

DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

MARCH 31, 2012

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW

The unaudited condensed consolidated interim financial statements and accompanying notes thereto, for periods ended March 31, 2012 and 2011 have not been reviewed by the Company's external auditors.

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(expressed in Canadian dollars)

	March 31, 2012	June 30, 2011 (Note13)	July 1, 2010 (Note13)
ASSETS			
Current assets			
Cash and cash equivalents (Note 4)	\$ 294,095	\$ 453,955	\$ 361,165
Other receivables (Note 5)	28,993	1,821	11,224
Advances	<u>39,532</u>	<u>15,210</u>	<u> </u>
	362,620	470,986	372,389
Mineral property interests (Note 6)	<u>2,007,317</u>	<u>387,808</u>	<u>171,469</u>
	\$ 2,369,937	\$ 858,794	\$ 543,858

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued liabilities (Note 7)	\$ 211,538	\$ 36,281	\$ 29,324
Shareholder loans and other	370,000		

Shareholders' equity

Share capital (Note 8)	2,702,592	1,241,927	734,146
Share compensation reserve (Note 8)	215,990	181,177	63,937
Deficit	<u>(1,130,183)</u>	<u>(600,591)</u>	<u>(283,549)</u>
	<u>1,788,399</u>	<u>822,513</u>	<u>514,534</u>
	\$ 2,369,937	\$ 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 condensed consolidated interim financial statements.

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS & COMPREHENSIVE LOSS

(Unaudited)

For the period ended March 31 – (expressed in Canadian dollars)

	2012		2011	
	<u>Quarter to Date</u>	<u>Year to Date</u>	<u>Quarter to Date</u>	<u>Year to Date</u>
EXPENSES				
Consulting fees	80,486	196,882	7,500	22,500
Investor relations and promotion	12,112	37,328	280	2,640
Legal and audit	32,781	99,438	2,612	18,372
Office and administration	11,568	25,924	122	509
Project evaluation		3,626		
Share-based compensation	34,813	34,813		
Travel	28,426	45,328		
Transfer agent and listing fees	7,736	28,330	6,833	17,033
LOSS BEFORE OTHER ITEMS	(207,922)	(471,669)	(14,735)	(61,054)
Write-off mineral property interest		(60,750)		
Foreign exchange	1,899	1,198		
Interest income	157	1,629	546	1,811
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (205,866)	\$ (529,592)	\$ (14,189)	\$ (59,243)
Loss per common share - basic and diluted	\$ (0.01)	\$ (0.04)	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding	14,498,844	13,841,254	7,417,500	7,357,500

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)
For the period ended March 31 – (expressed in Canadian dollars)

	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					(59,243)	(59,243)
Balance, March 31, 2011	7,417,500		\$ 842,146	\$ 63,937	\$ (342,792)	\$ 563,291

	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			(4,642)			(4,642)
Mineral property interest	450,000	0.375	168,750			168,750
Share options	120,000		43,673	(19,673)		24,000
Share-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
Mineral property interest	2,680,500	0.53	1,420,665			1,420,665
Share-based compensation				34,813		34,813
Share split 3:2	4,518,750					
Net loss for the period					(529,592)	(529,592)
Balance, March 31, 2012	16,236,750		\$ 2,702,592	\$ 215,990	\$ (1,130,183)	\$ 1,788,399

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

For the period ended March 31 – (expressed in Canadian dollars)

	2012	2011
Operating Activities		
Net loss for the period	\$ (529,592)	\$ (59,243)
Adjustment for non-cash items:		
Write-off of mineral property interest	60,750	
Share-based compensation	34,813	
Net changes in non-cash working capital items:		
Other receivables and advances	(51,494)	(7,713)
Accounts payables & accrued liabilities	175,257	(13,943)
	<u>(310,266)</u>	<u>(80,899)</u>
Cash utilized in operating activities	(310,266)	(80,899)
Investing Activities		
Expenditures on mineral property interests	(219,594)	(47,589)
	<u>(219,594)</u>	<u>(47,589)</u>
Net cash used in investing activities	(219,594)	(47,589)
Financing Activities		
Shareholder loan proceeds and share subscriptions	<u>370,000</u>	
	<u>(159,860)</u>	<u>(128,488)</u>
Increase (Decrease) in Cash & Cash Equivalents	(159,860)	(128,488)
Cash & Cash Equivalents – Beginning of Period	<u>453,955</u>	<u>362,004</u>
Cash & Cash Equivalents – End of Period	<u>\$ 294,095</u>	<u>\$ 233,516</u>
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -
Supplemental disclosure with respect to cash flows (Note 10)		

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

DEFIANCE SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the period ended March 31, 2012

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 Suite700, 625 Howe Street, Vancouver, BC, V6C 2T6. The Company's head office is at Suite1610, 409 Granville Street, Vancouver, BC, V6C 1T2.

At the date of these consolidated interim 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 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 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 consolidated interim financial statements were authorized by the audit committee and board of directors of the Company on May 30, 2012.

2. BASIS OF PREPARATION

These unaudited consolidated interim 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 consolidated interim 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 consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated interim 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 consolidated interim 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 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 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;

DEFIANCE SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the period ended March 31, 2012

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 consolidated interim 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 consolidated interim 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 identified 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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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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.

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

(Unaudited)

For the period ended March 31, 2012

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
For the period ended March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share-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.

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

(Unaudited)

For the period ended March 31, 2012

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

	March 31, 2012	June 30, 2011
Cash on deposit	\$ 229,095	\$ 13,955
Liquid short term deposit	<u>65,000</u>	<u>440,000</u>
	\$ 294,095	\$ 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:

	March 31, 2012	June 30, 2011
Sales tax receivable	\$ 28,888	\$
Interest receivable	<u>105</u>	<u>1,821</u>
	\$ 28,993	\$ 1,821

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

(Unaudited)

For the period ended March 31, 2012

6. MINERAL PROPERTY INTERESTS

	As at March 31, 2012		
	Direct	Written-off	Total
Storm property	\$ 418,192	\$	\$ 418,192
Santa Elena property	60,750	60,750	
Veta Grande project	1,459,875		1,459,875
Minerva property	15,983		15,983
San Acacio	113,267		113,267
	<u>\$ 2,068,067</u>	<u>\$ 60,750</u>	<u>\$ 2,007,317</u>

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

	Balance, June 30, 2011	Additions	Balance, March 31, 2012
Acquisition fees	\$ 289,734	\$ 1,605,491	\$ 1,895,225
Claim fees	92,443	40,921	133,364
Geology and mapping		33,847	33,847
Geophysics	<u>5,631</u>		<u>5,631</u>
	<u>387,808</u>	<u>1,600,259</u>	<u>2,068,067</u>
Less: Write-offs		<u>(60,750)</u>	<u>(60,750)</u>
	<u>\$ 387,808</u>	<u>\$ 1,619,509</u>	<u>\$ 2,007,317</u>

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

(Unaudited)

For the period ended March 31, 2012

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 Elena Property

The Company acquired an option to earn a 100% right, title and interest in the Santa Elena 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 nine months ended March 31, 2012.

Veta Grande Project

The Company entered into an option agreement and subsequently amended 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 partially exercise the option, the Company (a) issued 2,680,500 common shares on February 28, 2012 and agreed to 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.

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

(Unaudited)

For the period ended March 31, 2012

7. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

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

	March 31, 2012	June 30, 2011
Accrued liabilities	\$ 108,235	\$ 10,000
Trade payables	<u>86,697</u>	<u>26,281</u>
	\$ 211,538	\$ 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	<u>120,000</u>	<u>0.20</u>
Balance, June 30, 2011	720,000	0.38
Options granted	120,000	0.60
Increase in options due to 3:2 share split	<u>360,000</u>	<u>(0.13)</u>
Balance, March 31, 2012	1,200,000	\$ 0.29
Number of options currently exercisable	1,200,000	\$ 0.29

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

(Unaudited)

For the period ended March 31, 2012

At March 31, 2012, the following incentive stock options were outstanding to directors, officers and employees:

Number of Options Outstanding	Exercise Price	Expiry Date	Number of Options Exercisable
405,000	\$ 0.13	August 6, 2014	405,000
675,000	0.33	June 6, 2016	675,000
<u>120,000</u>	0.60	January 23, 2017	<u>120,000</u>
1,200,000			1,200,000

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	<u>625,000</u>		<u>\$ 0.32</u>
Share split adjustment	<u>312,500</u>		<u>(0.11)</u>
Balance, March 31, 2012	937,500		\$ 0.21

The warrants issued April 15, 2011 are exercisable into common shares of the Company at an exercise price of \$0.21 and are exercisable until April 15, 2013.

Share-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 March 31, 2012, the Company granted 120,000 stock options and recognized \$34,813 (2010 – \$Nil) in stock-based compensation expenses with respect to options vested during the period.

The fair value of the stock options was estimated at the date of the grant using the Black-Scholes pricing model using the weighted average assumptions:

Expected stock price volatility	75.69%
Risk-free interest rate	1.42%
Expected life of options	5 years
Expected dividend yield	0.00%

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

(Unaudited)

For the period ended March 31, 2012

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 nine months ended March 31, 2012, the Company entered into the following transactions with related parties:

- Paid or accrued fees in the amount of \$107,860 (2011 – \$Nil) for consulting services to a private company controlled by an officer and director of the Company.
- Paid or accrued fees in the amount of \$55,097 (2010 - \$22,500) for management services by an officer of the Company.

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 March 31, 2012 included \$1,380,250 (2011 - \$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:

	March 31, 2012	June 30, 2011
Mineral property interests		
Mexico	\$ 1,589,125	\$ 60,750
United States	<u>418,192</u>	<u>327,058</u>
	\$ 2,007,317	\$ 387,808

DEFIANCE SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the period ended March 31, 2012

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 March 31, 2012, the Company had cash and cash equivalents of \$294,095 (June 30, 2011 - \$453,955) to settle current liabilities of \$211,538 (June 30, 2011 - \$36,281). Management needs to secure additional funding in order to meet its current liabilities and operating expenses as they become due while completing an equity financing.

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 March 31, 2012, the Company had a total of \$65,000 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

DEFIANCE SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For the period ended March 31, 2012

10% fluctuation in the US\$ and MX\$ against the Canadian dollar would affect net loss for the period by approximately \$2,000.

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 December 31, 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 March 31, 2012 and 2011 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 March, 2011 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.