DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

SEPTEMBER 30, 2021

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

	September 30, 2021	June 30, 2021
ASSETS		
Current assets		
Cash	$ 19,228,775	$ 20,831,725
Restricted Cash (Note 13)	388,560	388,560
Receivables (Note 3)	36,584	77,906
Prepaid expenses (Note 4)	181,337	266,431
Total current assets	19,835,256	21,564,622
Value added tax (Note 3)	1,471,437	1,404,951
Other assets (Note 5)	45,174	44,761
Equipment (Note 6)	96,229	104,104
Exploration and evaluation assets (Note 7)	20,807,245	19,920,805
Total assets	$ 42,255,341	$ 43,039,243
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	$ 883,597	$ 1,271,741
Total current liabilities	883,597	1,271,741
Non-current liabilities		
Deferred income tax liabilities	36,000	36,000
Total non-current liabilities	36,000	36,000
Total liabilities	919,597	1,307,741
Shareholders' equity		
Share capital (Note 9)	51,566,518	51,431,820
Share-based payment reserve (Note 9)	4,058,695	3,805,350
Deficit	(14,289,469)	(13,505,668)
Total shareholders' equity	41,335,744	41,731,502
Total liabilities and shareholders' equity	$ 42,255,341	$ 43,039,243

Nature and continuance of operations (Note 1)
Subsequent event (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 MONTH ENDED SEPTEMBER 30,	
	2021	**2020**
EXPENSES		
Investor relations	146,889	94,025
Legal and audit	105,623	60,745
Management and consulting fees (Note 10)	142,402	116,200
Office and administration	42,023	35,347
Share-based compensation (Note 9)	324,707	41,687
Transfer agent and filing fees	10,534	3,564
Travel	9,626	-
Total expenses	(781,804)	(351,568)
Interest income	8,718	442
Gain (Loss) on foreign exchange	(10,716)	13,882
Loss on de-recognition of loan	-	(37,687)
	(1,998)	(23,363)
Loss and comprehensive loss for the period	$ (783,802)	$ (374,931)
Basic and diluted loss per common share	$ 0.00	$ 0.00
Weighted average number of common shares outstanding - Basic and diluted	220,185,415	150,720,274

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)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (783,802)	$ (374,931)
Items not affecting cash:		
Share-based compensation	324,707	41,687
Loss on de-recognition of loan	-	37,687
Foreign exchange	(413)	343
Changes in non-cash working capital items:		
Receivables	41,322	(35,044)
Value added tax	(66,486)	(85,387)
Prepaid expenses	85,094	(128,486)
Accounts payable and accrued liabilities	(162,023)	205,084
Net cash used in operating activities	(561,601)	(339,047)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets expenditures	(1,103,472)	(675,661)
Equipment expenditures	(2,194)	-
Net cash used in investing activities	(1,105,666)	(675,661)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	82,000	12,710,288
Repayment of loans	-	(1,312,018)
Share issuance costs	(17,683)	(749,257)
Net cash provided by financing activities	64,317	10,649,013
Change in cash during the period	(1,602,950)	9,634,305
Cash, beginning of the period	20,831,725	569,031
Cash, end of the period	**$ 19,228,775**	**$ 10,203,336**

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, 2020	149,575,566	$ 22,564,418	$ 2,013,494	$ (10,567,626)	$ 14,010,286
Private placement	29,415,000	10,001,100	-	-	10,001,100
Issuance costs	-	(749,258)	-	-	(749,258)
Issuance costs - broker compensation units	-	(633,177)	633,177	-	-
Stock options exercised	13,300	4,236	(1,643)	-	2,593
Warrants exercised	6,336,567	2,721,619	(15,024)		2,706,595
Share-based compensation	-	-	41,687	-	41,687
Net loss for the period	-	-	-	(374,931)	(374,931)
Balance at September 30, 2020	185,340,433	33,908,938	2,671,691	(10,942,557)	25,638,072
Private placement	12,777,778	11,500,000	-	-	11,500,000
Issuance costs	-	(764,248)	-	-	(764,248)
Issuance costs - broker compensation units	-	(313,934)	313,934	-	-
Stock options exercised	723,394	480,058	(167,224)	-	312,834
Warrants exercised	20,761,699	6,294,763	(148,016)		6,146,747
Compensation units exercised	423,415	326,243	(182,282)		143,961
Share-based compensation	-	-	1,317,247	-	1,317,247
Net loss for the period	-	-	-	(2,563,111)	(2,563,111)
Balance at June 30, 2021	220,026,719	$ 51,431,820	$ 3,805,350	$ (13,505,668)	$ 41,731,502
Issuance costs	-	(18,664)	-	-	(18,664)
Stock options exercised	200,000	153,362	(71,362)	-	82,000
Share-based compensation	-	-	324,707	-	324,707
Net loss for the period	-	-	-	(783,802)	(783,802)
Balance at September 30, 2021	220,226,719	51,566,518	4,058,695	(14,289,470)	41,335,743

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 September 30, 2021, the Company had cash of $19,228,775 (June 30, 2021 - $20,831,725) and working capital of $18,591,659 (June 30, 2021 - $20,292,881). 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. The Company estimates it has sufficient working capital to continue operations for the upcoming year.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and capital markets are not known at this time.

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 November 24, 2021.

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

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

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

Critical Accounting Estimates

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

1. *Recoverability of receivables and value added tax:* which are included in the consolidated statements of financial position. Management has determined that receivables are recoverable given management's experience in realizing receivables and refunds of value added tax.
2. *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. *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.

		September 30, 2021		**June 30, 2021**
VAT receivable	$	1,471,437	$	1,404,951
GST receivable		30,109		71,417
Advances receivable		6,475		6,489
Accounts receivable		-		-
	$	36,584	$	77,906

4. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		September 30, 2021		**June 30, 2021**
Security deposits	$	6,803	$	6,786
Insurance		30,091		16,915
Vendor prepayments		144,443		242,730
	$	181,337	$	266,431

(Expressed in Canadian Dollars)

5. OTHER ASSETS

		September 30, 2021		June 30, 2021
Investment	$	30,025	$	30,025
Reclamation bond		15,149		14,736
	$	45,174	$	44,761

Investment

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

Reclamation bond

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

6. EQUIPMENT

		Vehicles		Computers		Total
Cost						
As at June 30, 2020	$	-	$	-	$	-
Additions		57,350		64,844	$	122,194
As at June 30, 2021		57,350		64,844		122,194
Additions		-		2,194	$	2,194
As at September 30, 2021		57,350		67,038		124,388
Accumulated depreciation						
As at June 30, 2020	$	-	$	-	$	-
Depreciation for the year		8,364		9,726	$	18,090
As at June 30, 2021		8,364		9,726		18,090
Depreciation for the period		3,584		6,485	$	10,069
As at September 30, 2021		11,948		16,211		28,159
Carrying amounts						
As at June 30, 2021	$	48,986	$	55,118	$	104,104
As at September 30, 2021	$	45,402	$	50,827	$	96,229

(1) During 2022, depreciation expense of $10,069 (June 30, 2021 – $18,090) was recorded in exploration and evaluation expenditures (Note 7)

(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, title to all of its interests are in good standing.

	San Acacio	Lagartos	Lucita	Minerva	Tepal	Total
Balance at June 30, 2020	**$ 8,088,065**	**$ 1,599,784**	**$ -**	**$ 23,248**	**$ 4,999,063**	**$ 14,710,160**
Acquisition costs						
Property Acquisition costs	1,074,127	10,072	161,561	-	461,248	1,707,008
Exploration costs						
Claim Fees	16,195	-	-	-	14,763	30,958
Consulting Fees	856,059	12,980	987	-	118,415	988,441
Camp	473,776	40,818	822	-	14,900	530,316
Drilling	1,231,947	1,283	-	-	-	1,233,230
Equipment	41,584	18,280	-	-	-	59,864
Borrowing costs	55,882	-	-	-	-	55,882
Geology and mapping	505,928	925	-	-	-	506,853
Geophysics	9,116	-	2,057	-	4,374	15,547
Travel and accommodation	81,746	557	243	-	-	82,546
	3,272,233	74,843	4,109	-	152,452	3,503,637
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	289,593	8,755	30,078	-	64,968	393,394
Exploration costs						
Claim Fees				-		-
Consulting Fees	140,018	3,234	2,965	-	8,067	154,284
Camp	177,607	51,522	2,071	-	7,564	238,764
Drilling	-	300	-	-	-	300
Equipment	10,236	166	37	-		10,439
Geology and mapping	63,710	-	-	-	-	63,710
Travel and accommodation	22,826	417	2,306	-	-	25,549
	414,397	55,639	7,379	-	15,631	493,046
Balance at September 30, 2021	**$ 13,138,415**	**$ 1,749,093**	**$ 203,127**	**$ 23,248**	**$ 5,693,362**	**$ 20,807,245**

(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.

The Company has paid US$4,467,946 towards the agreement through September 30, 2021.

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

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

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

(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

During the year ended June 30, 2021, 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	
November 30, 2022		500,000	
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 September 30, 2021, 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.

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 new occasion 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. 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	
June 16, 2022		300,000	
December 16, 2022		550,000	
June 16, 2023		550,000	
December 16, 2023		600,000	
June 16, 2024		600,000	
December 16, 2024		1,650,000	
	Total	USD 4,850,000	

During the 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.

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		September 30, 2021		June 30, 2021
Trade payables	$	731,162	$	1,011,824
Accrued liabilities		152,435		259,917
	$	883,597	$	1,271,741

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 September 30, 2021 the Company issued 200,000 common shares pursuant to exercise of stock options for gross proceeds of $82,000.

During the year ended June 30, 2021, the Company:

i) closed a brokered private placement by issuing 12,777,778 units at a price of $0.90 per unit for gross proceeds of $11,500,000. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant is exercisable to purchase one common share at a price of $1.35 per share on or before June 10, 2023. The Company paid finder's fees of $605,152 and other issue costs of $145,913 and recognized $313,934 for share issuance costs related to the issuance of 672,391 non-transferable compensation options, each compensation option consists of an option to purchase one unit at a price of $0.90 per unit with each unit consisting of one common share at $0.90 and one-half of one common share purchase warrant. Each Warrant is exercisable to purchase one common share at a price of $1.35 per share on or before June 10, 2023. The fair value of the compensation options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.32%, expected life of 2 years, annualized volatility 90.03% and dividend rate at nil.

ii) closed a brokered private placement by issuing 29,415,000 units at a price of $0.34 per unit for gross proceeds of $10,001,100. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The Company paid finder's fees of $499,844 and other issue costs of $262,597 and recognized $633,177 for share issuance costs related to the issuance of 1,470,783 non-transferable compensation options, each compensation option consists of an option to purchase one unit at a price of $0.34 per unit with each unit consisting of one common share at $0.34 and one-half of one common share purchase warrant. Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The fair value of the compensation options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.24%, expected life of 2 years, annualized volatility 97.69% and dividend rate at nil.

iii) issued 736,694 common shares pursuant to exercise of stock options for gross proceeds of $315,427;

iv) issued 27,098,266 common shares pursuant to exercise of warrants for gross proceeds of $8,853,342;

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

v) issued 423,415 common shares pursuant to exercise of compensation units for gross proceeds of $143,961.

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 period ended September 30, 2021, the Company received proceeds of $82,000 (June 30, 2021 - $315,427) from the exercise of 200,000 (2021 – 736,694) stock options. The Company transferred $71,362 (June 30, 2021 - $168,867) to share capital from share-based payment reserve.

A summary of the Company's outstanding share purchase options as at September 30, 2021 and the changes during the year are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2020	3,666,586	0.40
Granted	4,871,500	0.69
Exercised	(736,694)	0.43
Expired / Cancelled	(426,267)	0.62
Balance, June 30, 2021	7,375,125	0.57
Granted	-	-
Exercised	(200,000)	0.41
Expired / Cancelled	-	-
Balance, September 30, 2021	7,175,125	$0.58

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Stock options *(Cont'd)*

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

	September 30, 2021	June 30, 2021
Annualized volatility	-	93.02%
Risk-free interest rate	-	0.87%
Dividend rate	-	0%
Expected life of options	-	7.28 years
Forfeiture rate	-	0%
Fair value per stock option	-	$ 0.55

The following incentive stock options were outstanding to directors, officers and employees at September 30, 2021:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
400,000	0.32	December 14, 2021	400,000	0.32
221,875	1.13	March 1, 2022	221,875	1.13
135,000	0.35	February 15, 2023	135,000	0.35
273,350	0.70	March 16, 2023	273,350	0.70
20,000	0.20	May 29, 2024	20,000	0.20
830,000	0.20	May 29, 2029	830,000	0.20
200,000	0.31	July 23, 2029	200,000	0.31
605,000	0.23	May 29, 2030	403,333	0.23
833,400	0.59	November 5, 2025	273,400	0.59
1,087,500	0.59	November 5, 2030	362,500	0.59
1,144,000	0.66	June 30, 2026	381,333	0.66
1,425,000	0.90	June 30, 2031	475,000	0.90
7,175,125	0.58		3,975,791	0.50

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value-based method of accounting. During the period ended September 30, 2021, the Company recognized $324,707 (2020 - $41,687) in share-based compensation expense for stock options issued in the current and previous years.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2020	35,631,671	0.32
Granted	21,308,095	0.74
Exercised	(27,098,266)	0.33
Expired / Cancelled	(371,214)	0.45
Balance, June 30, 2021 and September 30, 2021	29,470,286	$0.62

At September 30, 2021, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
8,815,591	0.31	August 12, 2022
14,265,806	0.48	September 16, 2022
6,388,889	1.35	June 10, 2023
29,470,286	0.62	

(Expressed in Canadian Dollars)

9. SHARE CAPITAL *(Cont'd)*

Compensation Options

During the year ended June 30, 2021, the Company recognized compensation for broker compensation units using the Black-Scholes option pricing model with the following assumptions: weighted risk-free interest rate 0.27%, expected life of 2 years, annualized volatility 95.28% and dividend rate at nil. This resulted in $947,111 (2020 - $Nil) being included in share issuance costs.

A summary of the Company's outstanding compensation options as at September 30, 2021 and the changes during the period are presented below:

	Number of Compensation Options		Weighted Average Exercise Price
Balance, June 30, 2020	-	$	-
Granted	2,143,174		0.52
Exercised	(423,415)		0.34
Balance, June 30, 2021 and September 30, 2021	1,719,759	$	0.56

At September 30, 2021, the following broker compensation options were outstanding:

Number of Compensation Options	Exercise Price ($)	Expiry Date
1,047,368	0.34	September 16, 2022
672,391	0.90	June 10, 2023
1,719,759	0.56	

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

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

As at September 30, 2021, accounts payable and accrued liabilities included $144,381 (June 30, 2021 - $134,337) 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 September 30, 2021, related party transactions include the following payments:

	PERIOD ENDED SEPTEMBER 30, 2021	2020
Management and consulting fees [1]	$ 272,303	$ 96,633
Share-based payments [2]	231,446	9,681
	$ 503,749	$ 106,314

(1) Included in management and consulting fees was $176,800 capitalized as exploration and evaluation assets.
(2) Share-based compensation expense is the fair value of options granted which have been calculated using the Black-Scholes option-pricing model and the assumptions disclosed in Note 9.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended September 30, 2021 included:

a) A balance of $246,612 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

Significant non-cash transactions for the year ended June 30, 2021 included:

b) A balance of $473,713 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

c) Compensation options issued pursuant to a brokered private placement valued at $947,111.

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

e) A balance of $90,907 included in accounts payable related to share issuance costs.

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. As at September 30, 2021, the Company had cash of $19,228,775 (June 30, 2021 - $20,831,725) to settle current liabilities of $883,597 (June 30, 2021 - $1,271,741). The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

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

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

b) Foreign currency risk

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

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

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

Based on the Company's net exposures as at September 30, 2021 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of $35,518 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 $147,905 in the Company's net earnings.

c) Price risk

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

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

Capital management

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

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

13. CONTINGENCY

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

14. SUBSEQUENT EVENT

Subsequent to September 30, 2021, the Company issued 100,000 common shares pursuant to exercise of stock options for gross proceeds of $32,000.