DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

MARCH 31, 2019

(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)

		March 31, 2019		June 30, 2018
ASSETS				
Current assets				
Cash	$	221,318	$	118,621
Receivables (Note 4)		29,766		16,376
Prepaid expenses (Note 5)		147,345		1,042
Total current assets		398,429		136,039
Value added tax (Note 4)		644,492		493,040
Other assets (Note 6)		20,888		-
Exploration and evaluation assets (Note 8)		12,452,542		6,122,855
Total assets	$	13,516,351	$	6,751,934
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	1,224,254	$	654,796
Loan payable (Note 10 and 11)		1,423,352		449,109
Total current liabilities		2,647,606		1,103,905
Non-current liabilities				
Deferred income tax liabilities		36,000		36,000
Total non-current liabilities		36,000		36,000
Total liabilities		2,683,606		1,139,905
Shareholders' equity				
Share capital (Note 11)		17,675,162		12,239,946
Share-based payment reserve (Note 11)		1,755,979		1,277,202
Deficit		(8,598,396)		(7,905,119)
Total shareholders' equity		10,832,745		5,612,029
Total liabilities and shareholders' equity	$	13,516,351	$	6,751,934

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Christopher Wright"	*"Darrell A. Rader"*
Christopher Wright	Darrell A. Rader

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)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2019	**2018**	**2019**	**2018**
EXPENSES				
Investor relations	$ 2,177	$ 13,762	$ 11,193	$ 54,333
Legal and audit	(2,667)	43,406	146,838	96,268
Management and consulting fees (Note 12)	198,105	50,644	346,105	227,605
Office and administration	55,069	17,196	100,334	52,083
Share-based compensation (Note 11)	8,131	38,815	48,817	148,033
Transfer agent and filing fees	16,994	11,561	21,459	18,702
Travel	5,421	6,144	14,999	30,682
Total expenses	(283,230)	(181,528)	(689,745)	(627,706)
Interest income	87	-	171	951
Gain (loss) on foreign exchange	(12,755)	65,542	(3,703)	1,848
Gain on write-off of accounts payable	-	-	-	48
	(12,668)	65,542	(3,532)	2,847
Net loss and comprehensive loss for the period	$ (295,898)	$ (115,986)	$ (693,277)	$ (624,859)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding - Basic and diluted	120,414,554	98,101,821	108,956,368	96,263,098

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)
(Canadian dollars)

	NINE MONTHS ENDED MARCH 31, 2019	NINE MONTHS ENDED MARCH 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (693,277)	$ (624,859)
Items not affecting cash:		
Share-based compensation	48,817	148,033
Impairment charges	-	-
Interest on loans payable	2,559	1,578
Accrued salaries and benefits	-	-
Unrealized loss on marketable securities	-	-
Foreign exchange	322	-
Changes in non-cash working capital items:		
Receivables	5,110	457
Value added tax	(126,210)	(201,039)
Prepaid expenses	(133,568)	(4,869)
Accounts payable and accrued liabilities	3,662	(7,344)
Net cash used in operating activities	(892,585)	(688,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash on acquisition of VRO	20,867	-
Exploration and evaluation assets expenditures	(1,021,159)	(1,263,978)
Recovery of exploration and evaluation assets	-	8,684
Net cash provided by (used in) investing activities	(1,000,292)	(1,255,294)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,229,500	1,725,000
Proceeds from loans	781,000	400,000
Share issuance costs	(14,926)	(148,615)
Net cash provided by financing activities	1,995,574	1,976,385
Change in cash during the period	102,697	33,048
Cash, beginning of the period	118,621	183,758
Cash, end of the period	**$ 221,318**	**$ 216,806**

Supplemental disclosure with respect to cash flows (Note 13)

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 payment Reserves	Deficit	Total
Balance at June 30, 2017	92,351,821	$ 9,062,555	$ 814,420	$ (7,041,824)	$ 2,835,151
Private placement	5,750,000	1,725,000	-	-	1,725,000
Issuance costs	-	(148,615)	-	-	(148,615)
Issuance costs - warrants		(77,145)	77,145		
Share-based compensation	-	-	148,033	-	148,033
Net loss for the period	-	-	-	(624,859)	(624,859)
Balance at March 31, 2018	98,101,821	10,561,795	1,039,598	(7,666,683)	3,934,710
Private placement	-		-	-	-
Shares issued for property payments	5,000,000	1,600,000			1,600,000
Issuance costs	-	(7,481)	-	-	(7,481)
Warrants issued pursuant to loan agreement			249,102		249,102
Stock options exercised	250,000	85,632	(39,632)		46,000
Share-based compensation	-	-	28,134	-	28,134
Net loss for the period	-	-	-	(238,436)	(238,436)
Balance at June 30, 2018	103,351,821	12,239,946	1,277,202	(7,905,119)	5,612,029
Private placement	6,147,500	1,229,500	-	-	1,229,500
Issuance costs	-	(14,927)	-	-	(14,927)
Shares issued for debt	1,303,113	365,263	-	-	365,263
Shares issued pursuant to the acquisition of VRO	15,421,520	3,855,380	-	-	3,855,380
Issuance of replacement stock options and warrants	-	-	93,135	-	93,135
Warrants issued pursuant to loan agreement			336,825		336,825
Share-based compensation	-	-	48,817	-	48,817
Net loss for the period	-	-	-	(693,277)	(693,277)
Balance at March 31, 2019	126,223,954	$ 17,675,162	$ 1,755,979	$ (8,598,396)	$ 10,832,745

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 Suite 704 595 Howe Street, Vancouver, BC, V6C 2T5. 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.

Going Concern of Operations

These condensed consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. The Company expects to use similar financing techniques in the future and is pursuing such additional sources of financing as estimated to be required to sufficiently support its operations until such time that its operations become self-sustaining.

At March 31, 2019, the Company had cash of $221,318 (June 30, 2018 $118,621) and a working capital deficiency of $2,249,177 (June 30, 2018 $967,866). The Company will require additional funds to support its exploration activities and meet working capital requirements in the next twelve months. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. There can be no assurances that management's plans for the Company will be successful.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements for the period ended March 31 2019, 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 measured at fair value at the end of each reporting period. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the year ended June 30, 2018

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended June 30, 2018, except for the following:.

IFRS 9 - Financial instruments

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the previous standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

2. BASIS OF PREPARATION (cont'd)

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) *Recoverability of receivables and value added tax:* which are included in the condensed consolidated interim statements of financial position. Management has determined that receivables are recoverable given management's experience in realizing receivables and refunds of value added tax.

ii) *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

iii) *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.

iv) *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.

v) *Valuation of the acquisition of a public company*: The Company acquired a publicly-traded associated company in December 2018 (Note 7). The process for determining whether the acquisition was an asset purchase versus a business acquisition was performed and primary consideration was given to the exploration stage of mineral properties, among other items. Shares issued for the acquisition were valued on the issue date and the excess of overall acquisition costs over net assets acquired was attributed to the mineral properties acquired.

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.

(Canadian Dollars)

2. BASIS OF PREPARATION (cont'd)

Critical accounting judgments

Examples of significant judgments, apart from those involving estimation, include:

- going concern of operations
- the accounting policies for exploration and evaluation assets;
- determination of asset purchase vs business acquisition
- classification of financial instruments; and
- determination of functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

New standards not yet adopted

The following new standard has been issued but is not effective during the nine months ended March 31, 2019:

IFRS 16 – Leases. Effective for annual periods beginning on or after January 1, 2019.

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company anticipates that the application of this standard will not have a material impact on the results and financial position of the Company.

4. RECEIVABLES

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

	March 31, 2019	June 30, 2018
VAT receivable	$ 644,492	$ 493,040
GST receivable	19,597	16,376
Advances receivable	2,669	-
Taxes receivable	7,500	-
	$ 29,766	$ 16,376

(Canadian Dollars)

5. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

	March 31, 2019	June 30, 2018
Security deposits	$ 3,727	$ -
Insurance	350	-
Vendor prepayments	143,268	1,042
	$ 147,345	$ 1,042

6. OTHER ASSETS

	March 31, 2019	June 30, 2018
Investment	$ 5,000	$ -
Reclamation bond	15,888	-
	$ 20,888	$ -

<u>Investment</u>

This represents the remaining 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.

(Canadian Dollars)

7. ACQUISITION

On September 5, 2018, the Company and ValOro Resources Inc. ("Valoro") (TSX-V: VRO) entered into a Letter of Intent to complete a friendly merger to create a significant Mexico focused explorer with an advanced portfolio of silver and gold projects (the "Transaction").

Effective November 5, 2018, the Company signed a Definitive Arrangement Agreement to complete the Transaction. Valoro held a special shareholder meeting for December 19, 2018 to vote on the merger and related matters.

Defiance and Valoro completed their merger under the Business Corporations Act (British Columbia) effective 11:59 pm on December 31, 2018. Under the merger, former Valoro shareholders received 0.71 Defiance shares for each Valoro share held.

As consideration, Defiance issued 15,421,520 common shares at a value of $3,855,380 (Note 11). As part of the arrangement, all unexercised Valoro stock options and warrants were replaced with 1,371,011 stock options and 1,357,708 warrants of Defiance at the fixed exchange ratio of 0.71 and a total Black Scholes value of $93,134 (Note 11). The Company incurred $27,409 in transaction costs and $260,630 in severance costs relating to the acquisition, and these costs were capitalized as part of the acquisition. The acquisition of Valoro has been treated as an acquisition of exploration and evaluation assets.

The assets and liabilities of Valoro assumed on acquisition were as follows:

Cash	$	20,867
Receivables		18,500
Prepaid expenses		12,735
Value added tax		25,242
Other assets		21,210
Exploration and evaluation assets		4,863,447
Accounts payable and accrued liabilities		(659,175)
Loan Payable		(66,273)
Net Assets	$	4,236,553

Total Consideration for the acquisition was as follows:

Value of Shares Issued	$	3,855,380
Transaction Costs		288,039
Value of replacement stock options and warrants		93,134
Total Consideration	$	4,236,553

The excess of the net assets of Valoro over the consideration has been used to reduce the exploration and evaluation assets to reflect the fair value of the Tepal Project (Note 8).

(Canadian Dollars)

8. 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.

	Tepal	San Acacio Project	Minerva Property	Lagartos Project	Total
Balance at June 30, 2017	**$ -**	**$ 2,875,642**	**$ 23,248**	**$ -**	**$ 2,898,890**
Acquisition costs					
Property Acquisition costs	-	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 at June 30, 2018	**-**	**4,509,607**	**23,248**	**1,590,000**	**6,122,855**
Acquisition costs					
Property Acquisition costs	4,866,935	844,922	-	-	5,711,857
Exploration costs					
Claim Fees	15,802	16,986			32,788
Consulting Fees	7,188	2,910			10,098
Camp	3,729	7,513			11,242
Drilling		95,731			95,731
Borrowing costs		461,237			461,237
Geology & mapping		6,268			6,268
Travel and accommodation	466	-			466
	27,185	590,645	-	-	617,830
Balance at March 31, 2019	**$ 4,894,120**	**$ 5,945,174**	**$ 23,248**	**$ 1,590,000**	**$ 12,452,542**

(Canadian Dollars)

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

Tepal Project

As a result of the acquisition of Valoro, 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$3.0 million in staged payments. Valoro also assumed the balance of Arian's obligations under the terms of an underlying property option agreement with Minera Tepal SA de CV ("Minera Tepal") subject to a 2.5% NSR and has completed staged payments to the underlying property vendor of US$ 3,200,000.

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$2,680,700 towards the agreement through March 31, 2019.

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$680,700 paid)
By September 27, 2020	US$ 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.

8. 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 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.

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, 2019, 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.

(Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		March 31, 2019		June 30, 2018
Trade payables	$	865,040	$	280,409
Accrued liabilities		359,214		374,387
	$	1,224,254	$	654,796

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

10. 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 (Note 11).

On September 17, 2018, the Company increased its third-party loan facility from $700,000 to $1,120,810. The loan was unsecured, bears interest at the rate of 1% per month, and matures on the earlier of September 17, 2019 or the date the Company closes its next equity financing. The Company will pay a commitment fee of 2% of the loan, payable on maturity or repayment; and issued 1,618,500 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.26 until September 17, 2019. 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 93.87%, and a risk-free interest rate of 2.12% (Note 11).

On December 21, 2018, the Company increased its third-party loan facility from $1,120,810 to $1,543,232. The loan bears interest at the rate of 1% per month and matures on the earlier of December 21, 2019 or the date the Company closes its next equity financing. The Company will pay a commitment fee of 2% of the loan, payable on maturity or repayment; and issued 2,346,790 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.18 until December 21, 2019. Defiance agreed to undertake a financing for a minimum of $3,000,000 to close by February 28, 2019. If Defiance fails to do so, the loan will become fully secured by the assets of the Company. As of March 31, 2019 the Company had closed the first tranche of a non-brokered private placement for gross proceeds of $1,229,500 (Note 11) and the minimum financing requirement was not met. The warrants were valued using the Black-Scholes Model resulting in a fair value of $159,258 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 96.62%, and a risk-free interest rate of 1.93% (Note 11).

The proceeds provided the Company with the funding necessary to complete its merger with Valoro Resources Inc. (Note 7) and to maintain in good standing the Company's mineral properties in Mexico.

(Canadian Dollars)

10. LOAN PAYABLE (cont'd…)

As of June 30, 2017	$	-
Loan proceeds		700,000
Commitment fees (1)		(14,000)
Bonus warrants (2)		(249,102)
Borrowing Costs (1)		21,211
Loan repayments		(9,000)
As of June 30, 2018	$	449,109
Loan proceeds		740,000
Commitment fees		-
Bonus warrants (2)		(336,825)
Borrowing Costs (1)		461,237
As of December 31, 2018	$	1,313,521

Summary of Loan Balance		
Principal Loan Balance		1,543,232
Commitment Fee		30,865
Interest to March 31, 2019		51,244
Unaccreted Commitment Fees		(24,444)
Unaccreted bonus warrants		(287,376)
	$	1,313,521

(1)Capitalized to exploration and evaluation assets
(2)Included in Share-based payment reserves

The Company signed promissory notes of $106,000 ($93,500 payable to directors of the Company). Accrued interest payable of $3,831 is included in the total Loan Payable balance of $109,831 ($3,441 of accrued interest is payable to directors of the Company) (Note 12).

11. SHARE CAPITAL

Authorized

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

During the period ended March 31, 2019, the Company

i) issued 15,421,520 common shares at a value of $3,855,380 in connection to the acquisition of Valoro, the Company (Note 7).

ii) issued 1,303,113 common shares at a price of $0.2803 to settle debt of $365,263 (Note 12).

iii) closed a non-brokered private placement by issuing 6,147,500 units at a price of $0.20 per unit for gross proceeds of $1,229,500. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before March 11, 2021 The Company paid finder's fees of $600 and other share issue costs of $14,327.

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 8).

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Stock options

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

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.

On December 31, 2018, in connection to the acquisition of Valoro, the Company issued 1,371,011 replacement stock options with a weighted average exercise price of $0.79 per share, at a fair value of $90,608 (Note 7).

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

	Number of Options	Weighted Agerate 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
Granted	1,371,011	0.79
Expired / Cancelled	(300,000)	0.11
Balance, March 31, 2019	4,656,011	$0.37

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

	March 31, 2019	June 30, 2018
Annualized volatility	88.32%	130.50%
Risk-free interest rate	1.86%	1.64%
Dividend rate	0%	0%
Expected life of options	2.46 years	3.78 years
Forfeiture rate	0%	0%
Fair value per stock option	0.07	0.21

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

The following incentive stock options were outstanding to directors, officers and employees at March 31, 2019:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
172,175	0.85	May 29, 2019	172,175	0.85
300,000	0.30	October 23, 2019	200,000	0.30
1,690,000	0.10	November 6, 2019	1,690,000	0.10
220,100	0.56	February 9, 2020	220,100	0.56
100,000	0.15	March 12, 2020	100,000	0.15
7,100	0.70	March 16, 2020	7,100	0.70
3,550	0.56	May 5, 2020	3,550	0.56
100,000	0.11	June 10, 2020	100,000	0.11
197,913	0.70	January 13, 2021	197,913	0.70
125,848	0.70	March 2, 2021	125,848	0.70
42,600	1.13	June 16, 2021	42,600	1.13
200,000	0.41	July 20, 2021	200,000	0.41
730,000	0.32	December 14, 2021	730,000	0.32
30,000	0.32	December 16, 2021	30,000	0.32
257,375	1.13	March 1, 2022	257,375	1.13
135,000	0.35	February 15, 2023	45,000	0.35
344,350	0.70	March 16, 2023	344,350	0.70
4,656,011	0.37		4,466,011	0.37

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value based method of accounting. During the period ended March 31, 2019, the Company recognized $48,817 (2018 - $148,033) in share-based compensation expense for stock options issued in the current and previous years.

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Warrants

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

	Number of Warrants	Weighted Agerate Exercise Price
Balance, June 30, 2017	-	$0.00
Granted	8,246,001	0.42
Balance, June 30, 2018	8,246,001	0.42
Granted	11,470,498	0.40
Balance, March 31, 2019	19,716,499	$0.41

At March 31, 2019, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,058,800	0.34	June 19, 2019
603,500	1.41	July 22, 2019
5,232,401	0.45	September 19, 2019
1,618,500	0.26	September 27, 2019
954,800	0.45	September 29, 2019
2,346,790	0.18	December 21, 2019
754,208	1.41	June 21, 2020
6,147,500	0.30	March 11, 2021
19,716,499		

During the period ended March 31, 2018, the Company recognized compensation for bonus warrants granted pursuant to loan agreement using the Black-Scholes option pricing model (Note 10).

On December 31, 2018, in connection to the acquisition of Valoro, the Company issued 603,500 replacement warrants with an expiry date of July 22, 2019 and 754,208 replacement warrants with an expiry date of June 21, 2020. These warrants have a weighted average exercise price of $1.41 per share, and a fair value of $2,526 (Note 7).

During the period ended March 31, 2019, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $Nil (2018 - $77,145) being included in share issuance costs.

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Warrants (cont'd…)

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

	March 31, 2019	**June 30, 2018**
Annualized volatility	95.26%	118.66%
Risk-free interest rate	2.01%	1.55%
Dividend rate	0%	0%
Expected life of options	1 year	2 years
Forfeiture rate	0%	0%
Fair value per stock option	0.09	0.18

12. RELATED PARTY TRANSACTIONS

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

As at March 31, 2019, accounts payable and accrued liabilities included $244,367 (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.

During the period ended March 31, 2019, the Company:

(a) paid or accrued management fees of $45,000 (2018 - $27,500) to a company controlled by a director of the Company.

(b) paid or accrued management fees of $Nil (2018 - $53,975) to a company controlled by the former CEO of the Company.

(c) paid or accrued management fees of $10,000 (2018 - $14,000) to a company controlled by a former CFO of the Company.

(d) paid or accrued severance of $260,630 and management fees of $37,961 (2018 - $Nil) to a former CFO of the Company.

(e) paid or accrued management fees of $45,000 (2018 - $45,000) to a company controlled by a former CEO, President and director of the Company.

(f) paid or accrued management fees of $Nil (2018 - $59,680) to a former officer of the Company.

(g) paid or accrued management fees of $90,000 (2018 - $Nil) to the CEO of the Company.

(h) paid or accrued management fees of $31,950 (2018 - $Nil) to the CFO of the Company.

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of $37,314 (2018 - $109,862). Stock options granted to directors and officers on December 31, 2018 recorded at a fair value of $57,713 is included in the acquisition value of Valoro Resources Inc.

12. RELATED PARTY TRANSACTIONS (cont'd…)

The Company has signed promissory notes of $93,500 with directors of the Company and recorded accrued interest payable of $3,441 (Note 10).

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended March 31, 2019 included:

a) A balance of $51,860 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Bonus warrants issued pursuant to loan agreement valued at $336,825.

c) Borrowing costs of $461,237 capitalized as exploration and evaluation assets.

d) Replacement options and warrants issued at a value of 93,134.

e) Issuance of 1,303,113 common shares at a price of $0.2803 to settle debt of $365,263.

Significant non-cash transactions for the period ended March 31, 2018 included:

a) A balance of $220,717 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Warrants issued as finder's fees of $77,145.

14. 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 March 31, 2019 and June 30, 2018 were for exploration and evaluation assets in Mexico.

15. 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:

15. 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 March 31, 2019, the Company had cash of $221,318 (June 30, 2018 - $118,621) to settle current liabilities of $2,647,606 (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.

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

b) Foreign currency risk

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

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

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

Based on the Company's net exposures as at March 31, 2019 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 $46,543 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 $54,191 in the Company's net earnings.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals, and the stock market to determine the appropriate course of action to be taken by the Company.

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

Capital management

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

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

16. SUBSEQUENT EVENTS

Subsequent to March 31, 2019 the following events occurred:

a. Closed the second tranche of a non-brokered private placement by issuing 5,289,452 units at a price of $0.20 per unit for gross proceeds of $ 1,057,890. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before April 5, 2021. The Company paid finder's fees of $21,300 and issued 106,500 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.20 per share on or before April 5, 2021.

b. Closed the third and final tranche of a non-brokered private placement by issuing 1,401,152 units at a price of $0.20 per unit for gross proceeds of $280,230. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before May 3, 2021. The Company paid finder's fees of $10,200 and issued 51,000 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.20 per share on or before May 3, 2021.

c. The Company received proceeds of $7,000 from the exercise of 70,000 stock options