

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Defiance Silver Corp.'s (the "Company") financial statements. The information provided herein should be read in conjunction with the Audited Financial Statements for the year ended June 30, 2011 and the unaudited condensed consolidated interim Financial Statements of the Company for the nine months ended March 31, 2012. The following comments may contain management estimates of anticipated future trends, activities or results. These are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on www.sedar.com and to review general information.

DESCRIPTION OF BUSINESS AND OVERVIEW

The Company is an exploration stage company engaged principally in the acquisition and exploration of mineral property interests. The recovery of the Company's investment in its mineral property interests is dependent upon the discovery of economically recoverable mineral reserves and the ability to raise sufficient capital to finance this operation. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters.

During the year to date, the Company;

- (i) signed an option agreement to acquire a 200 tonne per day processing plant and associated surface rights as well as a 100% interest in 10 mining claims in Zacatecas, Mexico;
- (ii) signed an option agreement to acquire a 100% interest in the past producing San Acacio mine consisting of 10 mining concessions in the historic Zacatecas Silver District of Mexico;
- (iii) subdivided the issued and outstanding common shares on a 3 for 2 basis.

Since June 30, 2011, gold rose to an all-time high of US\$1,895/oz (London fix) before returning back to the current trading range between US\$1,530/oz and US\$1,580/oz. Silver meanwhile traded between a high of US\$43.72 and a low of US\$26.16 and traded at an average price of US\$28.74 during May 2012.. With a continuing zero percent interest rate policy set by the U.S. Federal Reserve, the long-term outlook for gold and silver remains positive although short term volatility is expected.

MINERAL PROPERTY REVIEW

This review has been prepared by the Company's geologic staff under the supervision of Bruce Winfield, P.Geo., President, CEO and Director of the Company, and a Qualified Person ("QP") as defined by National Instrument 43-101 (Standards of Disclosure for Mineral Projects).

The Company currently owns, or has the right to acquire an interest in, one project located in Nevada (the Storm Property) and three located in Mexico (the Veta Grand, Minerva and San Acacio Project).

Storm Property

The Company holds an option to acquire from Genesis Professional Services LLC ("Genesis"), a private Nevada corporation, an undivided 100% interest in four blocks of 210 unpatented mining claims known as the Storm Property (the "Property") located midway between Ely and Tonopah in northern Nye County, Nevada.

The Storm Property lies on the eastern pediment-covered slope of the Pancake Range, forming the western edge of Railroad Valley, in north-eastern Nye County, Nevada. The area of the property is 4,338 acres (1,755 hectares) in four claim blocks, totalling 210 mineral claims. The southern claim block is the largest, and has been the principal focus of exploration.

The property is underlain by Tertiary volcanic rocks overlying Paleozoic carbonate and clastic rocks. The most prominent structural feature on the property is a north-northwest oriented graben referred to as the Coyote Graben.

Initial interest in the property in the 1980's was focused on an erosional window through strongly altered, barren Tertiary volcanics into weakly to strongly altered mid-Paleozoic carbonate and clastic rocks. In 1987, drilling reportedly intersected 85 feet of pyritized jasperoid averaging .01 oz/ton gold (25.9m of 0.3 g/t Au), in the uppermost part of the Devonian Guilmette Dolomite.

Genesis staked claims to cover the area based on the earlier drilling and widespread, intense alteration including silicified breccia zones. An Induced Polarization survey conducted by Genesis over much of the Storm Property during the fall of 2007 resulted in the discovery of a number of chargeability anomalies, almost all entirely within the Coyote Graben. The chargeability anomalies tend to form discreet zones elongated along the graben axis, suggestive of feeders controlling distribution of possible sulphide mineralization.

An igneous intrusive body is interpreted to lie immediately east of the Coyote Graben with the western margin of the intrusive being truncated by the eastern graben bounding structure. This interpretation is supported by geological mapping and soil geochemical data. Most of the chargeability anomalies lie within the graben adjacent to the interpreted intrusion, suggesting a possible genetic relationship between sulphide mineralization and the interpreted intrusion.

The agreement grants the Company the exclusive option to earn 100% interest to the Storm Property, consisting of 210 non-patented mineral claims in Nye County, Nevada, owned by Genesis, in return for payments in cash and shares, as well as an exploration expenditure commitment. Genesis will also retain certain Net Smelter Royalty interests, described below. The agreement with Genesis is an arm's length transaction.

As per the agreement (as amended), in order to exercise the Option, the Company must pay to Genesis an aggregate US\$250,000; deliver an aggregate of 800,000 Shares; and incur an aggregate of at least US\$300,000 of expenditures on the Property. To date the Company has made payments totalling US\$45,000 and issued 800,000 common shares to Genesis. The option to purchase agreement is in good standing as of the date of this MD&A with the following obligations still outstanding:

- (a) pay to Genesis:
 - (i) the sum of US\$40,000 on or before August 6, 2012;
 - (ii) an additional US\$65,000 on or before August 6, 2013; and
 - (iii) an additional US\$100,000 on or before August 6, 2014;
- (b) incur a minimum of US\$300,000 of expenditures on or with respect to the Property on or before August 6, 2014.

In addition to the payments described above, the Company agrees to pay to Genesis the following royalties:

- (i) 3.0% 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 \$2,000,000 at any time; and
- (ii) 2.0% of net smelter returns realized from all other minerals produced from the Property. The Company may purchase 50% of this royalty (1.0% NSR) for \$1,000,000 at any time.

Veta Grand 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 date, the

Company issued 2,680,500 common shares on February 28, 2012 to Impact Silver Corp. and is obligated 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 before title is passed to Defiance Silver Corp. 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.

Minerva Property

The Minerva property located in northern Mexico is approximately 25,000 ha covering a district with a series of old artisanal mine workings from the 1980's with very limited production from a small stamp mill. Access is good via a series of paved and dirt roads, however only limited modern exploration has been carried out. Silver-lead-zinc mineralization occurs as carbonate replacement and skarn bodies within a well developed limestone-siltstone sequence and is related to a series of granite to diorite igneous intrusions. The model deposit for the area is the La Encantada deposit previously mined by Penoles but currently operated by First Majestic Silver Corp with a published reserve/resource containing approximately 65 million oz of silver.

Management plans to initially carry out a regional satellite imagery alteration study and prospecting to define areas for more follow up of mapping, sampling and possibly ground geophysics.

San Acacio Property

On October 24, 2011, the Company optioned from a private Mexican company, the right to acquire a 100% interest in the San Acacio silver mine located in the historic Zacatecas Silver District, Mexico. The past producing San Acacio mine consisting of 10 mining concessions totaling 7.46 km², hosts the southeastern half of the Veta Grande vein system, one of the three prominent vein systems in the historic billion-ounce silver producing Zacatecas Silver District.

The total purchase price for the proposed acquisition is US\$5.75 million dollars with a royalty on production from the property. On signing the option agreement, the Company paid US\$25,000 for an initial 90 day period for evaluation and due diligence which can be extended for a further 90 days on payment of US\$50,000. On or before the end of the initial or the extended option periods, the Company can execute a purchase agreement upon paying US\$250,000 (paid in May 2012) with a deferred purchase payment of US\$5.5 million for a period of 12 or 9 months respectively. The purchase agreement also provides for a 2.5% net smelter return royalty payable to the vendor on production from the property. The Company will have the right to purchase the royalty at any time for the price of US\$2.5 million which after five years will escalate with the official Mexican Inflation Index.

Under terms of the purchase agreement, the Company can also purchase: surface rights covering 12 ha controlling the adit access to the underground workings for US\$5,000; and surface rights covering 12.0246 ha on which are located approximately 300,000 tonnes of tailings from the former San Acacio mine which can be purchased for a price of US\$1.50 per tonne of tailings as defined by future work programs.

QUARTERLY INFORMATION AND RESULTS OF OPERATIONS

Summary of Quarterly Results

The following is a summary of certain selected unaudited financial information for the most recent eight fiscal quarters.

Unaudited
(Fiscal Quarters of the Fiscal Year ended June 30, 2012)

All in \$1,000's except loss per share	1 st Quarter ⁽¹⁾	2 nd Quarter ⁽¹⁾	3 rd Quarter ⁽¹⁾
Working capital	\$ 222	\$ 32	\$ (219)
Loss	\$ (181)	\$ (141)	\$ (206)
Loss per share	\$ (0.02)	\$ (0.01)	\$ (0.01)
Loss per share (fully diluted)	\$ (0.02)	\$ (0.01)	\$ (0.01)
Total assets	\$ 784	\$ 662	\$ 2,290
Total liabilities	\$ 103	\$ 123	\$ 582
Deficit	\$ (781)	\$ (924)	\$(1,130)

Unaudited
(Fiscal Quarters of the Fiscal Year ended June 30, 2011)

All in \$1,000's except loss per share	1 st Quarter ⁽²⁾	2 nd Quarter ⁽²⁾	3 rd Quarter ⁽²⁾	4 th Quarter ⁽²⁾
Working capital	\$ 267	\$ 250	\$ 236	\$ 435
Loss	\$ (31)	\$ (14)	\$ (14)	\$ (259)
Loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.04)
Loss per share (fully diluted)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.04)
Total assets	\$ 643	\$ 605	\$ 579	\$ 859
Total liabilities	\$ 51	\$ 27	\$ 15	\$ 36
Deficit	\$ (314)	\$ (328)	\$ (342)	\$ (601)

Unaudited
(Fiscal Quarters of the Fiscal Year ended June 30, 2010)

All in \$1,000's except loss per share	4 th Quarter ⁽²⁾
Working capital	\$ 343
Loss	\$ (47)
Loss per share	\$ (0.01)
Loss per share (fully diluted)	\$ (0.01)
Total assets	\$ 543
Total liabilities	\$ 29
Deficit	\$ (283)

(1) Financial data prepared under IFRS.

(2) Financial data prepared under GAAP.

Nine Months ended March 31, 2012

The Company's loss for the nine months ended March 31, 2012 totaled \$529,592, a loss of \$0.04 per share, as compared to a loss of \$59,243, \$0.01 per share, in 2011 and in the third quarter ended March 31, 2012, the Company lost \$205,866 (\$0.01 per share) compared to a loss of \$14,189 (\$0.00 per share) in 2011. Operating expenses for the nine months ended March 31, 2012 totaled \$471,669 compared to \$61,054 in 2011 (March 31, 2012 quarter - \$207,922 compared to \$14,735 in 2011). The increases, coming as a result of the Company's expansion activities into Mexico, included the payment of consulting fees to oversee the direction of the exploration activity, increased involvement in investor relations, and legal fees related to the Mexican expansion.

The Company's cash and cash equivalents decreased by \$159,860 during the nine months ended March 31, 2012, as compared to a decrease of \$128,488 in 2011. Cash used in investing activities, included \$144,826 for option payments and acquisition costs, \$40,921 for claim maintenance fees, \$33,847 for exploration and evaluation costs, totaling \$219,594 for the nine months ended March 31, 2012 compared to \$47,589 in 2011.

The Company's activities are focused on its properties in Mexico as well as attempting to raise additional financing..

Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2012 totaled \$294,095 compared to \$130,333 at December 31, 2011. Working capital at March 31, 2012 was \$(218,918) compared to \$434,705 as at June 30, 2011. Management needs to raise additional equity in order to exercise the Option Agreements on the Veta Grand and San Acacio projects and for general working capital needs. To date, management has raised additional capital of \$202,250 exclusive of shareholder loans of \$120,000 being converted into equity and a cash subscription of \$250,000 received prior to March 31, 2012.

At the date of these unaudited condensed consolidated interim financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its mineral properties. The ability of the Company to realize the costs it has incurred to date on these mineral properties is dependent upon the Company being able to lever its property interests and cash, by way of exploration activities and option/joint ventures, into assets of greater value.

The Company's authorized capital consists of an unlimited number of common shares without par value.

At March 31, 2012, the Company had 16,236,750 common shares issued and outstanding (June 30, 2011 – 8,937,500).

During the nine months ended March 31, 2012, there were 120,000 stock options granted and none exercised. At March 31, 2012, there were 1,120,000 stock options outstanding. If exercised, the 1,200,000 stock options would increase the Company's available cash by \$346,500. Subsequent to March 31, 2012, no stock options were exercised.

During the nine months ended March 31, 2012 there were no warrants issued or exercised and there were 937,500 warrants outstanding at a price of \$0.21 with an expiry date of April 15, 2013. If exercised, the warrants are convertible into 937,500 common shares of the Company.

Related Party Transactions

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

- a) Paid or accrued fees in the amount of \$86,860 (2011 – \$Nil) for management services to Winfield Consulting Ltd., a private company controlled by Bruce Winfield, President and director of the Company. The Company owed \$37,500 to Winfield Consulting Ltd. as at March 31, 2012 (2011 - \$Nil).
- b) Paid or accrued fees in the amount of \$55,097 (2011 - \$Nil) for management services to Richard Tschauder, an officer of the Company. The Company owed \$10,972 to Richard Tschauder as at March 31, 2012 (2011 - \$Nil).
- c) Accrued fees in the amount of \$11,760 (2010 - \$Nil) for marketing management services to 087299BC Ltd., a private company controlled by Darrell Rader, a director of the Company.

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. All transactions with related parties are in the normal course of operations and are measured at their fair value as determined by management. The amount owing in related party transactions is generally unsecured and has no fixed terms of interest or repayment.

Proposed Transactions

The Company is not contemplating any other transactions which have not already been disclosed. The Company continues to look at various financings in order to exercise its agreements for mineral property interests.

Investor Relations

Investor relations activities were performed by Nathan Doubroff Consulting , Peter MacLean and certain directors and officers of the Company.

First Time Adoption of IFRS

As stated in Note 2 to the Company's consolidated financial statements these are the Company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies in Note 3 to the condensed consolidated interim financial statements have been applied in preparing the condensed consolidated interim financial statements for the period ended March 31, 2012 and 2011, the consolidated financial statements 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 condensed consolidated interim statement of financial position and the condensed consolidated interim financial statements for the period ended March 31, 2012, the Company was not required to adjust any amounts reported previously in financial statements that were prepared in accordance with GAAP. 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;
- 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.

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 instruments, 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 a large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of taxes receivable from the governments of Canada and Mexico and interest on short-term investments held by the Company's bank.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable relating to exploration and evaluation assets and other accounts payable and accrued liabilities are due within one year.

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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 \$2,000.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. 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 commodity prices of gold, individual equity movements, and the stock market 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 evaluation of its mineral properties, 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 its cash and cash equivalent balances and 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.

Forward Looking Statements

Information set forth in this MD&A may involve forward-looking statements under applicable securities laws. Forward-looking statements are statements that relate to future, not past, events. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as "anticipate", "believe", "plan", "estimate", "expect", and "intend", statements that an action or event "may", "might", "could", "should", or "will" be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the size and timing of future exploration on and the development of the Company's properties are forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; operational risks associated with mineral exploration; fluctuations in commodity prices; title matters; environmental liability claims and insurance; reliance on key personnel; the potential for conflicts of interest among certain officers, directors or promoters with certain other projects; the volatility of the Company's common share price and volume and other reports and filings with the TSX Venture Exchange and applicable Canadian securities regulations. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date that statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable securities laws. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies the Company is bound. Investors are cautioned against attributing undue certainty to forward-looking statements.

The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR (www.SEDAR.com).

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CAPITALIZATION

Authorized:
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Issued as at March 31, 2012: 16,236,750

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Equity Financial Trust Company
Toronto, ON, Canada

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Listed: TSX Venture Exchange
Symbol: DEF-V