DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

SEPTEMBER 30, 2013

(expressed in Canadian dollars)

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars)
September 30, 2013

	September 30, 2013	June 30, 2013
ASSETS		
Current assets		
Cash *(Note 3)*	$ 52,831	$ 81,712
Receivables *(Note 4)*	101,467	131,260
Advances and prepaid expenses	52,282	5,292
	206,580	218,264
Mineral property interests *(Note 5)*	2,058,602	1,973,095
	$ 2,264,128	$ 2,191,359
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 377,466	$ 377,451
Shareholders' equity		
Share capital *(Note 6)*	4,336,316	4,108,131
Share subscriptions received	-	13,000
Share-based reserves	404,692	404,692
Deficit	(2,853,292)	(2,711,915)
	1,887,716	1,813,908
	$ 2,264,128	$ 2,191,359

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Darrell A. Rader"	*"Ron Sowerby"*
Darrell A. Rader	Ron Sowerby

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE LOSS
For the years three months ended September 30,
(Canadian dollars)

	2013	2012
OPERATING EXPENSES		
Investor relations and promotion	$ 25,351	$ `13,467
Legal and audit	2,745	10,799
Management fees (Note 7)	76,613	79,242
Office and administration (Note 7)	23,957	13,872
Project evaluation	-	-
Transfer agent and listing fees	1,760	524
Travel	6,429	7,050
	(136,855)	(124,954)
Interest income	217	105
Foreign exchange gain (loss)	(4,739)	(19,138)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (141,377)	$ (143,987)
Loss per common share - basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	23,435,250	18,031,848

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Canadian dollars)

	Number of Shares	Share Capital	Share Subscriptions Received	Share-based Reserves	Deficit	Total
Balance, June 30, 2012	17,381,250	3,253,665	30,000	219,777	(1,821,261)	1,682,181
Shares issued for:						
Private placement	4,416,500	883,300	(30,000)	-	-	853,300
Share issue costs	-	(28,834)	-	663	-	(28,171)
Net loss for the period	-	-	-	-	(143,987)	(143,987)
Balance, Sept. 30, 2012	21,797,750	$ 4,108,131	$ -	$ 220,440	$ (1,965,248)	$ 2,363,323
Share-based compensation	-	-	-	184,252	-	184,252
Share subscriptions received	-	-	13,000	-	-	13,000
Net loss for the period	-	-	-	-	(746,667)	(746,667)
Balance, June 30, 2013	21,797,750	$ 4,108,131	$ 13,000	$ 404,692	$ (2,711,915)	$ 1,813,908
Balance, June 30, 2013	21,797,750	$ 4,108,131	$ 13,000	$ 404,692	$ (2,711,915)	$ 1,813,908
Shares issued for						
Private placement	2,150,000	215,000	(13,000)	-	-	13,000
Share issue costs		(1,815)				(1,815)
Shares issued for property	150,000	15,000	-	-	-	15,000
Net loss for the period	-	-	-	-	(141,377)	(141,377)
Balance, Sept. 30, 2013	24,097,750	$ 4,336,316	$ -	$ 404,692	$ (2,853,292)	$ 1,887,716

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years three months ended September 30,
(Canadian dollars)

		2013		2012
Operating Activities				
Net loss for the year	$	(141,377)	$	(143,987)
Adjustments for:				
Write-off of mineral property interest		-		-
Share-based compensation				
Interest expense				
Net changes in non-cash working capital items:				
Receivables		29,793		(34,655)
Advances and prepaid expenses		(46,989)		-
Accounts payable and accrued liabilities		14		(70,653)
Cash used in operating activities		(158,559)		(249,295)
Investing Activities				
Expenditures on mineral property interests		(70,507)		(218,502)
Cash used in investing activities		(70,507)		(218,502)
Financing Activities				
Share capital issued for cash (net of share issue costs)		200,185		499,950
Proceeds from convertible promissory notes		-		-
Repayment of convertible promissory notes		-		-
Interest paid		-		-
Share subscriptions received		-		-
Cash provided by financing activities		200,185		499,950
Decrease in Cash		(28,881)		32,153
Cash – Beginning of Year		81,712		339,848
Cash – End of Year	$	52,831	$	372,001

Supplemental disclosure with respect to cash flows:

The Company issued 150,000 common shares valued at $15,000 to maintain its option on the Santa Gabriel Project.

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

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. The Company's principal business is the acquisition, exploration and development of mineral properties. The Company's registered and records office is at Suite 700, 625 Howe Street, Vancouver, BC, V6C 2T6. The Company's head office is at Suite 1610, 409 Granville Street, Vancouver, BC, V6C 1T2.

At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its mineral property interests. The ability of the Company to realize the costs it has incurred to date on these mineral property interests is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the mineral property interest. To date, the Company has not earned revenues and is considered to be in the exploration stage.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These material uncertainties cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements were authorized by the Board of Directors of the Company on November 27, 2013.

2. BASIS OF PREPARATION

This condensed interim consolidated financial information for the three months ended September 30, 2013, has been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's annual financial statements for the year ended June 30, 2013.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

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

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

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

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

i) The amount of deferred income taxes recognized.

Critical accounting judgments

Examples of significant judgments, apart from those involving estimation, include:

- the accounting policies for mineral property interests;
- classification of financial instruments; and
- determination of functional currency.

(Canadian Dollars)

2. BASIS OF PREPARATION (cont…)

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. 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 financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Subsidiaries

Subsidiaries are entities controlled by the Company. 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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

The principal subsidiaries of the Company as of September 30, 2013 are as follows:

Name of subsidiary	Principal activity	Place of Incorporation	Ownership Interest Sept. 30, 2013	Ownership Interest June 30, 2013
Minera Santa Remy S.A. de CV	Mineral property exploration	Mexico	100%	100%
DefCap (BVI) Inc.	Holding company	British Virgin Islands	100%	100%

3. CASH

Cash consists of the following:

	Sept. 30, 2013	June 30, 2013
Cash on deposit	$ 52,831	$ 21,186
Liquid short-term deposit	-	60,526
	$ 52,831	$ 81,712

4. RECEIVABLES

The Company's receivables arise mainly from refundable sales tax receivable from government taxation authorities in Canada and Mexico. These are broken down as follows:

	Sept. 30, 2013	June 30, 2013
Harmonized sales tax ("HST")	$ 12,131	$ 55,216
Value added tax ("VAT")	89,336	76,044
	$ 101,467	$ 131,260

(Canadian Dollars)

5. MINERAL PROPERTY INTERESTS

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing.

	Santa Gabriela Project	San Acacio Project	Minerva Property	Total
Acquisition costs				
Balance, June 30, 2012	$ 1,455,880	$ 82,090	$ 9,574	1,547,544
Additions during the year	-	185,639	-	185,639
Balance, June 30, 2013	1,455,880	267,729	9,574	1,733,183
Additions during the year	15,000	38,402	-	53,402
Balance, September 30, 2013	1,470,880	306,131	9,574	1,786,585
Exploration costs				
Balance, June 30, 2012	13,185	44,707	13,674	71,566
Additions during the year:				
Claim fees	-	25,041	-	25,041
Consulting fees	47,990	13,494	-	61,484
Camp fees	10,088	10,087	-	20,175
Due diligence	-	-	-	-
Extraction fees	18,302	18,302	-	36,604
Geology & mapping fees	12,521	12,521	-	25,042
Balance, June 30, 2013	102,086	124,152	13,674	239,912
Additions during the period:				
Claim fees	-	-	-	-
Consulting fees	8,742	3,373		12,115
Camp fees	2,054	2,054		4,108
Due diligence	-	-		-
Extraction fees	7,941	7,941		15,882
Geology & mapping fees	-	-	-	-
	120,823	137,520	13,674	272,017
Balance, September 30, 2013	$ 1,591,703	$ 443,651	$ 23,248	$ 2,058,602
Balance, June 30, 2013	$ 1,557,966	$ 391,881	$ 23,248	$ 1,973,095

Santa Gabriela Project

The Company entered into an option agreement ("Option Agreement") on September 9, 2011 (the "Execution Date") with IMPACT Silver Corp. ("Impact") for the acquisition of the Santa Gabriela mill in Zacatecas, Mexico. The Company and IMPACT are related by way of one common director. The Santa Gabriela mill consists of the Santa Gabriela (formerly Veta Grande) processing plant, and associated surface rights as well as a 100% interest in 10 mining claims.

5. MINERAL PROPERTY INTERESTS (cont'd…)

Santa Gabriela Project (cont'd…)

Terms of the Option Agreement for the Company to exercise the option to purchase the assets from IMPACT include:

- Issuance of 2,680,500 shares of the Company to IMPACT (issued with a value of $1,420,665);
- Payment of $1,955,200 on the earlier of (a) 24 months from the Execution Date; or (b) on the plant reaching commercial production. Commercial production is defined as the first day after the Mill has achieved a production rate averaging 160 tonnes per day over a 30 day period.

Subsequent to June 30, 2013, the Company signed a two-year extension ("Amended Agreement") to its option agreement with IMPACT.

Under the terms of the Amended Agreement executed on July 9, 2013, the Company has an option of making two interim payments to extend the final closing date for making the purchase payment for up to two years to September 9th, 2015. The Company has the option to pay $10,000 in cash or issue 150,000 common shares on or before September 9, 2013 to extend the term to September 9, 2014, and pay $25,000 in cash or issue 350,000 common shares on or before September 9th, 2014 to extend the term to September 9, 2015. The Company has issued 150,000 common shares to extend the term to September 9, 2014

San Acacio Project

The Company entered into an option agreement on October 24, 2011 with the Mexican owners ("the Vendors") for an option to purchase a 100% interest in the San Acacio property consisting of 10 mining concessions and associated surface rights and tailings deposit ("the Assets"). The San Acacio property is located approximately 6.5 km north of the city of Zacatecas, Mexico and is in close proximity to the Company's Santa Gabriela mill.

Terms of the original option to purchase agreement are as follows:

- Payment of US$25,000 (paid) for an initial 90 day due diligence period on the date of signing on October 24, 2011;
- Optional Payment of US$50,000 (paid) for an additional 90 day due diligence extension from the initial 90 day due diligence period; and
- Payment of US$200,000 (paid) for a 12 month period from signing of the trust agreement in which to acquire the assets.

Purchase price of the Assets ("Final Payment") under the original option to purchase agreement consists of the following payments which are due one year from signing of the trust agreement:

- 10 mining concessions for US$5,500,000;
- 1 parcel of surface rights for US$ 5,000; and
- 1 parcel of land with a tailings deposit for US$1.50 per tonne of tailings estimated in the amount of 300,000 tonnes.

On July 25, 2012, the Company and the Vendors entered into an amending purchase agreement to extend the Final Payment. The terms of the amended purchase agreement are as follows:

- Payment of US$150,000 for a 24 month extension from the date of signing the trust agreement ("First Extension Period); this payment was further extended subsequent to June 30, 2013;
- Payment of US$225,000 for a 36 month extension from the date of signing the trust agreement ("Second Extension Period); and
- Final Payment for the Assets at the end of the selected extension period.

On September 27, 2012, the Company and the Vendors entered into the trust agreement with the initial 12 month option period set to expire on September 27, 2013. The payment terms were renegotiated subsequent to June 30, 2013.

Subsequent to June 30, 2013, the Company renegotiated payment terms for the US$150,000 payment due on September 27, 2013 under the San Acacio option agreement. The revised payment terms call for four quarterly payments of US$37,500. On September 27, 2013, the Company made the initial quarterly payment of US$37,500 due under the option to purchase agreement for the San Acacio mine.

5. MINERAL PROPERTY INTERESTS (cont'd…)

San Acacio Project (cont'd…)

The property is subject to a 2.5% net smelter return royalty ("NSR") payable to the vendors on production from the property. The Company will have the right to purchase the NSR at any time for US$2,500,000 which will escalate with the official Mexican Inflation Index after a five year period.

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 production royalty paid is equal to or higher than the equivalent to the minimum that would have been due during 6 consecutive months.

Minerva property

During the year ended June 30, 2012, the Company applied for a mining claim located in Coahuila State, Mexico, known as the Minerva property.

As of June 30, 2013 the application was still pending approval by the Mexican mining authorities.

6. SHARE CAPITAL

Authorized

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

Private Placements

During the three months ended September 30, 2013, the Company closed a private placement with the issuance of 2,150,500 units at a price of $0.10 per Unit for gross proceeds of $215,000 ($13,000 received prior to June 30, 2013). Each Unit consists of one common share of the Company and one-half of one transferable share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to purchase one common share of the Company for a period of 24 months at a price of $0.15 per share during the first year and at a price of $0.20, thereafter. The Company incurred $1,815 in share issue costs in connection with the private placement.

During the year ended June 30, 2013, the Company closed a private placement with the issuance of 4,416,500 units at a price of $0.20 per Unit for gross proceeds of $883,300. Each Unit consists of one common share of the Company, one full common share purchase warrant ("Warrant") and one Silver Participation Right ("SPR"). Each Warrant will entitle the holder to purchase one common share of the Company for a period of 12 months at a price of $0.40 per share. Each Silver Participation Right will entitle the holder to receive 0.003 ounces of silver bullion. $30,000 in proceeds was received prior to June 30, 2012 and $853,000 were received during the year ended June 30, 2013. The Company also issued 7,000 Agents warrants in connection with the private placement. The Agents warrants are exercisable at a price of $0.40 per share, expire on September 27, 2013 and have a fair value of $663.

The Company incurred $28,834 in share issue costs in connection with the private placement which includes $663 for the value of the 7,000 Agent's warrants issued. All of the common shares issued in the private placement were placed in escrow as a condition to maintaining the SPR, however, 575,000 common shares have been released from escrow as the shareholders have renounced their SPR.

Escrow shares

At September 30, 2013, 3,841,500 (June 30, 2013 -3,841,500) common shares are held in escrow. The balance will be released on September 27, 2014 or earlier if the shareholders choose to renounce their SPR.

(Canadian Dollars)

6. SHARE CAPITAL (cont'd…)

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 30,2012	1,200,000	0.29
Options granted	930,000	0.265
Balance, June 30, 2013 and September 30, 2013	2,130,000	$ 0.28
Number of exercisable options	2,130,000	$ 0.28

At September 30, 2013, the following incentive stock options were outstanding to directors, officers and employees:

Number of Options Exercisable and Outstanding	Exercise Price	Expiry Date
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
2,130,000		

Warrants and Agent's warrants

Warrants and Agent's warrants transactions and the number of warrants and agent's warrants outstanding are summarized as follows:

	Number of Warrants and Agent's Warrants	Weighted Average Exercise Price
Balance, June 30, 2012	1,509,750	$ 0.38
Issued	4,423,500	0.40
Warrants repriced	(1,334,725)	(0.42)
Warrants repriced	1,334,725	0.26
Balance, June 30, 2013	5,933,250	0.38
Issued	1,075,000	0.15
Expired	(4,423,500)	0.40
Balance, September 30, 2013	2,584,750	$ 0.23

(Canadian Dollars)

6. SHARE CAPITAL (cont'd…)

Warrants and Agent's warrants (cont'd…)

During the year ended June 30, 2013, the Company repriced a total of 397,225 warrants from an exercise price of $0.65 per share to $0.30 per share and repriced 937,500 warrants from an exercise price of $0.21 per share to $0.25 per share. The Company also extended the expiry date of certain previously issued warrants, being: (i) 937,500 warrants exercisable at $0.25 per share (issued April 15, 2011) from April 15, 2013 to April 15, 2014; (ii) 397,225 warrants exercisable at $0.30 per share (issued April 17, 2012) from April 17, 2013 to April 17, 2014; and (iii) 175,025 warrants exercisable at $0.65 per share (previously issued April 17, 2012) from April 17, 2013 to April 17, 2014.

At September 30, 2013, the following warrants and Agent's warrants were outstanding:

Number of Warrants and Agent's Warrants	Exercise Price	Expiry Date
937,500	$ 0.25	April 15, 2014
397,225	0.30	April 17, 2014
175,025	0.65	April 17, 2014
1,075,000	0.15	July 22, 2015
2,584,750		

7. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals.

As at September 30, 2013, accounts payable and accrued liabilities include $171,940 (June 30, 2013 - $133,366) 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 quarter ended September 30, 2013, the Company:

(a) paid or accrued management fees of $26,250 (2012 – $33,750) to a company controlled by the CEO, President and director of the Company.

(b) paid or accrued management fees of $15,763 (2012 – $14,992) to an officer of the Company.

(c) paid or accrued management fees of $8,100 (2012-$10,500) to a company controlled by a director of the Company

(d) paid or accrued management fees of $7,500 (2012 - $2,000) to an officer of the Company.

(e) paid or accrued $6,000 (2012-$6,000) in rent expense, included in office and administration, to a company related by common directors.

8. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration, and development of mineral properties in North America and Mexico. All of the mineral property costs at September 30, 2013 and June 30, 2013 were for mineral property interests in Mexico.

9. 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.

9. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

The fair value of the Company's receivables, accounts payable and accrued liabilities, approximate carrying value, due to the short-term nature. The Company's other financial instrument, cash, 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:

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2013, the Company had cash of $52,831 (June 30, 2013 - $81,712) to settle current liabilities of $377,466 (June 30, 2013 - $377,451). 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.

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 is minimal because of the short-term nature of these investments.

b) Foreign currency risk

The Company is not exposed to significant foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in United States dollars ("US$") and Mexican pesos ("MX$"). The Company does not use derivatives or other techniques to manage foreign currency risk.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. 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 the commodity prices of precious metals, and the stock market to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, currency risk and credit risk.

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 is 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. As such, the Company does not believe it is subject to significant credit risk.

9. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

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 mineral properties, 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.

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