DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

MARCH 31, 2023

(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, 2023		June 30, 2022
ASSETS				
Current assets				
Cash	$	6,363,126	$	11,783,088
Restricted Cash (Note 13)		388,560		388,560
Receivables (Note 3)		61,492		28,089
Prepaid expenses (Note 4)		196,882		164,880
Total current assets		7,010,060		12,364,617
Value added tax (Note 3)		3,132,652		2,130,412
Other assets (Note 5)		46,115		45,351
Property and Equipment (Note 6)		264,172		257,753
Exploration and evaluation assets (Note 7)		31,703,613		26,761,921
Total assets	$	42,156,612	$	41,560,054
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 8)	$	1,233,712	$	1,405,998
Total current liabilities		1,233,712		1,405,998
Non-current liabilities				
Deferred income tax liabilities		36,000		36,000
Total non-current liabilities		36,000		36,000
Total liabilities		1,269,712		1,441,998
Shareholders' equity				
Share capital (Note 9)		54,642,093		52,145,323
Share-based payment reserve (Note 9)		5,525,633		5,335,982
Deficit		(19,280,826)		(17,363,249)
Total shareholders' equity		40,886,900		40,118,056
Total liabilities and shareholders' equity	$	42,156,612	$	41,560,054

Nature and continuance of operations (Note 1)
Subsequent events (Note 14)

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 MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2023	**2022**	**2023**	**2022**
EXPENSES				
Investor relations	$ 109,765	$ 91,416	$ 329,057	$ 439,884
Legal and audit	25,288	31,808	297,280	230,344
Management and consulting fees (Note 10)	206,560	166,661	610,539	487,296
Office and administration	55,046	41,409	193,451	219,215
Property Investigation	53,216	40,053	140,615	90,098
Share-based compensation (Note 9)	337,847	855,281	832,351	1,449,623
Transfer agent and filing fees	21,972	18,279	67,593	75,926
Travel	28,222	635	97,199	87,020
Total expenses	(837,916)	(1,245,542)	(2,568,085)	(3,079,406)
Interest income	57,158	12,543	188,325	111,760
Gain(loss) on foreign exchange	222,977	32,087	383,219	58,245
	280,135	44,630	571,544	170,005
Loss and comprehensive loss for the period	$ (557,781)	$ (1,200,912)	$ (1,996,541)	$ (2,909,401)
Basic and diluted loss per common share	$ -	$ 0.01	$ 0.01	$ 0.01
Weighted average number of common shares outstanding - Basic and diluted	228,674,246	220,555,684	227,155,805	220,342,620

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, 2023	NINE MONTHS ENDED MARCH 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (1,996,541)	$ (2,909,401)
Items not affecting cash:		
Share-based compensation	832,351	1,449,623
Foreign exchange	(764)	(121)
Changes in non-cash working capital items:		
Receivables	(33,403)	19,580
Value added tax	(1,002,240)	(468,888)
Prepaid expenses	(32,002)	22,038
Accounts payable and accrued liabilities	214,427	(256,107)
Net cash used in operating activities	(2,018,172)	(2,143,276)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(47,446)	(174,471)
Exploration and evaluation assets expenditures	(5,210,128)	(5,077,289)
Net cash used in investing activities	(5,257,574)	(5,251,760)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,855,784	203,299
Share issuance costs	-	(20,467)
Net cash provided by financing activities	1,855,784	182,832
Change in cash during the period	(5,419,962)	(7,212,204)
Cash, beginning of the period	11,783,088	20,831,725
Cash, end of the period	**$ 6,363,126**	**$ 13,619,521**

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.
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
Balance at June 30, 2021	220,026,719	$ 51,431,820	$ 3,805,350	$ (13,505,668)	$ 41,731,502
Issuance costs	-	(20,467)	-	-	(20,467)
Stock options exercised	350,000	237,747	(107,747)	-	130,000
Warrants exercised	196,750	67,240	-	-	67,240
Compensation units exercised	17,820	13,730	(7,671)	-	6,059
Other compensatory awards settled	461,249	186,806	(186,806)	-	-
Share-based compensation	-	-	1,449,623	-	1,449,623
Net loss for the period	-	-	-	(2,909,401)	(2,909,401)
Balance at March 31, 2022	221,052,538	51,916,876	4,952,749	(16,415,069)	40,454,556
Issuance costs	-	20,467	-	-	20,467
Warrants exercised	663,500	207,980	-	-	207,980
Share-based compensation	-	-	383,233	-	383,233
Net loss for the period	-	-	-	(948,180)	(948,180)
Balance at June 30, 2022	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
Stock options expired			(78,964)	78,964	-
Compensation units expired		443,224	(443,224)		-
Other compensatory awards settled	777,498	120,512	(120,512)	-	-
Shares issued for Debt	354,104	77,250			77,250
Share-based compensation	-	-	832,351	-	832,351
Net loss for the period	-	-	-	(1,996,541)	(1,996,541)
Balance at March 31, 2023	228,834,040	54,642,093	5,525,633	(19,280,826)	40,886,900

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. At March 31, 2023, the Company had cash of $6,363,126 (June 30, 2022 - $11,783,088) and a working capital surplus of $5,776,348 (June 30, 2022 $10,958,619). 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.

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.

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 24, 2023.

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. *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.
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.

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

Critical Accounting Estimates (Cont'd)

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 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.

(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, 2023		June 30, 2022
VAT receivable	$	3,132,652	$	2,130,412
GST receivable		58,182		26,147
Advances receivable		2,997		1,674
Accounts receivable		313		268
	$	61,492	$	28,089

4. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		March 31, 2023		June 30, 2022
Security deposits	$	20,550	$	13,574
Insurance		26,888		29,470
Vendor prepayments		149,444		121,836
	$	196,882	$	164,880

5. OTHER ASSETS

		March 31, 2023		June 30, 2022
Investments	$	30,025	$	30,030
Reclamation bond		16,090		15,321
	$	46,115	$	45,351

<u>Investments</u>

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

<u>Reclamation bond</u>

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.

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Land	Buildings (2)	Vehicles	Computers	Equipment	Total
Cost						
As at June 30, 2021	$ -	$ -	$ 57,350	$ 64,844	$ -	$ 122,194
Additions	61,180	35,954	-	12,047	83,546	$ 192,727
As at June 30, 2022	61,180	35,954	57,350	76,891	83,546	314,921
Additions	-	3,250	41,217	1,440	1,539	$ 47,446
As at March 31, 2023	61,180	39,204	98,567	78,331	85,085	362,367
Accumulated depreciation						
As at June 30, 2021	$ -	$ -	$ 8,364	$ 9,726	$ -	$ 18,090
Depreciation	-	-	14,338	22,003	2,737	$ 39,078
As at June 30, 2022	-	-	22,702	31,729	2,737	57,168
Depreciation	-	-	15,905	17,526	7,596	$ 41,027
As at March 31, 2023	-	-	38,607	49,255	10,333	98,195
Carrying amounts						
As at June 30, 2022	$ 61,180	$ 35,954	$ 34,648	$ 45,162	$ 80,809	$ 257,753
As at March 31, 2023	$ 61,180	$ 39,204	$ 59,960	$ 29,076	$ 74,752	$ 264,172

(1) During the period ended March 31, 2023, depreciation expense of $41,027 (June 30, 2022 – $39,078) was recorded in exploration and evaluation expenditures (Note 7).

(2) During the period ended March 31, 2023, $3,250 of costs incurred on Buildings was for construction in progress.

(Expressed in Canadian Dollars)

7. 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 Tepal project below).

	San Acacio	Lagartos	Lucita	Minerva	Tepal	Other properties	Total
Balance at June 30, 2021	**$ 12,434,425**	**$ 1,684,699**	**$ 165,670**	**$ 23,248**	**$ 5,612,763**	**$ -**	**$ 19,920,805**
Acquisition costs							
Property Acquisition costs	1,437,653	-	156,245	-	837,508	65,613	2,497,019
Exploration costs							
Claim Fees	16,967	18,090	61,421	-	101,110	-	197,588
Consulting Fees	591,005	3,410	452,383	-	16,044	-	1,062,842
Camp	592,814	76,751	372,383	-	23,240	-	1,065,188
Drilling	420,721	-	719,338	-	-	-	1,140,059
Equipment	49,428	1,918	3,244	-	-	-	54,590
Geology and mapping	348,184	-	270,455	-	-	-	618,639
Geophysics	3,657	-	-	-	4,312	-	7,969
Travel and accommodation	180,770	2,872	13,580	-	-	-	197,222
	2,203,546	103,041	1,892,804	-	144,706	-	4,344,097
Balance at June 30, 2022	**16,075,624**	**1,787,740**	**2,214,719**	**23,248**	**6,594,977**	**65,613**	**26,761,921**
Acquisition costs							
Property Acquisition costs	761,248	-	665,231	-	130,996	45,483	1,602,958
Exploration costs							
Claim Fees	90,508	21,517	72,260	-	120,264	10,808	315,357
Consulting and Payroll Fees	1,067,389	-	52,240	-	923	15,979	1,136,531
Camp	270,887	16,872	-	-	12,669	9,573	310,001
Drilling	603,321	-	-	-	-	-	603,321
Equipment	58,589	1,486	-	-	-	17	60,092
Geology and mapping	563,690	-	2,933	-	-	41,516	608,139
Professional Fees	52,905	-	-	-	60,411	3,221	116,537
Travel and accommodation	186,762	1,924	-	-	-	70	188,756
	2,894,051	41,799	127,433	-	194,267	81,184	3,338,734
Balance at March 31, 2023	**19,730,923**	**1,829,539**	**3,007,383**	**23,248**	**6,920,240**	**192,280**	**31,703,613**

(Expressed in Canadian Dollars)

7. 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.

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 were deferred as a part of this extension. 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	(paid)
By September 27, 2022	-	400,000	283,333	76,063	759,396	(paid)
By September 27, 2023	-	400,000	283,333	66,063	749,396	(562,858 paid)
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	

The property is subject to a 2.5% 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 San Acacio Project, 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.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

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 regional exploration database and cash of $10,000.

Lucita Project

In November 2020, the Company entered 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 the Company's San Acacio project. The property is subject to a 2% 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	(paid)
November 30, 2022		500,000	(paid)
November 30, 2023		800,000	
Total		USD 1,500,000	

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, 2023, the application was still pending approval by the Mexican mining authorities.

7. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

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. During the year ended June 30, 2022, the Company entered into a land purchase agreement to purchase the certain land holdings on the San Acacio property. The Company acquired the land for $385,057 (6,183,000 Mexican peso).

On February 27, 2015, the Company entered into a Surface Rights Agreement with the Ejido called "Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, for the right to occupy and perform exploration work on common use lands of such Ejido. The Company had the authorization to explore the surface of the property for a term of three years which could 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 execution of the agreement.

On February 26, 2018, the Company exercised its right to extend the term of the agreement above mentioned for an additional three years by making a one-time payment, and was required to make semi-annual payments. All required payments have been made.

On March 30, 2021, the Company entered into an Agreement to extend the Surface Rights Agreement with the Ejido called "Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, where it was agreed that the Company could continue with its exploration works exclusively in the Ejido's lands for three additional years, being the Surface Rights Agreement valid until March 12, 2024. The Company is able to extend the Surface Rights Agreement for a term of three additional years, at the election of the Company, subject to the previous approval of the Ejido's assembly.

On August 13, 2021, the Company entered into a Temporary Occupancy and Right of Way Agreement in common use lands for exploration with the Rural Fractioning (Fraccionamiento) "Fraccionamiento Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, in which the Company is authorized to temporarily use a certain part of its land, exclusively for mining exploration works. This agreement is valid until August 13, 2026.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

Tepal Project

As a result of the acquisition of Valoro Resources Inc. ("Valoro") in fiscal 2019, the Company acquired a 100% right, title and interest in mining claims located in the state of Michoacán, Mexico (the "Tepal Project")

In 2009, Valoro and Arian Silver Corp. ("Arian") entered into an agreement whereby Valoro was granted the exclusive rights to purchase Arian's 100% interest in the Tepal Gold-Copper Project. Under the terms of the agreement, Valoro completed the purchase of 100% of the property, by delivering to Arian US$3.0 million in staged payments. Valoro also assumed the balance of Arian's obligations under the terms of an underlying property option agreement with Minera Tepal SA de CV ("Minera Tepal") subject to a 2.5% Net Smelter Return royalty ("NSR") and has completed staged payments to the underlying property vendor of US$3,200,000.

During the year ended June 30, 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. During the period ended December 31, 2022 the Company renegotiated and extended the terms of its Tepal NSR repurchase option agreement by a year and a half from December 16, 2024 to June 30, 2026 and an additional option payment of 100,000 USD was paid on January 15, 2023 brining the total consideration over the term of the agreement to $4.95 million. As a result of the amending agreement, the payment terms are as follows:

		Option Payment	
January 10, 2021	USD	150,000	(paid)
June 16, 2021		150,000	(paid)
December 16, 2021		300,000	(paid)
June 16, 2022		300,000	(paid)
January 15, 2023		100,000	(paid)
June 30, 2024		550,000	
December 31, 2024		550,000	
June 30, 2025		600,000	
December 31, 2025		600,000	
June 30, 2026		1,650,000	
	Total	USD 4,950,000	

During the year ended June 30, 2021, the Company entered into an option agreement with Minera Tepal to acquire certain claims 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.

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.

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	March 31, 2023	June 30, 2022
Trade payables	$ 1,117,182	$ 1,307,722
Accrued liabilities	116,530	98,276
	$ 1,233,712	$ 1,405,998

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

9. SHARE CAPITAL

Authorized

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

During the period ended March 31, 2023, the Company:

i) issued 5,986,400 common shares pursuant to exercise of warrants for gross proceeds of $1,855,784.

ii) issued 354,104 common shares to settle debt of $77,250.

iii) issued 440,000 shares pursuant to the settlement of Deferred Share Units.

iv) issued 25,000 shares pursuant to the settlement of Performance Share Units.

v) issued 312,498 shares pursuant to the settlement of Restricted Share Units.

During the year ended June 30, 2022, the Company:

i) issued 350,000 common shares pursuant to the exercise of stock options for gross proceeds of $130,000.

ii) issued 860,250 common shares pursuant to the exercise of warrants for gross proceeds of $275,220.

iii) issued 17,820 common shares for gross proceeds of $6,059 and 8,910 share purchase warrants pursuant to exercise of broker compensation options. The warrants are exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022.

iv) issued 230,000 shares pursuant to the settlement of Deferred Share Units.

v) issued 75,000 shares pursuant to the settlement of Performance Share Units.

vi) issued 156,249 shares pursuant to the settlement of Restricted Share Units.

9. SHARE CAPITAL *(Cont'd)*

Omnibus Equity Incentive Plan

On December 8, 2021, and amended on November 3, 2022 ("Effective date"), the Company adopted an Omnibus Equity Incentive Plan ("Omnibus Plan") to amend and restate the Company's stock option plan ("Predecessor Plan"). Under the terms of the plan the Company may grant share-based compensation to Employees, Consultants, Persons performing Investor Relations Activities and Directors.

The maximum aggregate number of Shares issuable under this plan in respect of stock options shall not exceed ten (10%) percent of the Corporation's issued and outstanding Shares at any point in time. The number of common shares reserved for issuance to consultant or persons performing Investor Relations activities will not exceed two (2%) of the issued and outstanding common shares in any twelve (12) month period. All outstanding stock options granted under the predecessor plan shall continue to be outstanding as stock options granted under and subject to the terms of this Omnibus Plan.

The maximum aggregate number of Shares issuable under this plan in respect of Deferred Share Units (DSUs), Restricted Share Units (RSUs) and Performance Share Units (PSUs) shall not exceed 22,801,654 at any point in time, representing 10% of the issued and outstanding Shares of the Corporation at the Effective date. The total number of DSUs, RSUs, and PSUs issuable to any Participant under this plan shall not exceed one (1%) percent of the issued and outstanding Shares at the time of the Award.

The maximum term of an option, DSU, RSU or PSU is 10 years after the date of grant. Vesting terms are under the discretion of the Board at each grant.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Stock options

During the year ended June 30, 2022, the Company received proceeds of $130,000 (June 30, 2021 - $315,427) from the exercise of 350,000 (June 30, 2021 – 736,694) stock options. The Company transferred $107,747 (June 30, 2021 - $168,867) to share capital from share-based payment reserve.

A summary of the Company's outstanding share purchase options at March 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
Exercised	-	0.00
Expired / Cancelled	(408,350)	0.58
Balance, March 31, 2023	11,959,900	$0.40

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

	March 31, 2023	June 30, 2022
Annualized volatility	103.89%	102.38%
Risk-free interest rate	2.96%	1.72%
Dividend rate	0%	0%
Expected life of options	8.21 years	7.94 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.14	$ 0.34

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Stock options *(Cont'd)*

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

Number of Options Outstanding	Expiry Date	Number of Options Exercisable	Exercise Price ($)
833,400	November 5, 2025	833,400	0.59
1,144,000	June 30, 2026	762,667	0.66
1,232,500	January 31, 2027	821,667	0.41
1,013,750	January 31, 2028	337,917	0.16
850,000	May 29, 2029	850,000	0.20
200,000	July 23, 2029	200,000	0.31
605,000	May 29, 2030	605,000	0.23
1,087,500	November 5, 2030	1,087,500	0.59
1,425,000	June 30, 2031	950,000	0.90
1,756,250	January 31, 2032	1,170,832	0.41
1,812,500	January 31, 2033	604,167	0.16
11,959,900		8,223,150	0.45

Deferred share units (DSUs)

A summary of the Company's outstanding DSUs at March 31, 2023 and the changes during the period 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, March 31, 2023	-	$0.00

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Performance share units (PSU)

A summary of the Company's outstanding PSUs as at March 31, 2023 and the changes during the period 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, March 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)	0.16
Balance, March 31, 2023	468,753	$0.24

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

Number of RSUs Outstanding	Number of RSUs Available for Settlement	Expiry Date
156,252	-	January 31, 2032
312,501	-	January 31, 2033
468,753	-	

(Expressed in Canadian Dollars)

9. 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 period ended March 31, 2023, the Company recognized $832,351 (June 30, 2022 - $1,832,856) in share-based compensation expense for omnibus awards.

Warrants

During the period ended March 31, 2023, the Company extended the expiry date of the 14,003,849 Warrants from September 16, 2022 to September 16, 2023.

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

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2021	29,470,286	$0.62
Granted	8,910	0.48
Exercised	(860,250)	0.32
Balance, June 30, 2022	28,618,946	0.63
Exercised	(5,986,400)	0.31
Expired / Cancelled	(2,239,808)	0.33
Balance, March 31, 2023	20,392,738	$0.75

At March 31, 2023, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
6,388,889	1.35	June 10, 2023
14,003,849	0.48	September 16, 2023
20,392,738	0.75	

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Compensation Options

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

	Number of Compensation Options	Weighted Average Exercise Price
Balance, June 30, 2021	1,719,759	$0.56
Exercised	(17,820)	0.34
Balance, June 30, 2022	1,701,939	0.56
Expired / Cancelled	(1,029,548)	0.34
Balance, March 31, 2023	672,391	$0.90

At March 31, 2023, the following broker compensation options were outstanding:

Number of Compensation Options	Exercise Price ($)	Expiry Date
672,391	0.90	June 10, 2023

(Expressed in Canadian Dollars)

10. 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 March 31, 2023, accounts payable and accrued liabilities included $174,588 (June 30, 2022 - $250,396) 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, 2023, related party transactions include the following payments:

		PERIOD ENDED MARCH 31, 2023		2022
Management and consulting fees (1)	$	908,889	$	970,932
Share-based payments (2)		227,464		1,449,623
	$	1,136,353	$	2,420,555

(1) Included in management and consulting fees was $641,170 (June 30, 2022 - $954,100) capitalized as exploration and evaluation assets.

(2) Share-based compensation expense is the fair value of options, RSUs, DSUs, and PSUs granted which have been calculated as disclosed in Note 9.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended March 31, 2023, included:

a) A balance of $573,223 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.
b) Pursuant to the settlement of other compensatory awards, the Company transferred $120,512 to share capital from share-based payment reserve.
c) Pursuant to the expiry of stock options, the Company transferred $78,964 to retained earnings from share-based payment reserve.
d) Pursuant to the expiry of compensation option units, the Company transferred $443,224 to share capital from share-based payment reserve.
e) Issuance of 354,104 common shares to settle debt of $77,250.
f) Depreciation of $41,027 was capitalized to exploration and evaluation assets.

Significant non-cash transactions for the period ended June 30, 2022, included:

a) A balance of $882,687 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.
b) Pursuant to the exercise of stock options, the Company transferred $107,747 to share capital from share-based payment reserve.
c) Pursuant to the exercise of compensation option units, the Company transferred $7,670 to share capital from share-based payment reserve.
d) Pursuant to the settlement of other compensatory awards, the Company transferred $186,806 to share capital from share-based payment reserve.
e) Depreciation of $39,078 was capitalized to 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 cash, 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 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. At March 31, 2023, the Company had cash of $6,363,126 (June 30, 2022 - $11,783,088) to settle current liabilities of $1,233,712 (June 30, 2022 - $1,405,998). 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 at March 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 $54,109 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 $324,070 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.

The Company is not subject to any externally imposed capital requirements. 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 claim is pending final settlement.

During the year ended June 30, 2022, the Company had certain mineral concession from its Tepal Project transferred to a third-party individual without the Company's knowledge or consent (see Note 7).

14. SUBSEQUENT EVENT

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

i) 168,179 common shares were issued to settle debt of $31,945.
ii) 20,834 RSU with an exercise price of $0.405 were cancelled.
iii) 41,667 RSU with an exercise price of $0.155 were cancelled.
iv) 300,000 stock options with an exercise price of $0.195 were cancelled.
v) 75,000 stock options with an exercise price of $0.59 were cancelled.
vi) 250,000 stock options with an exercise price of $0.90 were cancelled.
vii) 242,500 stock options with an exercise price of $0.405 were cancelled.
viii) 240,000 stock options with an exercise price of $0.155 were cancelled.