

# **DEFIANCE SILVER CORP.**

*(an exploration stage company)*

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED**

**DECEMBER 31, 2023 AND 2022**

**(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)

	December 31, 2023	June 30, 2023
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 705,062	\$ 4,564,187
Restricted cash (Note 7)	-	388,560
Receivables	51,241	2,196
Prepaid expenses	15,382	129,164
Total current assets	771,685	5,084,107
<b>Value added tax</b>	3,670,582	3,375,507
<b>Other assets</b>	45,750	45,767
<b>Property and Equipment</b>	245,141	256,998
<b>Exploration and evaluation assets (Note 3)</b>	36,108,972	33,167,771
<b>Total assets</b>	<b>\$ 40,842,130</b>	<b>\$ 41,930,150</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 983,956	\$ 1,294,594
Total current liabilities	983,956	1,294,594
<b>Non-current liabilities</b>		
Deferred income tax liabilities	36,000	36,000
Total non-current liabilities	36,000	36,000
<b>Total liabilities</b>	<b>1,019,956</b>	<b>1,330,594</b>
<b>Shareholders' equity</b>		
Share capital (Note 4)	54,337,506	54,272,993
Share-based payment reserve (Note 4)	6,394,896	6,176,340
Deficit	(20,910,228)	(19,849,777)
Total shareholders' equity	39,822,174	40,599,556
<b>Total liabilities and shareholders' equity</b>	<b>\$ 40,842,130</b>	<b>\$ 41,930,150</b>

Nature and continuance of operations (Note 1)  
Contingencies (Note 7)  
Subsequent events (Note 8)

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

**DEFIANCE SILVER CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Three months ended December 31,		Six months ended December 31,	
	2023	2022	2023	2022
<b>EXPENSES</b>				
Marketing and advertising	\$ 23,938	\$ 132,342	\$ 138,561	\$ 219,292
Legal and audit	413,952	239,430	461,167	271,992
Management and consulting fees (Note 5)	127,555	244,420	251,779	403,979
Office and administration	38,681	65,403	119,279	138,405
Property Investigation	-	47,400	-	87,399
Share-based compensation (Note 4)	109,278	233,631	218,556	494,504
Transfer agent and filing fees	78,365	27,389	83,500	45,621
Travel	50,898	61,881	75,970	68,977
Total expenses	(842,667)	(1,051,896)	(1,348,812)	(1,730,169)
Interest income	36,295	70,280	83,037	131,167
Gain (loss) on foreign exchange	(16,686)	5,036	205,324	160,242
	19,609	75,316	288,361	291,409
<b>Loss before income tax</b>	(823,058)	(976,580)	(1,060,451)	(1,438,760)
Deferred income tax	-	-	-	-
<b>Loss and comprehensive loss for the year</b>	\$ (823,058)	\$ (976,580)	\$ (1,060,451)	\$ (1,438,760)
<b>Basic and diluted loss per common share</b>	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)
<b>Weighted average number of common shares outstanding -</b>				
<b>Basic and diluted</b>	229,310,562	227,812,332	229,156,390	226,481,573

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

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

	Six months ended December 31,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,060,451)	\$ (1,438,760)
Items not affecting cash:		
Share-based compensation	218,556	494,504
Foreign exchange	-	(778)
Changes in non-cash working capital items:		
Receivables	(49,028)	(5,590)
Value added tax	(295,075)	(596,461)
Prepaid expenses	113,782	2,962
Restricted cash	388,560	-
Accounts payable and accrued liabilities	177,945	242,739
<b>Net cash used in operating activities</b>	<b>(505,711)</b>	<b>(1,301,384)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	(47,446)
Exploration and evaluation assets expenditures	(3,353,414)	(3,554,214)
<b>Net cash used in investing activities</b>	<b>(3,353,414)</b>	<b>(3,601,660)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	-	1,855,784
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>1,855,784</b>
<b>Change in cash during the year</b>	<b>(3,859,125)</b>	<b>(3,047,260)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>4,564,187</b>	<b>11,783,088</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 705,062</b>	<b>\$ 8,735,828</b>
<b>Cash and cash equivalents comprise:</b>		
Cash	705,062	11,783,088
Cash equivalents	-	-
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 705,062</b>	<b>\$ 11,783,088</b>

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

**DEFIANCE SILVER CORP.****CONDENSED CONSOLIDATED INTERIM 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
<b>Balance at June 30, 2022</b>	221,716,038	\$ 52,145,323	\$ 5,335,982	\$ (17,363,249)	\$ 40,118,056
Warrants exercised	5,986,400	1,855,784	-	-	1,855,784
Other compensatory awards settled	777,498	162,682	(162,682)	-	-
Shares issued for debt	522,283	109,204			109,204
Share-based compensation	-	-	1,003,040	-	1,003,040
Net loss for the year	-	-	-	(2,486,528)	(2,486,528)
<b>Balance at June 30, 2023</b>	229,002,219	54,272,993	6,176,340	(19,849,777)	40,599,556
Share-based compensation	-	-	218,556	-	218,556
Shares issued for debt	354,594	64,513	-	-	64,513
Net loss for the period	-	-	-	(1,060,451)	(1,060,451)
<b>Balance at December 31, 2023</b>	229,356,813	54,337,506	6,394,896	(20,910,228)	39,822,174

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

# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

### 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 consolidated 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 consolidated 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. At December 31, 2023, the Company had cash and cash equivalents of \$705,062 (June 30, 2023 - \$4,564,187) and a working capital deficit of \$212,271 (June 30, 2023 - working capital surplus \$3,789,513). The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. Although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. 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 or ability to raise funds.

#### Title to exploration and evaluation assets

During the year ended June 30, 2022, the Company became aware that certain mineral concessions from its Tepal Project had been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course (see Note 8).

# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

### 2. BASIS OF PREPARATION

#### Statement of Compliance

These condensed consolidate 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 February 22, 2024.

The condensed consolidate 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.

#### Significant Accounting Policies

The condensed consolidate interim financial statements have been prepared in accordance with the accounting policies adopted in the Company’s most recent annual financial statements for the year ended June 30, 2023.

#### 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. *Estimating useful life of equipment:* Depreciation of equipment is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors such as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.
3. *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.



# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

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

#### *Critical Accounting Estimates (Cont'd)*

4. *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.
5. *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.

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. *Impairment of exploration and evaluation assets:* During the year ended June 30, 2022, the Company became aware that certain mineral concessions from its Tepal Project have been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course. The assessment of the Company's ability to regain its rightful ownership involves judgement. Judgements and assumptions are continually evaluated and are based on experience with Mexican Law, advice from legal counsel and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the assumptions regarding our ability to regain the Tepal mineral concessions are incorrect, the carrying value of the Tepal project may need to be impaired.
3. *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.

# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

### 3. 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, all of its interests are in good standing (see Note 8 for Tepal Project update).

During the six months ended December 31, 2023, the Company acquired 100% ownership of the Lucita Property from Pan American Silver Corp. ("Pan American"), while Pan American retains a 2% NSR. The option terms included an initial payment of US\$100,000 upon signing; US\$100,000 on or before the first-year anniversary; US\$500,000 on or before the second-year anniversary; and a final payment of US\$800,000 on or before the third-year anniversary. The terms were successfully completed as of December 2023 with total payments of US\$1,500,00 being made.

As of December 31, 2023, the Company was in the process of renegotiating and extending the terms of its San Acacio Silver Project option agreement. As the result of the negotiations, the scheduled payment due by September 27, 2023, was not paid (see Note 8 for San Acacio Silver Project update).

	San Acacio	Lagartos	Lucita	Minerva	Tepal	Other properties	Total
<b>Balance at June 30, 2022</b>	<b>\$ 16,075,624</b>	<b>\$ 1,787,740</b>	<b>\$ 2,214,719</b>	<b>\$ 23,248</b>	<b>\$ 6,594,977</b>	<b>\$ 65,613</b>	<b>\$ 26,761,921</b>
<b>Property acquisition costs</b>	1,014,789	-	687,734	-	135,427	61,095	1,899,045
<b>Exploration costs</b>							
Claim Fees	102,576	22,245	74,703	-	124,332	11,173	335,029
Consulting and Payroll	1,541,944	-	70,480	-	954	16,291	1,629,669
Camp	351,689	21,460	-	-	17,404	9,899	400,452
Drilling	900,098	-	-	-	-	-	900,098
Equipment	78,970	1,536	-	-	-	17	80,523
Geology and mapping	715,061	-	27,050	-	-	42,920	785,031
Professional Fees	72,998	-	-	-	64,369	3,330	140,697
Travel	232,305	2,252	676	-	-	73	235,306
	3,995,641	47,493	172,909	-	207,059	83,703	4,506,805
<b>Balance at June 30, 2023</b>	<b>21,086,054</b>	<b>1,835,233</b>	<b>3,075,362</b>	<b>23,248</b>	<b>6,937,463</b>	<b>210,411</b>	<b>33,167,771</b>
<b>Property acquisition costs</b>	-	-	1,071,187	-	-	-	1,071,187
<b>Exploration costs</b>							
Claim Fees	75,113	12,668	42,533	-	70,803	31,388	232,505
Consulting and Payroll	961,670	4,455	146,829	-	52,390	5,528	1,170,872
Camp	75,113	7,713	2,297	-	37,201	188	122,512
Drilling	-	-	-	-	-	-	-
Equipment	130,748	40	4,054	-	-	3,122	137,964
Geology and mapping	68,243	-	39,663	-	-	-	107,906
Professional Fees	-	-	-	-	-	-	-
Travel	92,576	24	2,388	-	-	3,269	98,256
	1,403,463	24,898	237,764	-	160,394	43,496	1,870,014
<b>Balance at December 31, 2023</b>	<b>22,489,517</b>	<b>1,860,131</b>	<b>4,384,313</b>	<b>23,248</b>	<b>7,097,857</b>	<b>253,907</b>	<b>36,108,972</b>

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

#### 4. SHARE CAPITAL

##### Authorized

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

During the six months ended December 31, 2023, the Company:

- i) issued 354,594 common shares to settle debt of \$64,513.

During the period ended June 30, 2023, the Company:

- ii) issued 5,986,400 common shares pursuant to exercise of warrants for gross proceeds of \$1,855,784.
- iii) issued 522,283 common shares to settle debt of \$109,204.
- iv) issued 440,000 shares pursuant to the settlement of deferred share units.
- v) issued 25,000 shares pursuant to the settlement of performance share units.
- vi) issued 312,498 shares pursuant to the settlement of restricted share units.

##### Stock options

A summary of the Company's outstanding share purchase options at December 31, 2023 and the changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2021	7,375,125	\$0.57
Granted	2,988,750	0.41
Exercised	(350,000)	0.37
Expired / Cancelled	(471,875)	0.70
Balance, June 30, 2022	9,542,000	0.52
Granted	2,826,250	0.16
Expired / Cancelled	(1,605,850)	0.46
Balance, June and December 31, 2023	10,762,400	\$0.44

# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

### 4. SHARE CAPITAL (Cont'd)

#### Stock options (Cont'd)

The following incentive stock options were outstanding to directors, officers and employees at December 31, 2023:

Number of Options Outstanding	Expiry Date	Number of Options Exercisable	Exercise Price (\$)
833,400	November 5, 2025	833,400	0.59
1,114,000	June 30, 2026	1,114,000	0.66
1,202,500	January 31, 2027	801,667	0.41
983,750	January 31, 2028	327,917	0.16
550,000	May 29, 2029	550,000	0.20
200,000	July 23, 2029	200,000	0.31
605,000	May 29, 2030	605,000	0.23
1,012,500	November 5, 2030	1,012,500	0.59
1,175,000	June 30, 2031	1,175,000	0.90
1,513,750	January 31, 2032	1,009,167	0.41
1,572,500	January 31, 2033	524,167	0.16
10,762,400		8,152,818	0.44

#### Deferred share units (DSUs)

A summary of the Company's outstanding DSUs at December 31, 2023 and the changes during the year are presented below:

	Number of DSUs	Weighted Average Grant Date Fair Value per DSU
Balance, June 30, 2021	-	\$0.00
Granted	230,000	0.41
Settled	(230,000)	0.41
Balance, June 30, 2022	-	\$0.00
Granted	440,000	0.16
Settled	(440,000)	0.16
Balance, June and December 31, 2023	-	\$0.00

# DEFIANCE SILVER CORP.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

### 4. SHARE CAPITAL (Cont'd)

#### Performance share units (PSU)

A summary of the Company's outstanding PSUs as at December 31, 2023 and the changes during the year are presented below:

	Number of PSUs	Weighted Average Grant Date Fair Value per PSU
Balance, June 30, 2021	-	\$0.00
Granted	75,000	0.41
Settled	(75,000)	0.41
Balance, June 30, 2022	-	\$0.00
Granted	25,000	0.16
Settled	(25,000)	0.16
Balance, June and December 31, 2023	-	\$0.00

#### Restricted share units (RSU)

RSU transactions and the number of RSUs outstanding are summarized as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value per RSU
Balance, June 30, 2021	-	\$0.00
Granted	468,750	0.41
Settled	(156,249)	0.41
Balance, June 30, 2022	312,501	\$0.41
Granted	468,750	0.16
Settled	(312,498)	0.28
Canceled	(62,501)	0.24
Balance, June and December 31, 2023	406,252	\$0.24

At December 31, 2023, the following RSUs were outstanding:

Number of RSUs Outstanding	Number of RSUs Available for Settlement	Expiry Date
135,418	-	January 31, 2032
270,834	-	January 31, 2033
406,252	-	

**DEFIANCE SILVER CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

**4. SHARE CAPITAL (Cont'd)****Share-based compensation**

The Company recognizes compensation for all omnibus awards granted using the fair value-based method of accounting. During the six months ended December 31, 2023, the Company recognized \$218,556 (December 31, 2022 - \$494,504) in share-based compensation expense for omnibus awards.

**Warrants**

A summary of the Company's outstanding warrants at December 31, 2023 and the changes during the year are presented below:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, June 30, 2022	28,618,946	\$0.63
Exercised	(5,986,400)	0.31
Expired / Cancelled	(8,628,697)	1.08
Balance, June 30, 2023	14,003,849	0.48
Expired	(14,003,849)	0.48
Balance, December 31, 2023	-	\$ -

**Compensation Options**

A summary of the Company's outstanding broker compensation options at December 31, 2023 and the changes during the year are presented below:

	<b>Number of Compensation Options</b>	<b>Weighted Average Exercise Price</b>
Balance, June 30, 2022	1,701,939	0.56
Expired / Cancelled	(1,701,939)	0.56
Balance, June and December 31, 2023	-	\$ -

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

#### 5. RELATED PARTY TRANSACTIONS

Related party personnel are those who have the authority and responsibility for planning, directing, and controlling activities of the Company directly or indirectly. Related parties include the board of directors, officers, close family members and entities that are controlled by these individuals.

At December 31, 2023, accounts payable and accrued liabilities included \$232,477 (June 30, 2023 - \$174,489) 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 six months ended December 31, 2023 and 2022, related party transactions include the following payments:

	Six months ended December 31,	
	2023	2022
Management and consulting fees <sup>(1)</sup>	\$ 555,280	\$ 597,113
Share-based payments	204,215	377,471
	<u>\$ 759,495</u>	<u>\$ 974,584</u>

<sup>(1)</sup> Included in management and consulting fees was \$355,280 (2022 - \$403,800) capitalized as exploration and evaluation assets.

#### 6. 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 cash and cash equivalents, receivables, accounts payable and accrued liabilities, approximates carrying value, due to their short-term nature. Fair value of other assets approximates the carrying value as they are recorded at market interest rate. 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 and cash equivalents are 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.

## **DEFIANCE SILVER CORP.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

#### **6. FINANCIAL AND CAPITAL RISK MANAGEMENT (Cont'd)**

##### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2023, the Company had cash and cash equivalents of \$705,062 (June 30, 2023 - \$4,564,187) to settle current liabilities of \$983,956 (June 30, 2023 - \$1,294,594). 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.

##### *Interest rate risk*

The Company has cash and cash equivalents balances and has no debt instruments that bear variable interest rates. The interest earned on the cash and cash equivalents 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 and cash equivalents 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.

##### *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 at December 31, 2023 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 approximately \$33,800 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 approximately \$370,000 in the Company's net earnings.



## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 30, 2023 AND 2022

#### 6. 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.

The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management.

#### 7. CONTINGENCIES

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. During the six months ended December 31, 2023, the Company settled the lawsuit and recovered funds held by court in the amount of \$79,238.

On June 22, 2022, the Company became aware that certain mineral concessions from its Tepal Project have been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course (see Note 8).

#### 8. SUBSEQUENT EVENTS

Subsequent to December 31, 2023, the following events occurred:

- The Company has successfully restructured the option to acquire 100% of the San Acacio Silver Project. The project vendor has agreed to extend the option agreement terms by one year from September 27, 2023 to September, 27, 2024. The Company will now be making quarterly payments, over the year, to the property vendor totalling US\$539,721.51, with the final option payment of US\$2,300,000 due September 27, 2024. In accordance with the original agreement, the vendor retains a 2.5% NSR which may be purchased for US\$2,500,000.
- The Company received the favourable ruling of the Mexican Court, dated February 13, 2024, to restore its rightful ownership to the mining concessions forming part of the Tepal Project. In its judgement, the Court notably confirmed the nullity of the transfer of the concessions, ordered the cancellation of such transfer title and recognized Geologix Explorations Mexico, S.V de C.A, a subsidiary of the Company, as legitimate and the rightful owner of the concessions. The judgement will be fully enforceable at the expiration of a 9-day appeal process expiring on February 27, 2024 (see Note 7).
- The Company announced a non-brokered private placement consisting of up to 30,000,000 units for gross proceeds of up to \$3,000,000 (the "Offering"). The offering is priced at \$0.10 per unit. Each unit shall consist of one common share of the Company (each a "Common Share") and one half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). On February 27, 2024, the Company closed the first tranche of this Offering for aggregate gross proceeds of \$1,094,000.