DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

MARCH 31, 2021

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

		March 31, 2021		June 30, 2020
ASSETS				
Current assets				
Cash	$	11,084,936	$	569,031
Restricted cash (Note 13)		388,560		-
Receivables (Note 3)		118,643		28,806
Prepaid expenses (Note 4)		209,033		44,129
Total current assets		11,801,172		641,966
Value added tax (Note 3)		1,206,548		756,038
Other assets (Note 5)		19,951		21,203
Exploration and evaluation assets (Note 6)		18,377,184		14,710,160
Total assets	$	31,404,855	$	16,129,367
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	$	1,523,832	$	864,632
Loan payable (Note 8)		-		1,218,449
Total current liabilities		1,523,832		2,083,081
Non-current liabilities				
Deferred income tax liabilities		36,000		36,000
Total non-current liabilities		36,000		36,000
Total liabilities		1,559,832		2,119,081
Shareholders' equity				
Share capital (Note 9)		39,210,058		22,564,418
Share-based payment reserve (Note 9)		3,119,661		2,013,494
Deficit		(12,484,696)		(10,567,626)
Total shareholders' equity		29,845,023		14,010,286
Total liabilities and shareholders' equity	$	31,404,855	$	16,129,367

Nature and continuance of operations (Note 1)
Subsequent events (Note 13)

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	THREE MONTH ENDED MARCH 31,		NINE MONTH ENDED MARCH 31,	
	2021	**2020**	**2021**	**2020**
EXPENSES				
Interest expense	$ -	$ -	$ -	$ 8,404
Investor relations	185,941	81,061	380,222	268,981
Legal and audit	38,155	36,534	165,082	125,234
Management and consulting fees (Note 10)	152,516	74,129	407,976	219,660
Office and administration	36,378	28,267	151,320	77,591
Share-based compensation (Note 9)	103,783	87,639	701,715	167,777
Transfer agent and filing fees	58,668	8,865	72,237	19,442
Travel	739	1,675	742	3,556
Total expenses	(576,180)	(318,170)	(1,879,294)	(890,645)
Interest income	7,588	-	19,344	-
Gain (Loss) on foreign exchange	(28,550)	(85,202)	(19,433)	(118,297)
Loss on de-recognition of loan (Note 8)	-	-	(37,687)	-
	(20,962)	(85,202)	(37,776)	(118,297)
Loss and comprehensive loss for the period	$ (597,142)	$ (403,372)	$ (1,917,070)	$ (1,008,942)
Basic and diluted loss per common share	$ 0.00	$ 0.00	$ 0.01	$ 0.00
Weighted average number of common shares outstanding - Basic and diluted	196,314,596	149,056,556	179,203,434	144,868,981

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	NINE MONTHS ENDED MARCH 31, 2021	NINE MONTHS ENDED MARCH 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (1,917,070)	$ (1,008,942)
Items not affecting cash:		
Share-based compensation	701,715	167,777
Interest on loans payable	-	586
Loss on de-recognition of loan	37,687	-
Foreign exchange	1,252	(1,308)
Changes in non-cash working capital items:		
Receivables	(89,837)	(9,549)
Value added tax	(450,510)	(70,508)
Prepaid expenses	(164,904)	95,226
Restricted cash	(388,560)	-
Accounts payable and accrued liabilities	(49,866)	(419,382)
Net cash used in operating activities	(2,320,093)	(1,246,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets expenditures	(2,902,075)	(1,406,931)
Net cash used in investing activities	(2,902,075)	(1,406,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	17,805,863	3,494,586
Proceeds from loans	-	200,000
Repayment of loans	(1,312,018)	(201,381)
Repayment of directors loans	-	(28,042)
Share issuance costs	(755,772)	(92,503)
Net cash provided by financing activities	15,738,073	3,372,660
Change in cash during the period	10,515,905	719,629
Cash, beginning of the period	569,031	129,811
Cash, end of the period	**$ 11,084,936**	**$ 849,440**

Supplemental disclosure with respect to cash flows (Note 11)

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Number of Shares		Share capital		Share-based payment Reserves		Deficit		Total
Balance at June 30, 2019	132,984,558	$	18,911,866	$	1,830,111	$	(9,314,292)	$	11,427,685
Private placement	14,448,286		3,323,106		-		-		3,323,106
Issuance costs	-		(92,503)		-		-		(92,503)
Issuance costs - broker warrants	-		(15,025)		15,025		-		-
Stock options exercised	1,590,000		305,039		(146,039)		-		159,000
Warrants exercised	48,000		17,746		(5,266)				12,480
Shares issued for debt	404,722		113,322		-		-		113,322
Warrants issued pursuant to loan agreement	-		-		137,591		-		137,591
Share-based compensation	-		-		167,777		-		167,777
Net loss for the period	-		-		-		(1,008,942)		(1,008,942)
Balance at March 31, 2020	149,475,566	$	22,563,551	$	1,999,199	$	(10,323,234)	$	14,239,516
Stock options exercised	100,000		21,103		(10,102)		-		11,001
Shares issued for debt			(20,236)		-		-		(20,236)
Share-based compensation	-		-		24,397		-		24,397
Net loss for the period	-		-		-		(244,392)		(244,392)
Balance at June 30, 2020	149,575,566	$	22,564,418	$	2,013,494	$	(10,567,626)	$	14,010,286
Private placement	29,415,000		10,001,100		-		-		10,001,100
Issuance costs	-		(755,772)		-		-		(755,772)
Fair value of agents compensation units	-		(633,176)		633,176		-		-
Stock options exercised	270,061		189,410		(34,834)		-		154,576
Warrants exercised	22,867,379		7,535,310		(21,372)				7,513,938
Compensation Unit Exercised	400,735		308,768		(172,518)		-		136,250
Share-based compensation	-		-		701,715		-		701,715
Net loss for the period	-		-		-		(1,917,070)		(1,917,070)
Balance at March 31, 2021	202,528,741	$	39,210,058	$	3,119,661	$	(12,484,696)	$	29,845,023

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Defiance Silver Corp ("the Company" or "Defiance") was incorporated on July 19, 2007 under the Business Corporations Act of the Province of British Columbia. The Company's principal business is the acquisition and exploration of exploration and evaluation assets. The Company's registered and records office is at Suite 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. The Company is listed on the TSX Venture Exchange under the symbol "DEF".

The Company's condensed consolidated interim financial statements are presented in Canadian dollars which is the functional currency.

At the date of these condensed consolidated interim financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation asset. To date, the Company has not earned revenues and is considered to be in the exploration stage.

Going Concern of Operations

These condensed consolidated interim financial statements have been prepared 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 through other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. The Company expects to use similar financing techniques in the future and is pursuing such additional sources of financing as estimated to be required to sufficiently support its operations until such time that its operations become self-sustaining.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business, its ability to raise funds or results of operations at this time.

At March 31, 2021, the Company had cash of $11,084,936 (June 30, 2020 - $569,031) and working capital of $10,277,340 (June 30, 2020 – working capital deficiency of $1,441,115). The Company will require additional funds to support its exploration activities and meet working capital requirements. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. There can be no assurances that management's plans for the Company will be successful.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The financial statements were authorized for issue by the Audit Committee and Board of Directors on May 26, 2021.

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

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. *Recoverability of receivables and value added tax:* which are included in the consolidated statements of financial position. Management has determined that receivables are recoverable given management’s experience in realizing receivables and refunds of value added tax.
2. *Carrying value and the recoverability of exploration and evaluation assets*: Management has determined that exploration, evaluation and related costs incurred which have been capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and prefeasibility studies, accessibility of facilities and existing permits.
3. *Valuation of share-based compensation and brokers’ warrants*: Management uses the Black-Scholes Pricing Model for valuation of share based compensation and brokers’ warrants, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company’s results and equity reserves.
4. *Income Taxes*: In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

2. BASIS OF PREPARATION *(Cont'd)*

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operation and cash flows.

Critical Accounting Judgements

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1. *Going concern of operations*: The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).
2. *Determination of functional currency:* The Company determines the functional currency through the analysis of several indicators such as expenses and cash flow, financing activities, and frequency of transactions with the reporting entity.
3. *Determination of asset purchase vs business acquisition:* The Company performed an analysis of several indicators such as who is the acquirer in the transaction, the definition of a business and how the acquisition should be accounted for.

(Expressed in Canadian Dollars)

3. RECEIVABLES

The Company's receivables primarily arise from refundable sales tax receivable from government taxation authorities in Canada and Mexico.

	March 31, 2021	June 30, 2020
VAT receivable	$ 1,206,548	$ 756,038
GST receivable	112,550	28,139
Advances receivable	6,093	667
	$ 118,643	$ 28,806

4. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

	March 31, 2021	June 30, 2020
Security deposits	$ 6,327	$ 4,168
Insurance	9,480	13,769
Vendor prepayments	193,226	26,192
	$ 209,033	$ 44,129

(Expressed in Canadian Dollars)

5. OTHER ASSETS

		March 31, 2021		June 30, 2020
Investment	$	5,000	$	5,000
Reclamation bond		14,951		16,203
	$	19,951	$	21,203

Investment

This represents the remaining guaranteed investment certificates held with the bank as collateral for the Company's credit cards issued to key personnel.

Reclamation bond

The Company has a deposit in place with a United States bank as security for a reclamation bond on former exploration and evaluation assets located in the United States. The reclamation bond is required by local jurisdictions at the time exploration activities commenced on the properties and do not represent a rehabilitation provision. Interest on the certificates of deposit with the United States bank is paid on a periodic basis to the Company.

6. EXPLORATION AND EVALUATION ASSETS

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

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

	Tepal	San Acacio	Lucita	Lagartos	Minerva	Total
Balance at June 30, 2019	**$ 4,910,410**	**$ 6,454,007**	**$ -**	**$ 1,590,000**	**$ 23,248**	**$ 12,977,665**
Acquisition costs						
Property Acquisition costs	16,272	854,367		-	-	870,639
Exploration costs						
Claim Fees	30,876	29,632	-	6,005	-	66,513
Consulting Fees	22,509	291,188	-	3,779	-	317,476
Camp	18,741	115,568	-	-	-	134,309
Drilling	-	(979)	-	-	-	(979)
Equipment	-	863	-	-	-	863
Borrowing costs	-	291,667	-	-	-	291,667
Geology & mapping	-	12,358	-	-	-	12,358
Travel and accommodation	255	39,394	-	-	-	39,649
	72,381	779,691	-	9,784	-	861,856
Balance at June 30, 2020	**4,999,063**	**8,088,065**	**-**	**1,599,784**	**23,248**	**14,710,160**
Acquisition costs						
Property Acquisition costs	275,331	825,527	161,219	10,053	-	1,272,130
Exploration costs						
Claim Fees	14,731	16,123	-	-	-	30,854
Consulting Fees	97,141	639,029	985	10,001	-	747,156
Camp	11,875	294,360	304	14,966	-	321,505
Drilling	-	687,715	-	-	-	687,715
Equipment	-	139,823	-	17,617	-	157,440
Borrowing costs	-	55,882	-	-	-	55,882
Geology & mapping	-	342,344	-	-	-	342,344
Geophysics	-	4,317	-	-	-	4,317
Travel and accommodation	-	46,972	198	511	-	47,681
	123,747	2,226,565	1,487	43,095	-	2,394,894
Balance at March 31, 2021	**$ 5,398,141**	**$ 11,140,157**	**$ 162,706**	**$ 1,652,932**	**$ 23,248**	**$ 18,377,184**

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Tepal Project

As a result of the acquisition of ValOro Resources Inc. ("Valoro"), the Company acquired a 100% right, title and interest in mining claims located in the state of Michoacán, Mexico (the "Tepal Project") subject to a 2.5% NSR.

During the period ended March 31, 2021, the Company entered into an option agreement to repurchase the existing 2.5% NSR on the Tepal Project from Minera Tepal, S.A. de C.V (“Minera Tepal”) over four years for total consideration of USD $4.85 million. The payment terms are as follows:

		Option Payment	
January 10, 2021		USD 150,000	(paid)
June 16, 2021		150,000	
December 16, 2021		300,000	
June 16, 2022		300,000	
December 16, 2022		550,000	
June 16, 2023		550,000	
December 16, 2023		600,000	
June 16, 2024		600,000	
December 16, 2024		1,650,000	
	Total	USD 4,850,000	

During the period ended March 31, 2021, the Company entered into an option agreement with Minera Tepal to acquire 1,915 Ha surrounding the Tepal Gold-Copper Project in Michoacán, Mexico. The company will pay the annual concession fees on these claims until a production decision has been made, upon which time the Company will pay the vendor USD $2 million for 100% ownership of the mining concessions.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

San Acacio Project

The Company entered into an option agreement on October 24, 2011, subsequently the subject of several amendments, with the Mexican owners ("the Vendors") for an option to purchase a 100% interest in the San Acacio property consisting of 10 mining concessions and associated surface rights and tailings. The San Acacio property is located approximately 6.5 km north of the city of Zacatecas, Mexico.

The Company has paid US$4,085,417 towards the agreement through March 31, 2021.

During the year ended June 30, 2020 the Company renegotiated and extended the terms of its San Acacio Silver Project option agreement by three years from September 27, 2020 to September 27, 2023. In addition, 80% of the option payments due before March 27 and June 27, 2020 have been deferred as a part of this extension. The Company will make quarterly payments, over three years, to the property vendor. As a result of the amending agreement, the payment terms are as follows:

	Letter Of Intent Payment	Option Payment	Lease Payment	Interest Payment	Total	
By September 27, 2012	USD 25,000	USD -	USD -	USD -	USD 25,000	(paid)
By September 27, 2013	-	250,000			250,000	(paid)
By September 27, 2014	-	-	150,000		150,000	(paid)
By September 27, 2015	-	-	225,000		225,000	(paid)
By September 27, 2016	-	100,000	150,000		250,000	(paid)
By September 27, 2017	-	200,000	150,000		350,000	(paid)
By September 27, 2018	-	600,000	150,000		750,000	(paid)
By September 27, 2019	-	600,000	200,000	107,600	907,600	(paid)
By September 27, 2020	-	500,000	100,000	-	600,000	(paid)
By September 27, 2021	-	400,000	283,334	86,063	769,397	(577,817 paid)
By September 27, 2022	-	400,000	283,333	76,063	759,396	
By September 27, 2023	-	400,000	283,333	66,063	749,396	
On September 27, 2023	-	2,300,000	-	107,461	2,407,461	
Total	USD 25,000	USD 5,750,000	USD 1,975,000	USD 443,250	USD 8,193,250	

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

The property is subject to a 2.5% net smelter return royalty ("NSR") payable to the vendors on production from the property. The Company will have the right to purchase the NSR at any time for US$2,500,000 which will escalate with the official Mexican Inflation Index after a five-year period. Should the agreement be terminated prior to September 27, 2023 a break fee equal to 5% of the outstanding option balance shall be paid to the property vendor.

Following the first anniversary of the purchase of the Assets, the Company must make minimum annual royalty payments of US$125,000. The minimum royalty commitment terminates in the event that the production royalty paid is equal to or higher than the equivalent to the minimum that would have been due during six consecutive months.

Surface rights agreements

In August 2014, the Company obtained authorization to temporarily occupy and explore certain land holdings on the San Acacio property. In order to keep the agreement in good standing, the Company is required to make semi-annual payments during the exploration phase and the development phase. The agreement will be valid for twenty years with the option to extend in the future.

On February 27, 2015, the Company entered into an additional surface rights agreement for the right to occupy and perform exploration work on the San Acacio property. The Company will have authorization to explore the surface of the property for a term of three years which can be extended for an additional three years at the Company's choice, by making annual advance payments and by paying a one time fee on the signing of the agreement. On February 26, 2018, the Company exercised its right to extend the term of the contract for an additional three years by making a one time payment, and is required to make semi-annual payments. All required payments have been made.

On July 14, 2016, the Company entered into an additional surface rights agreement for the right to occupy and perform exploration work on the San Acacio property. The Company will have authorization to explore the surface of the property for a term of five years which can be renewed for a further five years at the Company's choice by making advance annual payments and by paying a one time fee on signing of the agreement. All required payments have been made.

Minerva property

During the year ended June 30, 2012, the Company applied for a mining claim located in Coahuila State, Mexico, known as the Minerva property. As of March 31, 2021, the application was still pending approval by the Mexican mining authorities.

Lagartos Project

In June 2018, the Company completed its acquisition of a group of assets from MAG Silver Corp ("MAG") by issuing 5,000,000 common shares (valued at $1,600,000) of the Company. The Company received a 100% interest in MAG's Lagartos project along with a significant regional exploration database and cash of $10,000.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Lucita Project

During the period ended March 31, 2021, the Company entered into an into a definitive option agreement with Pan American Silver Corp. ("Pan American") to acquire a 100% interest in Pan American's Lucita property consisting of 28 mining concessions, located adjacent to Defiance's San Acacio project. The property is subject to a 2% net smelter return royalty ("NSR") payable to the vendors on production from the property. The payment terms are as follows:

		Option Payment	
November 30, 2020	USD	100,000	(paid)
November 30, 2021		100,000	
November 30, 2022		500,000	
November 30, 2023		800,000	
Total		USD 1,500,000	

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are comprised as follows:

		March 31, 2021		June 30, 2020
Trade payables	$	1,316,611	$	689,865
Accrued liabilities		207,221		174,767
	$	1,523,832	$	864,632

All payables and accrued liabilities for the Company fall due within the next 12 months.

8. LOANS PAYABLE

During the period ended March 31, 2021, the Company:

i) Repaid in full the outstanding loan including accrued interest. The lender has acknowledged the repayment in full and the Charges created by the general security agreement have been removed by the lender.

During the year ended June 30, 2020, the Company:

i) entered into a loan agreement in the amount of $200,000. The loan is unsecured, bears interest at 1% per month and is repayable on or before July 24, 2020. The loan was repaid on August 15, 2019 including interest of $1,381;

ii) extended its outstanding loan facility for a period of 12 months; the principal balance on extension was $1,221,649. The loan bears interest at the rate of 10% per annum, accrued daily and matures on December 21, 2020. The Company issued 2,350,000 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.20 until December 21, 2020. The warrants were valued using the Black-Scholes Model resulting in a fair value of $137,591 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 73.41%, and a risk-free interest rate of 1.67% (Note 11).

(Expressed in Canadian Dollars)

8. LOANS PAYABLE (cont'd…)

On June 27, 2019 the Company signed a general security agreement with the lender whereby the assets of the Company's subsidiaries including property, plant and equipment have been pledged as collateral for this loan. (see Note 8).

During the period ended March 31, 2021, the Company repaid in full the outstanding loan including accrued interest. The lender has acknowledged the repayment in full and the Company is attending to the discharge of the Charges created by the general security agreement.

As of June 30, 2019	$	1,065,752
Loan proceeds		200,000
Loss on de-recognition of loan (3)		-
Bonus warrants (2)		(137,591)
Borrowing Costs (1)		291,669
Loan settlement		(201,381)
As of June 30, 2020		1,218,449
Borrowing Costs (1)		55,882
Loss on de-recognition of loan (3)		37,687
Loan settlement		(1,312,018)
As of March 31, 2021	$	-

(1)Capitalized to exploration and evaluation assets
(2)Included in Share-based payment reserves
(3)Represents the difference between carrying value of the loans derecognized on loan repayment

9. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value. All issued shares are fully paid.

During the period ended March 31, 2021, the Company

i) closed a brokered private placement by issuing 29,415,000 units at a price of $0.34 per unit for gross proceeds of $10,001,100. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The Company paid finder's fees of $499,844 and recognized $633,176 for share issuance costs related to the issuance of 1,470,782 non-transferable compensation options, each compensation option consists of an option to purchase one unit at a price of $0.34 per unit with each unit consisting of one common share at $0.34 and one-half of one common share purchase warrant. Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The fair value of the compensation options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.24%, expected life of 2 years, annualized volatility 97.69% and dividend rate at nil.

ii) issued 270,061 common shares pursuant to exercise of stock options for gross proceeds of $154,576;

iii) issued 22,867,379 common shares pursuant to exercise of warrants for gross proceeds of $7,513,938;

iv) issued 400,735 common shares pursuant to exercise of compensation units for gross proceeds of $136,250.

During the year ended June 30, 2020, the Company

v) closed a non-brokered private placement by issuing 14,448,286 units at a price of $0.23 per unit for gross proceeds of $3,323,106. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.31 per share on or before August 12, 2022. The Company paid finder's fees of $30,065 and issued 87,780 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.23 per share on or before August 12, 2020.

vi) issued 1,690,000 common shares pursuant to exercise of stock options for gross proceeds of $170,000.

vii) issued 48,000 common shares pursuant to exercise of warrants for gross proceeds of $12,480.

viii) issued 404,722 common shares to settle debt of $113,322.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (cont'd…)

Stock options

Under the Company's rolling stock option plan, the Company may grant options, with a maximum term of ten years, for up to 10% of the Company's issued and outstanding common shares, to directors, officers, employees and consultants at exercise prices to be determined by the market value on the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Incentive stock options issued have an immediate vesting term, unless vesting is imposed by the Company's board of directors.

A summary of the Company's outstanding share purchase options as at March 31, 2021 and the changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2019	5,373,836	$0.33
Granted	880,000	0.25
Exercised	(1,690,000)	0.10
Expired / Cancelled	(897,250)	0.40
Balance, June 30, 2020	3,666,586	0.40
Granted	2,302,500	0.56
Exercised	(270,061)	0.57
Expired / Cancelled	(142,000)	0.70
Balance, March 31, 2021	5,557,025	$0.45

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	March 31, 2021	June 30, 2020
Annualized volatility	87.90%	107.02%
Risk-free interest rate	0.60%	1.27%
Dividend rate	0%	0%
Expected life of options	7.45 years	7.65 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.51	$ 0.22

The following incentive stock options were outstanding to directors, officers and employees at March 31, 2021:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
42,600	1.13	June 16, 2021	42,600	1.13
200,000	0.41	July 21, 2021	200,000	0.41
75,000	0.28	September 16, 2021	75,000	0.28
650,000	0.32	December 14, 2021	650,000	0.32
221,875	1.13	March 1, 2022	221,875	1.13
135,000	0.35	February 15, 2023	135,000	0.35
273,350	0.70	March 16, 2023	273,350	0.70
26,700	0.20	May 29, 2024	13,367	0.20
900,000	0.20	May 29, 2029	600,000	0.20
200,000	0.31	July 23, 2029	133,333	0.31
605,000	0.23	May 29, 2030	201,667	0.23
75,000	0.33	July 29, 2025	37,500	0.33
840,000	0.59	November 5, 2025	280,000	0.59
1,312,500	0.59	November 5, 2030	437,500	0.59
5,557,025	0.45		3,301,192	0.45

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value-based method of accounting. During the period ended March 31, 2021, the Company recognized $701,715 (2020 - $167,777) in share-based compensation expense for stock options issued in the current and previous years.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (cont'd…)

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2019	24,505,803	$0.38
Granted	16,886,066	0.29
Exercised	(48,000)	0.26
Expired / Cancelled	(5,712,198)	0.51
Balance, June 30, 2020	35,631,671	0.32
Granted	14,907,866	0.48
Exercised	(22,867,379)	0.33
Expired / Cancelled	(371,214)	0.45
Balance, March 31, 2021	27,300,944	$0.40

At March 31, 2021, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
50,000	0.30	April 5, 2021
998,792	0.30	May 3, 2021
51,000	0.20	May 3, 2021
11,688,286	0.31	August 12, 2022
14,512,866	0.48	September 16, 2022
27,300,944	0.40	

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (cont'd…)

Warrants (cont'd…)

During the year ended June 30, 2020, the Company recognized compensation for bonus warrants granted pursuant to the loan agreement using the Black-Scholes option pricing model (Note 8).

During the year ended June 30, 2020, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $15,025 (2019 - $13,831) being included in share issuance costs.

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants:

	March 31, 2021	June 30, 2020
Annualized volatility	-	73.63%
Risk-free interest rate	-	1.66%
Dividend rate	-	0%
Expected life of warrant	-	1 year
Forfeiture rate	-	0%
Fair value per warrant	-	$ 0.06

Compensation Options

During the period ended March 31, 2021, the Company recognized compensation for broker compensation units using the Black-Scholes option pricing model with the following assumptions: risk free interest rate 0.24%, expected life of 2 years, annualized volatility 97.69% and dividend rate at nil. This resulted in $633,176 (2020 - $Nil) being included in share issuance costs.

A summary of the Company's outstanding compensation options as at March 31, 2021 and the changes during the period are presented below:

	Number of Compensation Options	Weighted Average Exercise Price
Balance, June 30, 2020	-	-
Granted	1,470,783	0.34
Exercised	(400,735)	0.34
Expired / Cancelled	-	-
Balance, March 31, 2021	1,070,048	$0.34

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and entities that are controlled by these individuals.

As at March 31, 2021, accounts payable and accrued liabilities included $195,444 (June 30, 2020 - $124,249) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

During the period ended March 31, 2021, related party transactions include the following payments:

	NINE MONTH ENDED MARCH 31, 2021	2020
Management and consulting fees	$ 454,016	$ 170,107
Share-based payments [1]	430,724	157,472
	884,740	327,579

(1) Share-based compensation expense is the fair value of options granted which have been calculated using the Black-Scholes option-pricing model and the assumptions disclosed in Note 9.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended March 31, 2021 included:

a) A balance of $914,890 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Compensation options issued pursuant to a brokered private placement valued at $633,176.

c) Borrowing costs of $55,882 capitalized as exploration and evaluation assets.

Significant non-cash transactions for the year ended June 30, 2020 included:

d) A balance of $48,308 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

e) Bonus warrants issued pursuant to loan agreement valued at $137,591.

f) Borrowing costs of $291,668 capitalized as exploration and evaluation assets.

g) Issuance of 404,722 common shares to settle debt of $113,322.

h) Write off of VAT in the amount of $29,730 capitalized as exploration and evaluation assets.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, and loan payable, approximate carrying value, due to their short-term nature. The Company's other financial instrument, cash, under the fair value hierarchy, is measured based on level one quoted prices in active markets for identical assets or liabilities. The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of GST/VAT due from the governments of Canada and Mexico. As such, the Company does not believe it is subject to significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2021, the Company had cash of $11,084,936 (June 30, 2020 - $569,031) to settle current liabilities of $1,523,832 (June 30, 2020 - $2,083,081). The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

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.

a) Interest rate risk

The Company has cash balances and interest-bearing investments and has no debt instruments that bear variable interest rates. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

b) Foreign currency risk

The Company's operations are in Canada, the United States and Mexico. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Based on the Company's net exposures as at March 31, 2021 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of $12,381 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican peso would result in a decrease/increase of $62,796 in the Company's net earnings.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. 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 the commodity prices of precious metals, and the stock market to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, currency risk and credit risk.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its exploration and evaluation assets, acquire additional exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

There were no changes in the Company's approach to capital management.

13. CONTINGENCY

The Company was named in a lawsuit filed in October 2020 (the "Action") by Avalos y Abogados, S.C. ("Avalos"), former legal counsel for Minera Santa Remy S.A. de C.V. ("Santa Remy"), which resigned as legal counsel in January 2020. Avalos seeks to recover an alleged debt owing under invoices issued to Santa Remy. In conjunction with the lawsuit, a prejudgment garnish order was served on the Company which resulted in $388,560 being held by the BC Supreme Court pending the outcome of the lawsuit. The total claim made by Avalos is $388,480. This amount has been recorded in the records of the Company. The Board of Directors retained legal counsel and intends to vigorously defend the Action.

14. SUBSEQUENT EVENTS

Subsequent to March 31, 2021 the following events occurred:

a. the Company issued 3,894,692 common shares pursuant to exercise of warrants for gross proceeds of $1,226,260;

b. the Company issued 389,933 common shares pursuant to exercise of stock options for gross proceeds of $139,644;

c. the Company issued 22,680 common shares pursuant to exercise of compensation units for gross proceeds of $7,711.