DEFIANCE SILVER CORP.

formerly Defiance Capital Corp.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

FOR THE THREE MONTHS ENDED

SEPTEMBER 30, 2011

(UNAUDITED)

Defiance Silver Corp. (formerly Defiance Capital Corp.)
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
Canadian funds

	Sept 30 2011	June 30 2011 (Note13)	July 1, 2010 (Note13)
ASSETS			
Current assets			
Cash and cash equivalents *(Note 4)*	$ 310,906	$ 453,955	$ 361,165
Receivables *(Note 5)*	1,650	1,821	11,224
Advances	11,717	15,210	
	324,273	470,986	372,389
Mineral property interests *(Note 6)*	460,026	387,808	171,469
	$ 784,299	$ 858,794	$ 543,858
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities *(Note 7)*	$ 101,368	$ 36,281	$ 29,324
Due to related parties	1,221		
	102,589	36,281	29,324
Shareholders' equity			
Share capital *(Note 8)*	1,281,927	1,241,927	734,146
Share compensation reserve *(Note 8)*	181,177	181,177	63,937
Deficit	(781,394)	(600,591)	(283,549)
	681,710	822,513	514,534
	$ 784,299	$ 858,794	$ 543,858

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Darrell A. Rader" — Darrell A. Rader

"Bruce Winfield" — Bruce Winfield

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

Defiance Silver Corp. (formerly Defiance Capital Corp.)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE LOSS
(Unaudited – prepared by management)
For the period ended September 30 – Canadian Funds

	2011		2010	
	Quarter to Date	Year to Date	Quarter to Date	Year to Date
EXPENSES				
Audit	$ 12,000	$ 12,000	$ 3,820	$ 3,820
Consulting fees	39,720	39,720	7,500	7,500
Investor relations and promotion	10,094	10,094	2,180	2,180
Legal	41,317	41,317	11,940	11,940
Office and administration	3,569	3,569	39	39
Project evaluation	1,719	1,719		
Travel	7,482	7,482		
Transfer agent and listing fees	6,299	6,299	6,006	6,006
LOSS BEFORE OTHER ITEMS	(122,200)	(122,200)	(31,485)	(31,485)
Write-off mineral property interest	(60,750)	(60,750)		
Gain on foreign exchange	1,207	1,207		
Interest income	940	940	595	595
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (180,803)	$ (180,803)	$ (30,890)	$ (30,890)
Loss per common share - basic and diluted	$ (0.02)	$ (0.02)	$ (0.004)	$ (0.004)
Weighted average number of common shares outstanding	8,998,370	8,998,370	7,267,500	7,267,500

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

Defiance Silver Corp. (formerly Defiance Capital Corp.)
INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited – prepared by management)
For the period ended September 30 – Canadian Funds

	Number of Shares	Price	Share Capital	Reserves	Deficit	Total
Balance, June 30, 2010	7,117,500	$	$ 734,146	$ 63,937	$ (283,549)	$ 514,534
Shares issued for:						
Mineral property interest	300,000	0.36	108,000			108,000
Net loss for the period					(30,890)	(30,890)
Balance, September 30, 2010	7,417,500		$ 842,146	$ 63,937	$ (314,439)	$ 591,644

	Number of Shares	Price	Share Capital	Reserves	Deficit	Total
Balance, June 30, 2010	7,117,500	$	$ 734,146	$ 63,937	$ (283,549)	$ 514,534
Shares issued for:						
Private placement	1,250,000	0.24	300,000			300,000
Share issue costs			(4,643)			(4,643)
Mineral property interest	300,000	0.36	108,000			108,000
Mineral property interest	150,000	0.405	60,750			60,750
Options	120,000		43,673	(19,673)		24,000
Stock-based compensation				136,913		136,913
Net loss for the year					(317,042)	(317,042)
Balance, June 30, 2011	8,937,500		1,241,927	181,177	(600,591)	822,513
Shares issued for:						
Mineral property interest	100,000	0.40	40,000			40,000
Net loss for the period					(180,803)	(180,803)
Balance, September 30, 2011	9,037,500		$ 1,281,927	$ 181,177	$ (781,394)	$ 681,710

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

Defiance Silver Corp. (formerly Defiance Capital Corp.)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – prepared by management)
For the period ended September 30 – Canadian Funds

	2011 Year to Date	2010 Year to Date
Cash Flows from Operating Activities		
Net loss for the period	$ (180,803)	$ (30,890)
Items not affecting cash:		
Write-off of mineral property interest	60,750	
Changes in non-cash working capital items:		
Decrease in prepaid expenses	3,493	
Decrease (increase) in receivables	171	(3,642)
Increase in accounts payables & accrued liabilities	65,087	21,865
Increase in due to related parties	1,221	
Net cash used in operating activities	(50,081)	(12,667)
Cash Flows from Investing Activities		
Acquisition of exploration and evaluation assets	(92,968)	(45,250)
Net cash used in investing activities	(92,968)	(45,250)
Increase (Decrease) in Cash & Cash Equivalents	(143,049)	(57,917)
Cash & Cash Equivalents – Beginning of Period	453,955	361,165
Cash & Cash Equivalents – End of Period	$ 310,906	$ 303,248
Cash paid during the period for interest	**$ -**	**$ -**
Cash paid during the period for income taxes	**$ -**	**$ -**

Supplemental disclosure with respect to cash flows (Note 10)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated on July 19, 2007 under the Business Corporations Act of the Province of British Columbia under the name Defiance Capital Corp. The name was changed to Defiance Silver Corp. in June 2011. On August 6, 2009, the Company completed a Qualifying Transaction ("QT") pursuant to TSX Venture Exchange ("TSX-V") requirements and is classified as a "Mineral Exploration and Development" company with the principal business being the acquisition and exploration of mineral properties. The Company's registered and records office is at Suite 700, 625 Howe Street, Vancouver, BC, V6C 2T6. The Company's head office is at Suite 1100, 543 Granville Street, Vancouver, BC, V6C 1X8.

At the date of these interim consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its mineral property interests. The ability of the Company to realize the costs it has incurred to date on these mineral property interests 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 mineral property interest. To date, the Company has not earned revenues and is considered to be in the exploration stage.

These interim consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or 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.

These interim consolidated financial statements were authorized by the audit committee and board of directors of the Company on December 28, 2011.

2. BASIS OF PREPARATION

These unaudited interim consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting.* The interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these interim consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at July 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 13.

The preparation of these interim consolidated 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 consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

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

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

ii) The carrying value and the recoverability of mineral property interests, which are included in the consolidated statements of financial position;

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

iv) The amount of deferred income taxes recognized.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These interim consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (Note 9). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar, Mexican peso (Minera Santa Remy) and United States dollar (Defcap (BVI)).The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting periods, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statements of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations & comprehensive loss.

Financial instruments

Financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

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

Financial liabilities

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

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

Other financial liabilities: This category includes accounts payables and accrued liabilities which are recognized at amortized cost.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Mineral property interests

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

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property interests, the excess is recognized as income in the year received. The amounts shown for mineral property interests do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Cash and cash equivalents

Cash and cash equivalents are comprised of cashable on demand and highly liquid interest bearing investments with an original maturity of less than one year, which are readily convertible into a known amount of cash with minimal risk.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

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

Loss per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Stock-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Recent accounting pronouncements

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that were not reclassified.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and*

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

Joint Ventures (all effective January 1, 2013) provide revised guidelines on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of "control" for identifying entities which are to be consolidated.

IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

The Company is currently evaluating the impact of these new and amended standards on its financial statements.

4. CASH AND CASH EQUIVALENTS

	Sept 30, 2011	June 30, 2011
Cash on deposit	$ 45,906	$ 13,955
Liquid short term deposit	265,000	440,000
	$ 310,906	$ 453,955

5. RECEIVABLES

The Company's receivables arise from refundable sales tax receivable from government taxation authorities and accrued interest receivable on liquid short term deposits. These are broken down as follows:

	Sept 30, 2011	June 30, 2011
Sales tax receivable	$ 482	$
Interest receivable	1,168	1,821
	$ 1,650	$ 1,821

6. MINERAL PROPERTY INTERESTS

	As at September 30, 2011		
	Direct	Written-off	Total
Storm property	$ 418,192	$	$ 418,192
Santa Elena property	60,750	60,750	
Veta Grande project	35,215		35,215
Minerva property	6,619		6,619
	$ 520,776	$ 60,750	$ 460,026

	As at June 30, 2011		
	Direct	Written-off	Total
Storm property	$ 327,058	$	$ 327,058
Santa Elena property	60,750		60,750
	$ 387,808	$	$ 387,808

	Balance, June 30, 2011	Additions	Balance, Sept 30, 2011
Acquisition fees	$ 289,734	$ 95,030	$ 384,764
Claim fees	92,443	32,794	125,237
Geology and mapping		5,144	5,144
Geophysics	5,631		5,631
Less: Write-offs			(60,750)
	$ 387,808	$ 132,968	$ 460,026

6. MINERAL PROPERTY INTERESTS (cont'd…)

Storm Property

The Company executed an option agreement with Genesis Professional Services LLC ("Genesis") to earn a 100% right, title and interest in the Storm Property, consisting of 210 non-patented mineral claims, located in Nevada, USA. The Storm claims are located midway between Ely and Tonopah in northern Nye County.

The terms of the option agreement with Genesis include an aggregate payment to Genesis of US$250,000; deliver an aggregate of 800,000 shares (delivered) and incur an aggregate of at least US$300,000 of expenditures on the Property before August 6, 2014. In addition, the Company agrees to pay Genesis a royalty of 3% of net smelter returns realized from all gold and silver produced from the Property. The Company may purchase 50% of this royalty (1.5% NSR) for US$2,000,000 at any time; and a 2.0% net smelter return from all other minerals produced from the Property. The Company may purchase 50% of this royalty (1.0% NSR) for US$1,000,000 at any time.

To maintain the option agreement, the Company must make the following option payments:

	Annual Option Payments (US$)
	$
On or before August 6, 2011 (paid)	20,000
On or before August 6, 2012	40,000
On or before August 6, 2013	65,000
On or before August 6, 2014	100,000

Santa Elina Property

The Company acquired an option to earn a 100% right, title and interest in the Santa Elina Property consisting of two claims, Carina and Juanito, totalling approximately 120 HA located 25 km south of Jimenez de Teul in west central Zacatecas, Mexico.

The Company signed a mineral property option agreement requiring $US payments totalling US$315,000 plus value-added-tax. There were no work or royalty commitments.

After further evaluation, management decided not to renew the option agreements and expensed $60,750 in the quarter ended September 30, 2011.

Veta Grande Project

The Company entered into an option agreement with IMPACT Silver Corp. for the acquisition of the Veta Grande project in Zacatecas, Mexico. The Veta Grande Project consists of the Santa Gabriela (formerly Veta Grande) processing plant, and associated surface rights as well as a 100% interest in 10 mining claims. To exercise the option, the Company will (a) issue 1,787,000 common shares on or before December 8, 2011, subsequently extended to January 31, 2012; (b) pay IMPACT Silver Corp $1,955,200 on the earlier of (i) two years from the agreement date and (ii) the date the Company begins the commercial processing of ore at the Mill. The first day of commercial processing of ore at the Mill is defined as the first day after the Mill has achieved production averaging 160 tonnes per day over a 30 day period.

7. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are broken down as follows:

	Sept 30, 2011	June 30, 2011
Accrued liabilities	$ 38,000	$ 10,000
Trade payables	63,368	26,281
	$ 101,368	$ 36,281

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

8. SHARE CAPITAL

Authorized

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

Stock options

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

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

	Number of Options	Weighted Average Exercise Price
Balance, June 30,2010	390,000	$ 0..20
Options granted	450,000	0.49
Options exercised	120,000	0.20
Balance, June 30, 2011	720,000	0.38
Balance, September 30, 2011	720,000	$ 0.38
Number of options currently exercisable	720,000	$ 0.38

At September 30, 2011, the following incentive stock options were outstanding to directors, officers and employees:

Number of Options Outstanding	Exercise Price	Expiry Date	Number of Options Exercisable
270,000	$ 0.20	August 6, 2014	270,000
450,000	0.49	June 6 , 2016	450,000
720,000			720,000

Warrants

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

	Number of Warrants	Expiry Date	Weighted Average Exercise Price
Balance, June 30, 2010			
Issued	625,000	Apr 15, 2013	$ 0.32
Balance, June 30, 2011	625,000		$ 0.32
Balance, September 30, 2011	625,000		$ 0.32

The warrants issued April 15, 2011 are exercisable into common shares of the Company at an exercise price of $0.32 and are exercisable until April 15, 2013.

Stock-based compensation

The Company recognizes compensation for all stock options and warrants granted using the fair value based method of accounting. During the period ended September 30, 2011, the Company granted no stock options and recognized $Nil (2010 – $Nil) in stock-based compensation expenses with respect to options vested during the period.

9. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and its subsidiary listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Minera Santa Remy SA	Mexico	100%	Mineral exploration
Defcap (BVI) Limited	Bahamas	100%	Investment holding

All transactions with related parties are in the normal course of operations and are measured at their fair value as determined by management.

During the three months ended September 30, 2011, the Company entered into the following transactions with related parties:

a) Paid or accrued fees in the amount of $24,360 (2010 – $Nil) for consulting services to a private company controlled by an officer and director of the Company.

b) Paid or accrued fees in the amount of $15,360 (2010 - $7,500) for management services by an officer of the Company. The Company advanced $8,591 to this officer as at September 30, 2011 (2010 - $Nil).

Amounts payable to related parties have no specific terms of repayment, are unsecured, and have no interest rate.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the period ended September 30, 2011 included $40,000 (2010 - $108,000) in shares issued for mineral property interest.

11. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration, and development of mineral properties in North America. Geographical information is as follows:

	Sept 30, 2011	June 30, 2011
Mineral property interests		
Mexico	$ 41,834	$ 60,750
United States	418,192	327,058
	$ 460,026	$ 387,808

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 receivables, accounts payable and accrued liabilities, and due to related parties approximate carrying value, which is the amount payable on the consolidated statements of financial position. The Company's other financial instrument, cash and cash equivalents, under the fair value hierarchy, are 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:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of HST/VAT due from the governments of Canada and Mexico and interest receivable on short-term investments held by the Company's bank. 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, 2011, the Company had a cash and cash equivalent balance of $310,906 (June 30, 2011 - $453,955) to settle current liabilities of $102,589 (June 30, 2011 - $36,281). Management believes that it has sufficient funds to meet its current liabilities as they become due.

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. As at September 30, 2011, the Company had a total of $265,000 in investment-grade short-term deposit certificates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because of the short-term nature of these investments.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents and accounts payable and accrued liabilities that are denominated in United States dollars ("US$") and Mexican peso ("MX$"). A 10% fluctuation in the US$ and MX$ against the Canadian dollar would affect net loss for the period by approximately $4,000.

c) Price risk

The Company is not exposed to significant price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

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 and development of its exploration and evaluation assets, acquire additional mineral property interests 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 and cash equivalents and investments.

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

13. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the interim consolidated financial statements for the period ended September 30, 2011 and 2010, the consolidated financial statement for the year ended June 30, 2011 and the opening IFRS statement of financial position on July 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the interim periods ended September 30, 2011 and 2010 the Company determined that there are no adjustments required to amounts previously reported in accordance with GAAP as at July 1, 2010, for the period ended September, 2010 and for the year ended June 30, 2011. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

a) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date; and

b) to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.