

DEFIANCE SILVER CORP.

FORM 51-102F1 MANAGEMENT'S DISCUSSION & ANALYSIS For the year ended June 30, 2012

The following annual Management Discussion and Analysis ("MD&A") of Defiance Silver Corp. (the "Company") has been prepared as of October 26, 2012, and is intended to be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2012, together with the notes thereto all of which are available on the SEDAR website: www.sedar.com.

The financial statements for the fiscal year ended June 30, 2012 have been prepared by management using accounting policies consistent with International Financial Reporting Standards ("IFRS"). Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls to ensure that information used internally or disclosed externally, including the MD&A, is complete and reliable.

All the financial information in this MD&A and all dollar amounts in the tables, including comparatives, are expressed in Canadian dollars, unless otherwise noted

This document contains forward-looking statements. Please refer to "Note Regarding Forward-Looking Statements."

Description of Business

The Company is a publicly listed company on the TSX Venture Exchange ("TSX-V") trading under the symbol DEF. The Company is an exploration-stage company and engages principally in the acquisition, exploration and development of mineral property interests primarily in Mexico. To date, equity financings have provided the main source of financing.

The recovery of the Company's investment in its mineral rights is dependent upon the discovery of economically recoverable mineral reserves and the ability to raise sufficient capital to finance these operations. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters.

During the year ended June 30, 2012, the Company's shareholders approved the subdivision of the Company's common shares on a two-old-shares-for-three-new shares basis. All references to number of common shares and per common share amounts have been retroactively restated to reflect this common share split.

Overall Performance

The following is a summary of significant events and transactions during the fiscal year ended June 30, 2012 and subsequently to the date of this report.

On September 9, 2011, the Company acquired the option to purchase from IMPACT Silver Corp., the Santa Gabriela 200 tpd processing plant and associated surface rights and 10 mining concessions in the historic Zacatecas Silver District of Mexico.

On October 24, 2011, the Company acquired the option to purchase the past producing San Acacio Mine located less than 5 km from the Santa Gabriela mill in the historic Zacatecas Silver District.

On November 1, 2011, the Company announced a historic Indicated resource of 4.05 million ounces of silver and 9000 ounces of gold as well as an Inferred resource of 14.35 million ounces of silver and 22,200 ounces of gold for the San Acacio Mine (NR dated November 1, 2011).

On December 2, 2011, the Company completed a share subdivision of its outstanding share capital on the basis of three new common shares for every two existing common shares outstanding.

On February 24, 2012, the Company completed the acquisition of the 29,000 Ha Minerva mining claim in the historic Minerva Mining District of Mexico.

On July 24, 2012, the Company renegotiated the terms for the purchase of the San Acacio Mine that allows for the extension of the option period to September 2015.

In April and September 2012, the Company raised \$1,455,550 in two private placements to fund acquisitions, exploration and development programs.

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 three projects located in Mexico (the Santa Gabriela, San Acacio Mine, and the Minerva Projects).

Santa Gabriela Project

The Company entered into an option agreement with IMPACT Silver Corp. for the acquisition of the Santa Gabriela project in Zacatecas, Mexico. The Santa Gabriela 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.

In accordance with terms of the option agreement, 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.

The Santa Gabriela flotation mill which began operation in approximately 2004 custom treated ores from various mines in the district until 2010 when it was shut down. The mill is located approximately 5 kilometers north of the city of Zacatecas. Services are excellent in the area with

access via paved roads to the property boundary and power from the state electrical grid. The mill is located on a 16 hectare property that provides ample room for the current facilities as well room for future expansion.

The 10 mining concessions host old workings from various historic mining operations which principally exploited epithermal vein structures mainly for silver with minor base metals and gold. The Company plans to investigate both the exploration potential of the concessions as well as the numerous mine dumps from the historic operations as a possible source of feed for the Santa Gabriela mill.

San Acacio Project

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.,

On signing the option agreement, the Company paid US\$25,000 for an initial 90 day period for evaluation and due diligence. This period was extended for a further 90 days on payment of US\$50,000. On or before the end of the initial or extended periods, the Company can execute a purchase agreement for US\$200,000 with a deferred purchase payment of US\$5.5 million for a period of 9 months. 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.

Subsequent to year end, the acquisition terms were modified by allowing for the extension of the final payment for US\$5.5 million until 2014 or 2015 by making payments of US\$150,000 and US\$225,000 respectively. The purchase agreement under the modified terms was executed in September 2012.

The San Acacio Mine controls approximately 5.5 kilometers of the 8.5 kilometer long Veta Grande vein system, one of the three major vein systems within the Zacatecas Silver District that has produced over 700 million ounces of silver since 1546. Veta Grande is a classic epithermal silver rich vein system with accessory gold and base metal credits. The San Acacio Mine has been exploited over a strike length of 1.5 kilometers to an average depth of 210 meters. The structure is believed to exist over four kilometers to the southeast and has had no modern exploration.

San Acacio has a historic Indicated resource of 4.05 million ounces of silver and 9000 ounces of gold as well as an Inferred resource of 14.35 million ounces of silver and 22,200 ounces of gold for the San Acacio Mine (NR dated November 1, 2011)

The Company plans to further define the historic resource to provide feed for the Santa Gabriela mill as well as explore potential for the vein structure to host additional ore both down dip below the historic workings as well as along strike.

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 deposit model for the area is the La Encantada deposit previously mined by Penoles but currently operated by First Majestic Corp with a published reserve/resource containing approximately 65 million ounces 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.

Storm Property

The Company held 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 consists of 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 agreement grants the Company the exclusive option to earn 100% interest to the Storm Property, 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 1,400,000 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 1,400,000 common shares to Genesis.

In addition, the Company agreed to pay Genesis royalties of:

- (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 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.

In July 2012, management elected to abandon the Storm Property and has no further commitments or obligations under the option agreement with Genesis. Therefore, this mineral property interest was written off as of June 30, 2012.

Santa Elena Property

On May 20, 2011, the Company signed an assignment agreement with an individual (“the Assignor”) to acquire a 100% interest in two mineral concessions, known as the Carina and Juanito claims, in the State of Zacatecas, Mexico. In consideration, the Company issued 225,000 common shares with a value of \$60,750, and the assumption of existing option obligations. The two exploration concessions are optioned from two Mexican individuals for total option payments of US\$315,000 plus value-added-tax (“VAT”) over a period of three years.

After further evaluation, management decided not to renew the option agreement and wrote off the related costs of \$60,750 in the year ended June 30, 2012.

Selected Annual Information

The following table provides selected audited annual financial information that should be read in conjunction with the financial statements of the Company.

	Year ended June 30		
	2012	2011	2010*
Net loss	\$ 1,220,670	\$ 317,042	\$ 201,817
Basic and diluted loss per share	\$ 0.08	\$ 0.03	\$ 0.03
Working capital	\$ 63,071	\$ 434,705	\$ 343,065
Total assets	\$ 1,999,904	\$ 858,794	\$ 543,858
Total long term liabilities	Nil	Nil	Nil

* Information for fiscal 2010 is presented in accordance with Canadian GAAP and is not required to be restated to IFRS.

Results of Operations

For the year ended June 30, 2012, the Company incurred a net loss of \$1,220,670 (2011 - \$317,042) or \$0.08 (2011 - \$0.03) per share. The net loss primarily relates to expenses incurred for management, legal and audit, general corporate and regulatory fees, and travel costs. Included in the loss for 2012 was share-based compensation of \$38,600 (2011 -\$136,913) resulting from the issuance of share options to directors and advisors and a \$468,942 (2011 - \$Nil) write-off of mineral property interests.

The Company spent \$463,211 cash on operating activities during the year ended June 30, 2012 as compared to \$177,997 during the previous year.

Summary of Quarterly Results

The following tables summarize information derived from the Company's financial statements for each of the eight most recently completed quarters:

	2012Q4	2012Q3	2012Q2	2012Q1
Net loss	\$ 693,078	\$ 205,866	\$ 140,923	\$ 180,803
Net loss per share	\$ 0.04	\$ 0.01	\$ 0.01	\$ 0.02
	2011Q4	2011Q3	2011Q2	2011Q1
Net loss	\$ 257,799	\$ 14,189	\$ 14,164	\$ 30,890
Net loss per share	\$ 0.03	\$ 0.00	\$ 0.00	\$ 0.00

Fourth Quarter Results

The Company's loss for the quarter ended June 30, 2012 totalled \$693,078, a loss of \$0.04 per share, as compared to a loss of \$205,866 (\$0.01 per share) for the quarter ended March 31, 2012. The write-off of the Storm mineral property interest of \$408,192 contributed to 59% of the current quarter's loss.

Operating expenses totalled \$274,691 (March 31, 2012 year to date - \$471,669). The significant quarterly expenses were legal and audit of \$76,628, management fees of \$93,574 and travel costs of \$53,510, together representing 81% of operating expenses.

The Company's cash increased \$45,753 from \$294,095 as at March 31, 2012 to \$339,848 as at June 30, 2012. Cash resources used in operations during the quarter ended June 30, 2012 totalled \$152,945 and cash resources used in investing activities during the quarter was \$27,373 for expenditures on mineral property interests. Financing activities provided \$224,250 cash resources from equity financings.

Liquidity

The Company is in the acquisition and early exploration stage and therefore has no cash flow from operations. At June 30, 2012, the Company had cash of \$339,848 (2011 - \$455,776) and working capital of \$63,071 (2011 - \$434,705).

At present, the Company's operations do not generate cash flows and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control.

Subsequent to year end, the Company raised \$883,300 by way of private placements to fund acquisitions, exploration and development programs.

Capital Resources

The Company will continue to seek capital through public markets by issuing common shares pursuant to private placements. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

Outstanding Share Data

As at the date of this report, the Company had 21,797,749 common shares issued and outstanding. The following incentive stock options and warrants are outstanding at the date of this report:

	Number	Exercise Price	Expiry Date
Stock Options	405,000	\$ 0.13	August 6, 2014
	675,000	0.33	June 6, 2016
	120,000	0.60	December 19, 2016
Warrants	937,500	0.21	April 15, 2013
	572,250	0.65	April 17, 2013

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at June 30, 2012 or as of the date of this report.

Related Party Transactions

During the year ended June 30, 2012, the Company:

- (a) paid or accrued management fees of \$nil (2011 – \$52,926) to J. Campbell Graham, the former CEO, President and director of the Company.
- (b) paid or accrued management fees of \$125,510 (2011 – \$18,246) and project evaluation fees of \$nil (2011 – \$9,175) to W. D. Bruce Winfield and Winfield Consulting Ltd., a company controlled by W.D. Bruce Winfield, the current CEO, President and director of the Company.
- (c) paid or accrued management fees of \$70,446 (2011 – \$9,243), project evaluation fees of \$nil (2011 – 15,884) and advanced \$Nil (2011 - \$15,210) to Richard Tschauder, an officer of the Company.
- (d) paid or accrued management fees of \$31,500 (2011 - \$nil) to 087259 BC Ltd., a company controlled by Darrell Rader, a director of the Company
- (e) paid or accrued rent expense of \$16,000 (2011 - \$nil) to Impact Silver Corp. (George Gorzynski as common director) and Minaurum Gold (Darrell Rader as a common director).

(f) paid or accrued mineral property expenditures of \$20,000 (2011 - \$nil) to Source Exploration (Darrell Rader as a common director).

(g) issued 60,000 stock options to Darrell Rader with a fair value of \$19,300.

Proposed Transactions

At the present time, there are no proposed transactions that should be disclosed.

Risks and Uncertainties

No Source of Revenue

The Company has no source of revenue other than interest income earned on cash held in investment accounts. All of the Company's short to medium-term operating and project expenses must be derived from its existing cash position or from external financing.

Unproven Mineral Right Interests

The Company has not been able to identify a known body of commercial grade ore on 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 lever its property interests and cash, by way of exploration activities and option/joint ventures, into assets of greater value.

Financial Instruments

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of the financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates. It is the opinion of management, however, that the foreign exchange risk to which the Company is exposed is minimal.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 of the consolidated financial statements for the year ended June 30, 2012. Management considers the following policies to be critical in understanding the judgments that are involved in the preparation of the financial statements and the uncertainties that could impact the results of operations, financial condition and cash flows:

Use of estimates

The preparation of consolidated financial statements in accordance with accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Significant accounts that require

estimates relate to the impairment of mineral property interests, valuation allowance applied against future income tax assets and share-based compensation.

Mineral property interests

The Company defers all costs related to investments in mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs and exploration expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral properties are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed each reporting period, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or 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 recognized in respect of 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.

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.

Share-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

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.

Recent accounting pronouncements

Financial Instruments IFRS 9, “Financial Instruments” (“IFRS 9”) 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, 2015.

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 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.

Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements. The statements involve known and unknown risks, uncertainties, and other factors that may cause the Company’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company’s operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company’s exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company’s forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements (except as required by applicable law).

Additional information relating to the Company can be found on SEDAR at www.sedar.com