 5 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

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**Exploration and evaluation assets**

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred. All costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as resource assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment at each financial statement date or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Interest on borrowings incurred to finance resource assets is capitalized until the asset is capable of carrying out its intended use.

From time to time the Company may acquire or dispose of a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

Revenues from saleable material produced during the exploration phase are applied as a reduction to capitalized exploration and evaluation assets.

**Provision for environmental rehabilitation**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property and equipment, or site closure or reclamation activities when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the rehabilitation provision in the year incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as resource assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to resource assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

For the periods presented, the Company has determined that it has no significant provision for environmental rehabilitation.

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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(Expressed in Canadian dollars)  
(Unaudited – See Notice)

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

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**Impairment**

The Company reviews and evaluates its property, including exploration and evaluation assets, and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**Share-based payments**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period of options granted as both share-based compensation expense and reserves. Consideration paid for the shares on the exercise of stock options is credited to capital stock, and the reserve account is reduced. The share-based compensation expense includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

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

**BAROYECA GOLD & SILVER INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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(Expressed in Canadian dollars)  
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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

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**Income taxes**

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

**Earnings (loss) per share**

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period.

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the period, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

**Financial Instruments**

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

The Company has classified its cash as FVTPL. The Company's amounts receivable and due from related parties are classified as loans and receivables. The Company's accounts payable and accrued liabilities, due to related parties, advance payable and loan payable are classified as other financial liabilities.

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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

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**Financial Instruments-cont'd**

*Fair value hierarchy*

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Cash and the short-term deposit have been measured at fair value using Level 1 inputs.

**Comprehensive income (loss)**

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. The Company's translation of its US Subsidiaries into Canadian dollars is the only item currently affecting comprehensive income (loss) for the period presented.

**Future accounting pronouncements**

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended August 31, 2017:

- IFRS 9                      New standard that replaces IAS 39 for classification and measurement of financial instruments. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively. Early application is permitted.
- IFRS 15                     New standard establishes a new control-based revenue recognition model which could change the timing of revenue recognition. It is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

- IFRS 16                      On January 13, 2016 the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*.
- This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.
- This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. The extent of the impact of the adoption of the standard has not yet been determined by the Company.

The Company is currently in the process of reviewing the standards to determine the impact on the consolidated financial statements.

**NOTE 4 – EQUIPMENT**

Equipment comprises the following:

	<b>Three months ended August 31, 2017</b>		
	<b>Mining equipment</b>	<b>Office equipment</b>	<b>Total</b>
<b>Cost</b>			
Balance, May 31, 2017	\$ 280,057	\$ 976	\$ 281,033
Additions	-	-	-
<b>Balance, August 31, 2017</b>	<b>\$ 280,057</b>	<b>\$ 976</b>	<b>\$ 281,033</b>
<b>Accumulated depreciation</b>			
Balance, May 31, 2017	\$ 249,766	\$ 1,107	\$ 250,873
Change for the period	12,735	-	12,735
<b>Balance, August 31, 2017</b>	<b>\$ 262,501</b>	<b>\$ 1,107</b>	<b>\$ 263,608</b>
<b>Translation adjustment</b>			
May 31, 2017	\$ 51,484	\$ 131	\$ 51,615
August 31, 2017	\$ 45,968	\$ 131	\$ 46,099
<b>Net book value</b>			
At May 31, 2017	\$ 81,775	\$ -	\$ 81,775
At August 31, 2017	\$ 63,524	\$ -	\$ 63,524

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**NOTE 5 – EXPLORATION AND EVALUTION ASSETS**

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*Tombstone, Arizona*

Pursuant to a series of agreements, the Company acquired mining claims located in the state of Arizona and the option to acquire two additional parcels of claims contiguous to the group acquired. The Company paid the vendor US\$250,000 for the group of claims purchased and had the option to purchase the second parcel for US\$180,000 and the third parcel for US\$250,000. In September 2011, the Company paid US\$180,000 to exercise the option on the second parcel of claims.

In connection with the option for the third parcel, the Company paid US\$90,000 during the year end May 31, 2012, with the remaining balance of US\$160,000 to be paid. This date was extended indefinitely upon agreement with the vendor.

The Company agreed to issue to Optionor, as additional consideration, 100,000 common shares upon closing of the purchase and sale of the third parcel of claims. The share issuance will be subject to acceptance for filing by the TSX Venture Exchange.

In conjunction with the acquisition of the claims, the Company agreed to purchase a number of pieces of equipment and an office facility located on the properties that had been used in operations carried out by the vendor for a total of US\$170,000 (paid during the year ended May 31, 2012).

The Company also has agreed to pay a finder's fee of up to 390,000 common shares, of which 265,000 were issued in fiscal May 31, 2012, to an individual for introductions and assistance provided to the Company with respect to this acquisition (Note 6). The remaining common shares will be issued to the finder at completion of above mentioned purchase agreement.

To carry out the above property and equipment acquisitions, the Company incorporated two new wholly-owned subsidiary companies in Arizona in June 2011 to hold the assets acquired, namely, Tombstone Gold & Silver Inc. and Tombstone Resources Inc.

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**NOTE 5 – EXPLORATION AND EVALUATION ASSETS – CONT'D**

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Total expenditures on the Company's mineral properties are as follows:

	<b>Tombstone, AZ</b>
<b>Balance, May 31, 2016</b>	<u>\$ 1,154,012</u>
<b>Additions</b>	
Consulting	44,817
Contract wages	81,159
Equipment rental and repair	87,882
Equipment lease	49,680
Mining taxes	12,454
Permit, title search and taxes	1,256
Travel and accommodation	19,717
Vehicle repairs and maintenance	27,945
Recovery	(327,206)
Effect of foreign currency translation	<u>39,567</u>
<b>Total acquisition and exploration costs during the year</b>	<u>37,271</u>
<b>Balance, May 31, 2017</b>	<u>\$ 1,191,283</u>
<b>Additions</b>	
Consulting	8,775
Contract wages	28,579
Equipment rental and repairs	15,895
Equipment lease	21,061
Permit, title search and taxes	845
Travel and accommodation	990
Vehicle repairs and maintenance	1,777
Recovery	(150,744)
Effect of foreign currency translation	<u>( 85,912)</u>
<b>Total acquisition and exploration costs during the year</b>	<u>(158,734)</u>
<b>Balance, August 31, 2017</b>	<u>\$ 1,032,549</u>

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**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral titles as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

**NOTE 6 – CAPITAL STOCK**

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Authorized: 100,000,000 common shares without par value

There were no capital stock transactions during the period ended August 31, 2017 and May 31, 2017.

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**NOTE 6 – CAPITAL STOCK - CONT'D**

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**Stock options**

The Board of Directors is authorized, pursuant to the Company's Stock Option Plan, to grant options to directors, officers, consultants or employees to acquire up to 10% of issued and outstanding common shares. The exercise price of options granted shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. The options can be granted for a maximum term of 5 years and are subject to such vesting terms and conditions as may be specified by the Board of Directors.

The award of stock options is at the discretion of the Board of Directors. The Company has no formal objectives or criteria and relies on the recommendations of the Board of Directors.

As at August 31, 2017, stock options outstanding and exercisable were as follows:

- All options had been expired.

A summary of the status of the Company's stock options as at August 31, 2017, and changes during the year is presented below:

	<b>Option outstanding</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, May 31, 2016</b>	1,400,000	\$ 0.15
Expired	(1,400,000)	0.15
<b>Outstanding and exercisable, May 31, 2017 and August 31, 2017</b>	-	\$ -

**NOTE 7 – RELATED PARTY TRANSACTIONS**

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**Compensation of key management**

Key management includes the Company's directors. Key management compensation for the periods ended August 31, 2017 and 2016, comprised:

	<b>August 31, 2017</b>	August 31, 2016
Management fees	<b>\$ 15,000</b>	\$ 15,000

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**NOTE 7 – RELATED PARTY TRANSACTIONS - CONT'D**

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**Other related party transactions**

In addition to the compensation paid to directors, the Company had the following transactions with related parties:

- a) The Company accrued management fees of \$15,000 (August 31, 2016 - \$15,000) to a company controlled by a director. As of August 31, 2017, \$312,500 (May 31, 2017 – 297,500) was payable to this company and is included in accounts payable and accrued liabilities.
- b) The Company incurred legal fees of \$1,175 (August 31, 2016 - \$375) to a director of the Company. As at August 31, 2017, the Company had a balance payable of \$143,073 (May 31, 2017 - \$141,898) to the director which is included in due to accounts payable and accrued liabilities.
- c) As of August 31, 2017, the Company owed \$112,994 (May 31, 2017 - \$116,895) to an officer of a subsidiary of the Company for expense reimbursement, which is included in accounts payable and accrued liabilities.
- d) As at August 31, 2017, the Company owed \$2,965 (May 31, 2017 - \$2,971) to directors of the Company, which is included in accounts payable and accrued liabilities. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.
- e) As at August 31, 2017, the Company owed \$156,076 (May 31, 2017 - \$160,709) to a director of the Company for expense reimbursement, and is included in accounts payable and accrued liabilities.
- f) As of August 31, 2017, the Company owed \$483 (May 31, 2017 - \$483) to a former director of the Company, who resigned on September 28, 2012, which is included in accounts payable and accrued liabilities.
- g) The long-term loan payable as at August 31, 2017 of \$341,802 (May 31, 2017 - \$367,191) was arranged through a partnership of individuals which includes a director of the Company. As August 31, 2017, \$283,720 (May 31, 2017 - \$279,223) was owing for accrued interest, participation fee, and loan fee, and is included in accounts payable and accrued liabilities. Refer to Notes 12 and 13 for additional information.
- h) As of August 31, 2017, a company controlled by a director of the Company has advanced \$39 (May 31, 2017 - \$14,965) in the form of a line of credit which has been used for exploration and evaluation assets. The outstanding balance bears interest at 18% per annum and is repayable on demand.

Other than the items g) and h) above, amounts due to/from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

**NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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	<b>August 31, 2017</b>	<b>May 31, 2017</b>
Trade accounts payable	\$ 1,066,266	\$ 1,147,528
Accrued liabilities	62,428	58,320
Due to related parties (Note 7)	1,011,811	999,679
	<b>\$ 2,140,505</b>	<b>\$ 2,205,527</b>

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**NOTE 9 – FINANCIAL RISK FACTORS**

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The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

The fair value of the Company's amounts receivable, due from related parties, accounts payable and accrued liabilities, advance payable and line of credit approximate carrying value due to their short terms to maturity, which is the amount recorded on the consolidated statement of financial position. The company's loan payable is recorded at amortized cost, and the Company's cash is recorded at fair value using Level 1 quoted prices in active markets for identical assets or liabilities.

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. Cash is held in major financial institutions and the major component of amounts receivable is GST/HST receivable from the government of Canada. Accordingly, the Company believes it has no significant credit risk.

*Liquidity risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2017, the Company had a cash balance of \$37,052 (May 31, 2017 - \$55,561) to settle current liabilities of \$2,160,544 (May 31, 2017 - \$2,240,492). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

The Company has historically relied on equity and debt financings to satisfy its capital requirements and will continue to depend heavily upon equity capital, sale of existing gravel (Note 5) and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing market conditions.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. As at August 31, 2017, the carrying value of the financial instruments approximates their fair values.

a) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts receivable, accounts payable and accrued liabilities, and loan payable that are denominated in Mexican Pesos and US dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. A 10% change in the foreign exchange rate would affect net income for the period by approximately \$64,000 (May 31, 2017 - \$63,000).

**NOTE 9 – FINANCIAL RISK FACTORS - CONT'D**

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b) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company’s earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of commodities, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**NOTE 10 – CAPITAL MANAGEMENT**

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The Company’s primary objectives in capital management are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and evaluation of its mineral property interests. Capital is comprised of the Company’s shareholders’ equity. As at August 31, 2017, the shareholders’ deficiency was \$(1,349,159) (May 31, 2017 - \$(1,260,960)). The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes in the Company’s approach to capital management during the three months ended August 31, 2017.

**NOTE 11 – SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOW**

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	August 31, 2017	Changes in the period	May 31, 2017
Exploration and evaluation costs included in accounts payable and accrued liabilities	\$ 1,167,062	\$ 14,965	\$ 1,152,097
Line of credit used for exploration and evaluation assets	\$ 39	\$ (14,926)	\$ 14,965

**NOTE 12 – LOAN PAYABLE AND ITS RELATED FINANCE COST**

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In July 2013, Tombstone Resources Inc. (“the Borrower”) finalized the terms of the loan agreement for up to US\$300,000, of which a total of US\$275,000 was received. The loans were from a partnership of individuals of which a director of the Company is the manager and are secured by the assets of, and promissory notes issued by, the Tombstone Resources Inc. and Tombstone Gold & Silver Inc. (the “Tombstone subsidiaries”). The loans bear interest at 12% per annum with interest paid monthly. In the event that Borrower fails to make any payment of interest or principal when due, the interest rate shall increase immediately to 15% per annum and shall remain at 15% until all amounts due under this loan agreement have been paid in full. Principal payments are to be paid each June in an amount equal to 20% of net operating cash flow of the Borrower (which includes the accounts of Tombstone Gold & Silver Inc.) less interest expense and loan participation payments for the fiscal year ended May 31 of each year. Participation payments are payable to the lender at a rate equal to 10% of gross sales of the Borrower for the year, which rate will be reduced as loan repayments are made. The outstanding balance shall be

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**NOTE 12 – LOAN PAYABLE AND ITS RELATED FINANCE COST - CONT'D**

fully repaid on the maturity date of June 30, 2018. A loan fee of US\$11,000 was incurred of which US\$5,000 is outstanding as of February 28, 2015 and is included in accounts payable and accrued liabilities. The loans payable are measured at amortized cost using the effective interest method. As of August 31, 2017, interest expense of CDN\$11,747 and a participation cost of CDN\$14,180 (Note 13) has been recorded.

Principal balance of loan payable	US\$	275,000
Loan fee		(11,000)
Accumulated amortization of loan fee		8,656
Carrying value as at August 31, 2017	US\$	272,656
Foreign exchange rate as at August 31, 2017		x1.2536
	CDN\$	341,802

**NOTE 13 – FINANCE COSTS**

The Company's finance cost consists of the following for the three month period ended August 31:

	<b>2017</b>		2016	
Loan participation cost	\$	<b>14,180</b>	\$	3,499
Loan interest expense		<b>11,747</b>		11,717
Other interest expenses		<b>93</b>		6,638
	\$	<b>26,020</b>	\$	21,854

**NOTE 14 – SEGMENTED INFORMATION**

The Company's principal activity is the exploration and development of mineral properties. The Company's resource properties are located in Mexico and United States (Note 5).

	<b>August 31, 2017</b>		May 31, 2017	
Identifiable Assets:				
Equipment				
United States	\$	<b>63,524</b>	\$	81,775
Exploration and evaluation assets				
United States	\$	<b>1,032,549</b>	\$	1,191,283
		<b>1,096,073</b>	\$	1,273,058

**NOTE 15 – ADVANCE PAYABLE**

The advance payable does not bear interest and has no specific terms for repayment.

**NOTE 16 – COMMITMENTS**

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The Company has entered into two mining equipment leases for its mining properties. These leases expire on April 20, 2019 and April 1, 2020 respectively. The lease commitments for the next three years are as follows fiscal year ending May 31:

2018	US \$43,200
2019	US \$55,200
2020	US \$26,400

**NOTE 17 – SUBSEQUENT EVENT**

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The company received an additional \$21,000 in September 2017 towards a proposed private placement up to 7,500,000 common shares at \$0.01 per share. The private placement is subject to receipt of final approval from the regulatory authorities.