DEFIANCE SILVER CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS
For the nine months ended March 31, 2013

The following Management Discussion and Analysis ("MD&A)" of Defiance Silver Corp. (the "Company") for the nine months ended March 31, 2013 has been prepared as of May 25, 2013, 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, which are available on the SEDAR website: www.sedar.com.

The financial statements for the nine months ended March 31, 2013 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 the basis of three new shares in exchange for two old shares. All references to number of common shares and per common share amounts have been retroactively restated to reflect this common share split.

Overall Performance

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. The Zacatecas Silver 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 and a 27% interest in 3 concessions under joint venture with an arm's length party. Subsequently the Company and IMPACT agreed to exclude the 27% interest in the three concessions.

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 as part of the Zacatecas Silver Project.

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 application for 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.

On October 25, 2012 the Company announced a 43-101 compliant resource for San Acacio as follows.

Resource Category	Tonnage(mt)	Grade Ag (g/t)	Contained Ag (million oz)
Total Indicated	1.15	95.8	3.55
Total Inferred	2.89	134.1	12.45
Including	0.72	236.7	5.49

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 two projects and has applied for a third project, all of which are located in Mexico (the Santa Gabriela, San Acacio Mine, and the Minerva Projects).

Santa Gabriela Processing Plant

The Company entered into an option agreement with IMPACT Silver Corp. for the acquisition of the Santa Gabriela processing plant in the historic Zacatecas Silver District, Mexico. The Santa Gabriela processing plant consists of the Santa Gabriela (formerly Veta Grande) processing plant and associated surface rights, as well as a 100% interest in 10 mining claims (but not the excluded 27% interest in 3 concessions under joint venture with an arm's length party, disclosed previously).

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 execution date of the agreement 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 plant which began operation in approximately 2004 custom treated mineral from various mines in the district, including the San Acacio mine, 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 Silver Mine

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 km^2, hosts the southeastern portion 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. Following the first anniversary of the purchase of the assets, the Company must make minimum annual royalty payments of US$125,000. The minimum royalty commitment terminates in the event that the minimum royalty paid is equal to or higher than the equivalent to US$125,000 during 6 consecutive months.

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. The tailings can be purchased for a price of US$1.50 per tonne with the tonnage determined by future work programs.

The acquisition terms were modified by allowing for the extension of the final payment for US$5.5 million until September 27th 2014, or September 27th 2015 by making payments of US$150,000 and US$225,000 on September 27th 2013 and 2014 respectively. The purchase in trust agreement under the modified terms was executed on September 27th, 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 43-101 compliant resource as follows (refer to news release dated October 25, 2011):

Resource Category	Tonnage(mt)	Grade Ag (g/t)	Contained Ag (million oz)
Total Indicated	1.15	95.8	3.55
Total Inferred	2.89	134.1	12.45
Including	0.72	236.7	5.49

The Company plans to further define the historic resource as well as explore potential for the vein structure to host additional mineral both down dip below the historic workings and along strike. Mineral from the San Acacio mine is planned to be feed stock for the Santa Gabriela processing plant.

Minerva Property

Defiance has applied for the Minerva property located in northern Mexico. The property comprises 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 being mined by First Majestic Corp (previously mined by Penoles). La Encantada currently has a total reserve and resource of the following:

Resource Category	Tonnage (mt)	Grade Ag (g/t)	Contained Ag (million oz)
Proven + Probable	7.78	156	39.01
Measured + Indicated	5.92	181	34.46
Inferred	2.89	233	21.59

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.

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.

Results of Operations

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:

	2013Q3	2013Q2	2013Q1	2012Q4
Net loss	$ 176,670	$ 326,735	$ 143,987	$ 693,078
Net loss per share	$ 0.01	$ 0.01	$ 0.01	$ 0.04

	2012Q3	2012Q2	2012Q1	2011Q4
Net loss	$ 205,866	$ 140,923	$ 180,803	$ 257,799
Net loss per share	$ 0.01	$ 0.01	$ 0.02	$ 0.03

Nine Months ended March 31, 2013

The Company's loss for the nine months ended March 31, 2013 totaled $647,392, a loss of $0.03 per share, as compared to a loss of $529,592 and $0.04 per share in 2012. Operating expenses for the nine months ended March 31, 2013 totaled $636,684 compared to $471,669 in 2012. The main cause for the increase in 2013 was the share based compensation expense of $151,949 recorded for the grant of 930,000 options during the nine months ended March 31, 2013 compared to $34,813 in 2012. Other significant increases during the nine months ended March 31, 2013 were management fees of $274,919 compared to $196,882 and office and administration expenses of $65,723 compared to $25,924. Legal and audit fees decreased from $99,438 during the nine months ended March 31, 2012 to $45,410 during the nine months ended March 31, 2013. Included in the loss for 2012 was a $60,750 write-off of the Santa Elena mineral property.

The Company's cash and cash equivalents decreased by $105,519during the nine months ended March 31, 2013, as compared to a decrease of $159,860 in 2012. The Company raised $825,129, net of issue costs, during the nine months ended March 31, 2013 (2012-$370,000) and used $302,563 in cash for exploration and evaluation assets in 2013 compared to $219,594 in 2011.

Quarter ended March 31, 2013

For the quarter ended March 31, 2013, the Company incurred a net loss of $176,670 (2012 - $205,866) or $0.01 (2012 - $0.01) per share. The $34,813 share based compensation expense in 2012 was the main reason for of the higher loss in the three months ended March 31, 2012 compared to 2013.

The Company paid or accrued $99,750 in management fees during the quarter ended March 31, 2013 compared to $80,486 during the quarter ended March 31, 2012. Legal and audit fees were $5,996, travel expenses were $38,305 and office and administration expenses were $23,098 during the current quarter compared to $32,781, $28,426 and $11,588, respectively, during the comparative quarter.

Liquidity

The Company is in the acquisition and early exploration stage and therefore has no cash flow from operations. At March 31, 2013, the Company had cash of $234,329 (June 30, 2012 - $339,848) and working capital of $90,195 (June 30, 2012 - $63,071).

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.

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 21,797,750 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
	680,000	0.265	November 22, 2017
	250,000	0.265	December 10, 2017
Warrants	937,500	0.21	April 15, 2014
	397,225	0.30	April 17, 2014
	175,025	0.65	April 17, 2014
	2,741,500	0.40	September 20, 2013
	1,675,000	0.40	September 27, 2013

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at March 31, 2013 or as of the date of this report.

Related Party Transactions

As of March 31, 2013, accounts payable and accrued liabilities include $108,225 payable to directors, officers and companies controlled by directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

During the nine months ended March 31, 2013, the Company:

(a) paid or accrued management fees of $101,250 (2012 – $86,860) to Winfield Consulting Ltd., a company controlled by W.D. Bruce Winfield, the current CEO, President and director of the Company.

(b) paid or accrued management fees of $44,669 (2012 – $55,097) to Richard Tschauder, an officer of the Company.

(c) paid or accrued management fees of $31,500 (2012 - $11,760) to 0872599 BC Ltd., a company controlled by Darrell Rader, a director of the Company

(d) paid or accrued management fees of $16,500 (2012 - $nil) to Matthew Kavanagh, an officer of the Company.

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:

<u>Use of estimates</u>

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.

<u>Mineral property interests</u>

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.

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.