DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

(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)
(Canadian dollars)

		September 30, 2018		June 30, 2018
ASSETS				
Current assets				
Cash	$	71,356	$	118,621
Receivables (Note 3)		2,784		16,376
Prepaid expenses		11,424		1,042
		85,564		136,039
Value added tax (Note 3)		556,843		493,040
Exploration and evaluation assets (Note 4)		6,553,200		6,122,855
TOTAL ASSETS	$	7,195,607	$	6,751,934
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Notes 5 and 8)	$	819,550	$	654,796
Loan payable (Note 6)		721,621		449,109
		1,541,171		1,103,905
Deferred income taxes		36,000		36,000
		1,575,671		1,139,905
Shareholders' equity				
Share capital (Note 7)		12,239,946		12,239,946
Share-based payment reserve (Note 7)		1,478,338		1,277,202
Deficit		(8,099,848)		(7,905,119)
		5,618,436		5,612,029
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	7,195,607	$	6,751,934

Nature and continuance of operations (Note 1)
Subsequent event (Note 12)

On behalf of the Board:

"Darrell A. Rader"	*"Peter Hawley"*
Darrell A. Rader	Peter Hawley

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)
(Canadian dollars)
For the three months ended September 30,

	2018	2017
Expenses		
Investor relations	$ 4,245	$ 23,133
Legal and audit	64,899	50,771
Management and consulting fees (Note 8)	74,000	80,797
Office and administration	19,561	12,958
Share-based compensation (Note 7 and 8)	23,569	60,388
Transfer agent and filing fees	3,429	2,017
Travel	4,222	12,182
	(193,925)	(242,246)
Interest income	42	-
Foreign exchange loss	(846)	(7,001)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (194,729)	$ (249,247)
Loss per common share – basic and diluted	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding – basic and diluted	103,351,821	92,625,624

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)
(Canadian dollars)

	Number of Shares	Share Capital	Share-based Reserves	Deficit	Total
Balance, June 30, 2017	92,351,821	$ 9,062,555	$ 814,420	$ (7,041,824)	$ 2,835,151
Share-based compensation	-	-	60,388	-	60,388
Shares issued for private placements	5,750,000	1,725,000	-	-	1,725,000
Share issuance costs	-	(139,199)	-	-	(139,199)
Share issuance costs - warrants	-	(78,090)	78,090	-	-
Net loss for the period	-	-	-	(249,247)	(249,247)
Balance, September 30, 2017	98,101,821	$ 10,570,266	$ 952,898	$ (7,291,071)	$ 4,232,093
Balance, June 30, 2018	103,351,821	$ 12,239,946	$ 1,277,202	$ (7,905,119)	$ 5,612,029
Share-based compensation	-	-	23,569	-	23,569
Warrants issued pursuant to loan agreement	-	-	177,567	-	177,567
Net loss for the period	-	-	-	(194,729)	(194,729)
Balance, September 30, 2018	103,351,821	$ 12,239,946	$ 1,478,338	$ (8,099,848)	$ 5,618,436

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
Three months ended September 30,
(Unaudited – Prepared by Management)
(Canadian dollars)

	2018	2017
Operating Activities		
Net loss for the period	$ (194,729)	$ (249,247)
Adjustments for:		
Share-based compensation	23,569	60,388
Net changes in non-cash working capital items:		
Receivables	13,592	(5,649)
Value added tax	(63,803)	(10,427)
Prepaid expenses	(10,382)	(14,582)
Accounts payable and accrued liabilities	157,511	87,056
Net cash used in operating activities	(74,242)	(132,461)
Investing Activities		
Expenditures on exploration and evaluation assets	(348,023)	(309,380)
Recovery of exploration and evaluation assets	-	10,733
Net cash used in investing activities	(348,023)	(298,647)
Financing Activities		
Proceeds from private placements	-	1,396,800
Proceeds from loan	375,000	-
Share issuance costs	-	(139,199)
Net cash provided by financing activities	375,000	1,257,601
Change in cash	(47,265)	826,493
Cash, beginning of period	118,621	183,758
Cash, end of period	$ 71,356	$ 1,010,251

Supplemental disclosure with respect to cash flows (Note 9)

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") 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 595 Burrard Street Suite 2900, Vancouver, BC, V6C 2T6. The Company's head office is at Suite 2300, 1177 West Hastings Street, Vancouver, BC, V6E 2K3.

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.

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. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements were authorized by the Board of Directors of the Company on November 28, 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements for the period ended September 30, 2018, have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these condensed consolidated interim 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 condensed consolidated interim financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, 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:

i) The recoverability of receivables which are included in the condensed consolidated interim statements of financial position;

ii) The carrying value and the recoverability of exploration and evaluation assets, which are included in the condensed consolidated interim statements of financial position;

iii) The inputs used in accounting for share-based compensation expense, which are included in the condensed consolidated interim statements of loss and comprehensive loss; and

iv) The amount of deferred income taxes recognized.

(Canadian Dollars)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Critical accounting judgments

Examples of significant judgments, apart from those involving estimation, include:
- the accounting policies for exploration and evaluation assets;
- classification of financial instruments; and
- determination of functional currency.

Basis of consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and the entities controlled by the Company. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

The principal subsidiaries of the Company as of September 30, 2018 are as follows:

Name of subsidiary	Principal activity	Place of Incorporation	Ownership Interest September 30, 2018	Ownership Interest June 30, 2018
Minera Santa Remy S.A. de CV	Mineral property exploration	Mexico	100%	100%
DefCap (BVI) Inc.	Holding company	British Virgin Islands	100%	100%

Foreign exchange

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 for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement of financial position date 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 consolidated statements of loss and comprehensive loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of loss and comprehensive loss.

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

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of loss and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of loss and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit or loss. The Company's receivables are classified as loans and receivables.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of loss and comprehensive loss.

Other financial liabilities - This category includes accounts payable which are recognized at amortized cost.

The Company's accounts payable and accrued liabilities and loan payable are classified as other financial liabilities.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets

Costs related to the acquisition and exploration of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Each of the Company's exploration and evaluation assets are considered to be a cash generating unit. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition and exploration costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties are credited to the capitalized cost of the exploration and evaluation asset. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets 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 to complete the development, and future profitable production or proceeds from the disposition thereof.

Cash

Cash is comprised of cash on demand and highly liquid interest-bearing investments with an original maturity of less than three months, which is readily convertible into a known amount of cash with minimal risk.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, 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 the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period 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 mining 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 the related 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provision for environmental rehabilitation (cont'd…)

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the consolidated statement of loss and comprehensive loss for the year.

Borrowing costs

Interest and other financing costs relating to the acquisition, development and construction, and production of qualifying assets are capitalized until they are complete and available for use, at which time they are transferred to the appropriate category within E&E. Borrowing costs incurred after the asset has been placed into service as well as all other borrowing costs are charged to the statement of loss and comprehensive loss.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based compensation

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. Consideration paid for the shares on the exercise of stock options is credited to share capital.

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 the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as a warrant reserve.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes (cont'd…)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

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 and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Newly adopted accounting standards

The following new accounting standards and interpretations have been adopted during the period:

- IFRS 9, Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard is effective for annual periods beginning on or after January 1, 2018.
- IFRS 15, Revenue Recognition - Revenue from Contracts with Customers establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer This standard is effective for annual periods beginning on or after January 1, 2018.

Recent accounting pronouncements

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2019 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements, are not expected to have a material effect on the Company's future results and financial position:

- IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for annual period beginning on or on after January 1, 2019. The extent of the impact of adoption has not yet been determined.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

(Canadian Dollars)

3. RECEIVABLES

The Company's receivables primarily arise from refundable sales tax receivable from government taxation authorities in Canada and Mexico and interest receivable on the Company's guaranteed investment certificate.

	September 30, 2018	June 30, 2018
Goods and services tax ("GST")	$ 2,784	$ 16,376
Value added tax ("VAT")	$ 556,843	$ 493,040

4. 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 are in good standing.

	San Acacio Project	Minerva Property	Lagartos Project	Total
Balance, June 30, 2017	$ 2,875,642	$ 23,248	$ -	$ 2,898,890
Acquisition costs				
Property payments	947,893	-	1,590,000	2,537,893
Exploration costs				
Claim fees	8,249	-	-	8,249
Consulting fees	25,775	-	-	25,775
Camp	14,161	-	-	14,161
Drilling	574,064	-	-	574,064
Extraction fees	8,054	-	-	8,054
Borrowing costs	21,211	-	-	21,211
Geology & mapping	34,558	-	-	34,558
	686,072	-	-	686,072
Balance, June 30, 2018	4,509,607	23,248	1,590,000	6,122,855
Acquisition costs				
Property payments	294,065	-	-	294,065
Exploration costs				
Claim fees	16,857	-	-	16,857
Camp	2,507	-	-	2,507
Drilling	33,838	-	-	33,838
Extraction fees	499	-	-	499
Borrowing costs	82,579	-	-	82,579
	136,280	-	-	136,280
Balance, September 30, 2018	$ 4,939,952	$ 23,248	$ 1,590,000	$ 6,553,200
Represented by:				
Acquisition costs	$ 2,693,159	$ 9,574	$ 1,590,000	$ 4,292,733
Exploration costs	2,246,793	13,674	-	2,260,467
Balance, September 30, 2018	$ 4,939,952	$ 23,248	$ 1,590,000	$ 6,553,200

(Canadian Dollars)

4. 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$2,226,900 towards the agreement through September 30, 2018.

In August 2018, the Company renegotiated and extended the terms of its San Acacio Silver Project option agreement. The project vendor has agreed to postpone a substantial amount of the payments due in 2018 to September 27, 2020. As a result, the Company will be making four quarterly payments of US$226,900 totaling US$907,600 in year one and four quarterly payments of US$250,000 totaling US$1,000,000 in year two with the final option payment due September 2020. As a result of the amending agreement, the payment terms are as follows:

Date	Amount credited toward final payment	Total yearly payment
By September 27, 2019	US$ 600,000	US$ 907,600 (US$226,900 paid)
By September 27, 2020	US$ 800,000	US$ 1,000,000
On September 27, 2020	US$ 3,291,440	US$ 3,291,440

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.

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 6 consecutive months.

<u>Surface rights agreements</u>

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 of MX$ 9,000 during the exploration phase and MX$ 60,000 during the development phase. The agreement will be valid for 20 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 3 years at the Company's choice, by making annual advance payments of MX$ 120,000 (paid) and by paying a one time fee of MX$ 100,000 (paid) on the signing of the agreement. 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 3 years at the Company's choice. The Company exercised its right to extend the term of the contract for an additional three years by signing an agreement on February 26, 2018 paying MX$150,000 on signing (paid), and MX$180,000 each year to be paid in two equal semi-annual payments (MX$90,000 paid on signing). 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 5 years at the Company's choice by making advance annual payments of MX$ 120,000 (paid) and by paying a one time fee of MX$ 100,000 (paid) on signing of the agreement.

(Canadian Dollars)

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

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 September 30, 2018, 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 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.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2018	June 30, 2018
Accrued liabilities	$ 348,007	$ 374,387
Trade payables	471,543	280,409
	$ 819,550	$ 654,796

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

6. LOAN PAYABLE

During the year ended June 30, 2018, the Company entered into a loan agreement which allows the Company to borrow up to $700,000. The loan is unsecured, bears interest at 1% per month and is repayable on the earlier of June 19, 2019 or the date the Company closes its next equity financing. The Company will pay a 2% commitment fee of $14,000, payable on maturity or at the repayment date in addition to issuing 2,058,800 warrants to the lender. The warrants were valued using the Black-Scholes Model resulting in a fair value of $249,102 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 94%, and a risk-free interest rate of 1.83%. Each warrant entitling the holder to acquire one common share of the Company at $0.34 until June 19, 2019.

During the period ended September 30, 2018, the Company increased its third-party loan facility from $700,000 to $1,075,000. The additional proceeds provide the Company with the funding necessary to complete its merger with ValOro Resources Inc. (Note 13) and to continue its exploration of the San Acacio Silver project in Zacatecas, Mexico. The Company will pay a 2% commitment fee of $7,500, payable on maturity or at the repayment date in addition to issuing 1,618,500 warrants to the lender. The warrants were valued using the Black-Scholes Model resulting in a fair value of $177,567 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 94%, and a risk-free interest rate of 2.12%. Each warrant entitling the holder to acquire one common share of the Company at $0.26 until September 17, 2019.

(Canadian Dollars)

6. LOAN PAYABLE (cont'd…)

As of June 30, 2017	$	-
Loan proceeds		700,000
Commitment fee		(14,000)
Bonus warrants		(249,102)
Borrowing costs*		21,211
Loan repayments		(9,000)
As of June 30, 2018		449,109
Loan proceeds		375,000
Commitment fee		(7,500)
Bonus warrants		(177,567)
Borrowing costs*		82,579
As of September 30, 2018	$	721,621

*Capitalized to exploration and evaluation assets

7. SHARE CAPITAL

Authorized

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

During the period ended September 30, 2018, the Company did not have any share activities.

During the year ended June 30, 2018, the Company

i) closed a non-brokered private placement by issuing 5,750,001 units at a price of $0.30 per unit for gross proceeds of $1,725,000. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire an additional common share of the Company for a period of twenty-four months at an exercise price of $0.45. Total finder's fees of $131,160 were paid and 437,200 warrants were issued with a value of $77,145 in connection with the private placement. Other share issue costs of $24,936 were incurred. Each finder's warrant entitles the holder to acquire one common share of the Company at $0.45 for 24 months, subject to an acceleration clause such that if the closing price of the Company's shares on the TSX Venture Exchange is at or above $0.65 per share for a period of ten consecutive trading days during the term of the warrants, the Company may accelerate the expiry date of the Warrants to not less than 30 days following the date of notice.

ii) issued 250,000 common shares pursuant to exercise of options for gross proceeds of $46,000.

iii) issued 5,000,000 common shares with a value of $1,600,000 pursuant to the acquisition of the Lagartos project (Note 5).

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, employees and technical 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.

(Canadian Dollars)

7. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

During the year ended June 30, 2018, the Company received proceeds of $46,000 from the exercise of 250,000 stock options. The Company transferred $39,632 to share capital from share-based payment reserve.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2017	3,840,000	$ 0.19
Granted	735,000	0.31
Exercised	(250,000)	0.18
Expired / Cancelled	(740,000)	0.28
Balance, June 30, 2018	3,585,000	0.20
Expired / Cancelled	(200,000)	0.16
Balance, September 30, 2018	3,385,000	$ 0.20

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

	2018	2017
Risk-free interest rate	-	1.58%
Expected life of options	-	5 years
Expected dividend yield	-	0%
Expected stock price volatility	-	140.64%
Fair value per stock option	-	$0.26

The following incentive stock options were outstanding to directors, officers and employees at September 30, 2018:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
300,000	0.30	October 23, 2019	112,500	0.30
1,690,000	0.10	November 6, 2019	1,690,000	0.10
100,000	0.15	March 12, 2020	100,000	0.15
100,000	0.11	June 10, 2020	100,000	0.11
50,000	0.10	November 27, 2020	50,000	0.10
200,000	0.41	July 20, 2021	200,000	0.41
780,000	0.32	December 14, 2021	520,000	0.32
30,000	0.32	December 16, 2021	20,000	0.32
135,000	0.35	February 15, 2023	45,000	0.35
3,385,000	0.20		2,825,000	0.18

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value based method of accounting. During the period ended September 30, 2018, the Company recognized $23,569 (2017 - $60,388) in share-based compensation expense for options issued in the current and previous years.

(Canadian Dollars)

7. 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, 2017	-	$ -
Granted	8,246,001	0.42
Balance, June 30, 2018	8,246,001	0.42
Granted	1,618,500	0.26
Balance, September 30, 2018	9,864,501	$ 0.40

At September 30, 2018, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,058,800	$ 0.34	June 19, 2019
1,618,500	$ 0.26	September 17, 2019
5,232,401	$ 0.45	September 19, 2019
954,800	$ 0.45	September 29, 2019
9,864,501		

During the period ended September 30, 2018, the Company recognized compensation for bonus warrants granted pursuant to loan agreement using the Black-Scholes option pricing model, resulting in $177,567 (2017 - $Nil) being included in share issuance costs (Note 7).

During the period ended September 30, 2018, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $Nil (2017 - $78,090) being included in share issuance costs therefore.

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

	2018	2017
Risk-free interest rate	2.12%	1.55%
Expected life of warrants	1 years	2 years
Expected dividend yield	0%	0%
Expected stock price volatility	93.87%	118.63%
Fair value per finders' warrant	$0.11	$0.17

8. RELATED PARTY TRANSACTIONS

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

As at September 30, 2018, accounts payable and accrued liabilities included $174,119 (June 30, 2018 - $107,619) 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.

8. RELATED PARTY TRANSACTIONS (cont'd…)

During the period ended September 30, 2018, the Company:

(a) paid or accrued management fees of $15,000 (2017 - $7,500) to a company controlled by a director of the Company.

(b) paid or accrued management fees of $Nil (2017 - $21,590) to a company controlled by the former CEO of the Company.

(c) paid or accrued management fees of $5,000 (2017 - $3,500) to a company controlled by the CFO of the Company.

(d) paid or accrued management fees of $15,000 (2017 - $15,000) to a company controlled by the former CEO, President and director of the Company.

(e) paid or accrued management fees of $Nil (2017 - $24,207) to an officer of the Company.

(f) paid or accrued management fees of $30,000 (2017 - $Nil) to the CEO of the Company.

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of $Nil (2017 - $55,550).

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended September 30, 2018 included:

a) A balance of $67,759 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Bonus warrants issued pursuant to loan agreement valued at $177,567.

c) Borrowing costs of $82,579 capitalized as exploration and evaluation assets.

d) Loan commitment fee of $7,500 included in accounts payable and accrued liabilities.

Significant non-cash transactions for the period ended September 30, 2017 included:

a) A balance of $121,607 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

10. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets in Mexico. All of the costs at September 30, 2018 and June 30, 2018 were for exploration and evaluation assets in Mexico.

11. 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:

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

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 September 30, 2018, the Company had cash of $71,356 (June 30, 2018 - $118,621) to settle current liabilities of $1,541,571 (June 30, 2018 - $1,103,905). 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. 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.

b) Foreign currency risk

The Company is not exposed to significant foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in United States dollars ("US$") and Mexican pesos ("MX$"). The Company does not use derivatives or other techniques to manage foreign currency risk.

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.

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

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.

12. SUBSEQUENT EVENT

Subsequent to the period ended September 30, 2018, the Company signed a Definitive Arrangement Agreement ("Definitive Agreement") dated November 5, 2018 to complete their friendly merger ("Transaction"). ValOro has arranged a special shareholder meeting for December 19, 2018 to vote on the merger and related matters.

Pursuant to the terms of the Definite Agreement, each ValOro shareholder will receive 0.71 common shares of the Company for each share of ValOro held. This represents a 54.3% premium to the closing price of ValOro's shares based on the closing price of the Company's shares on the TSX Venture Exchange on the date the LOI was signed and a 98.2% premium to the 60 day VWAP of ValOro's shares based on the 60 day VWAP of Defiance's shares on the Exchange preceding the date the LOI was signed. Shareholders of the Company will not have to exchange their shares of the Company in the Transaction. Upon completion of the Transaction, the combined company will have approximately 119 million common shares outstanding, of which former shareholders of Defiance will own approximately 87% and the former shareholders of ValOro will own approximately 13%.

The Transaction will include customary provisions, including fiduciary-out provisions, covenants not to solicit other acquisition proposals and the right to match any superior proposal. In addition, ValOro may be required to pay a termination fee of $217,204 if the Transaction is terminated as a result of ValOro accepting a superior proposal or completing an alternative proposal within 12 months of termination of the Transaction.