DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2013

(expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Defiance Silver Corp.

We have audited the accompanying consolidated financial statements of Defiance Silver Corp., which comprise the consolidated statements of financial position as at June 30, 2013 and 2012 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Defiance Silver Corp. as at June 30, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Defiance Silver Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

October 22, 2013

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars)
As at June 30,

	2013	2012
ASSETS		
Current assets		
Cash *(Note 4)*	$ 81,712	$ 339,848
Receivables *(Note 5)*	131,260	38,803
Advances and prepaid expenses	5,292	2,143
	218,264	380,794
Mineral property interests *(Note 6)*	1,973,095	1,619,110
	$ 2,191,359	$ 1,999,904
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(Note 7)*	$ 377,451	317,723
Shareholders' equity		
Share capital *(Note 8)*	4,108,131	3,253,665
Share subscriptions received (Note 15)	13,000	30,000
Share-based reserves	404,692	219,777
Deficit	(2,711,915)	(1,821,261)
	1,813,908	1,682,181
	$ 2,191,359	$ 1,999,904

Nature and continuance of operations (Note 1)
Subsequent event (Note 15)

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 ended June 30
(Canadian dollars)

	2013	2012
OPERATING EXPENSES		
Investor relations and promotion	$ 43,785	$ 57,429
Legal and audit	126,007	176,066
Management fees (Note 9)	371,915	290,456
Office and administration (Note 9)	65,494	47,575
Project evaluation	1,936	3,626
Share-based compensation (Note 8)	184,252	38,600
Transfer agent and listing fees	14,802	33,771
Travel	73,751	98,838
	(881,942)	(746,361)
Write-off of mineral property interest (Note 6)	-	(468,942)
Interest expense	-	(12,000)
Interest income	2,125	1,780
Foreign exchange gain (loss)	(10,837)	4,853
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (890,654)	$ (1,220,670)
Loss per common share - basic and diluted	$ (0.04)	$ (0.08)
Weighted average number of common shares outstanding	20,848,536	14,670,208

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, 2011	13,406,250	$ 1,241,927	$ -	$ 181,177	$ (600,591)	$ 822,513
Shares issued for:						
Mineral property Interests	2,830,500	1,450,665	-	-	-	1,450,665
Private placement	1,144,500	572,250	-	-	-	572,250
Share issue costs	-	(11,177)	-	-	-	(11,177)
Share-based compensation	-	-	-	38,600	-	38,600
Share subscriptions received	-	-	30,000	-	-	30,000
Net loss for the year	-	-	-	-	(1,220,670)	(1,220,670)
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)
Share-based compensation	-	-	-	184,252	-	184,252
Share subscriptions received	-	-	13,000	-	-	13,000
Net loss for the year	-	-	-	-	(890,654)	(890,654)
Balance, June 30, 2013	21,797,750	$ 4,108,131	$ 13,000	$ 404,692	$ (2,711,915)	$ 1,813,908

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30
(Canadian dollars)

	2013	2012
Operating Activities		
Net loss for the year	$ (890,654)	$ (1,220,670)
Adjustments for:		
Write-off of mineral property interest	-	468,942
Share-based compensation	184,252	38,600
Interest expense	-	12,000
Net changes in non-cash working capital items:		
Receivables	(92,457)	(38,803)
Advances and prepaid expenses	(3,149)	13,067
Accounts payable and accrued liabilities	73,517	263,653
Cash used in operating activities	(728,491)	(463,211)
Investing Activities		
Expenditures on mineral property interests	(356,597)	(246,967)
Cash used in investing activities	(356,597)	(246,967)
Financing Activities		
Share capital issued for cash (net of share issue costs)	813,952	532,250
Proceeds from convertible promissory notes	-	120,000
Repayment of convertible promissory notes	-	(80,000)
Interest paid	-	(8,000)
Share subscriptions received	13,000	30,000
Cash provided by financing activities	826,952	594,250
Decrease in Cash	(258,136)	(115,928)
Cash – Beginning of Year	339,848	455,776
Cash – End of Year	$ 81,712	$ 339,848

Supplemental disclosure with respect to cash flows (Note 11)

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 may 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 October 22, 2013.

2. BASIS OF PREPARATION

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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)

3. SIGNIFICANT ACCOUNTING POLICIES

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 June 30, 2013 are as follows:

Name of subsidiary	Principal activity	Place of Incorporation	Ownership Interest June 30, 2013	Ownership Interest June 30, 2012
Minera Santa Remy S.A. de CV	Mineral property exploration	Mexico	100%	100%
DefCap (BVI) Inc.	Holding company	British Virgin Islands	100%	100%

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations & comprehensive loss.33

Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of operations & comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations & comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of operations & comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit or loss. The Company's receivables are classified as loans and receivables.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations & comprehensive loss.

Other financial liabilities: This category includes accounts payable and accrued liabilities which are recognized at amortized cost.

The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible promissory notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Mineral property interests

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. Each of the Company's mineral properties is considered to be a cash generating unit. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property interests, the excess is recognized as income in the year received. The amounts shown for mineral property interests do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Cash

Cash is comprised of cash on demand and highly liquid interest bearing investments with an original maturity of less than three months, which is readily convertible into a known amount of cash with minimal risk.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the consolidated statement of operations and comprehensive loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as a warrant reserve.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2013 or later periods.

(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a material effect on the Company's future results and financial position:

IFRS 9	New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets(iii)
IFRS 10	New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities(i)
IFRS 11	New standard to account for the rights and obligations in accordance with a joint agreement(i)
IFRS 12	New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39(i)
IFRS 13	New standard on the measurement and disclosure of fair value(i)
IAS 28 (Amendment)	New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures(i)
IAS 32 (Amendment)	New standard that clarifies requirements for offsetting financial assets and financial liabilities. (ii)

i) Effective for annual periods beginning on or after January 1, 2013
ii) Effective for annual periods beginning on or after January 1, 2014
iii) Effective for annual periods beginning on or after January 1, 2015

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's financial statements

4. CASH

Cash consists of the following:

	June 30, 2013	June 30, 2012
Cash on deposit	$ 21,186	$ 299,684
Liquid short-term deposit	60,526	40,164
	$ 81,712	$ 339,848

5. 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:

	June 30, 2013	June 30, 2012
Harmonized sales tax ("HST")	$ 55,216	$ 30,845
Value added tax ("VAT")	76,044	6,140
Other	-	1,818
	$ 131,260	$ 38,803

(Canadian Dollars)

6. 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	Storm Property	Santa Elena Property	Total
Acquisition costs						
Balance, July 1, 2011	$ -	$ -	$ -	$ 229,304	$ 60,750	$ 290,054
Additions during the year	1,455,880	82,090	9,574	50,000	-	1,597,544
Written-off during the year	-	-	-	(279,304)	(60,750)	(340,054)
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
Exploration costs						
Balance, July 1, 2011	-	-	-	97,754	-	97,754
Additions during the year:						
Claim fees	-	7,234	6,939	31,134	-	45,307
Consulting fees	6,450	10,568	-	-	-	17,018
Camp fees	990	990	990	-	-	2,970
Due diligence	-	20,000	-	-	-	20,000
Extraction fees	597	597	597	-	-	1,791
Geology and mapping fees	5,148	5,318	5,148	-	-	15,614
	13,185	44,707	13,674	31,134	-	102,700
Written-off during the year	-	-	-	(128,888)	-	(128,888)
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
	102,086	124,152	13,674	-	-	239,912
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.

6. 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.

(Canadian Dollars)

6. 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.

Storm Property

On August 6, 2009, the Company received approval from the TSX-V (the "Approval date"), which fulfilled its Qualifying Transaction requirement and entered into a Property Option Agreement, dated May 28, 2008, which was amended February 17, 2009, to acquire a 100% right, title and interest in 210 mineral claims referred to as the Storm Property located in Nevada, USA. The Company made the initial payment of US$10,000 (CA$11,034) to the optionor and issued 600,000 common shares with a value of $80,000. In addition to the aforementioned payments, the Company had to incur US$300,000 in exploration expenditures and was required to make cash payments and issue common shares to maintain the option.

The Optionor retained a 3% net smelter returns royalty ("NSR") on all gold and silver produced from the property and a 2% NSR from all other minerals.

The Company decided to terminate the option agreement and accordingly the related acquisition and deferred exploration costs of $408,192 were written off in the year ended 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 during the year ended June 30, 2012.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2013	June 30, 2012
Accrued liabilities	$ 351,619	$ 209,672
Trade payables	25,832	108,151
	$ 377,451	$ 317,723

All payables and accrued liabilities for the Company fall due within the next 12 months

(Canadian Dollars)

8. SHARE CAPITAL

Authorized

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

Private Placements

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.

During the year ended June 30, 2012, the Company completed a private placement of 1,144,500 units at a price of $0.50 per unit for gross proceeds of $572,250. Each unit is comprised of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one additional common share for a period of twelve months from the date of closing at a price of $0.65 per share. In connection with the private placement, the Company incurred $11,177 in share issue costs.

Escrow shares

At June 30, 2013, 3,841,500 (2012 - 585,000) 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.

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, 2011	1,080,000	$ 0.25
Options granted	120,000	0.60
Balance, June 30,2012	1,200,000	0.29
Options granted	930,000	0.265
Balance, June 30, 2013	2,130,000	$ 0.28
Number of exercisable options	2,130,000	$ 0.28

(Canadian Dollars)

8. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

At June 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, 2011	937,500	$ 0.21
Issued	572,250	0.65
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

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 June 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
2,741,500	0.40	September 20, 2013
1,682,000*	0.40	September 27, 2013
5,933,250		

* Includes 7,000 Agent's warrants.

(Canadian Dollars)

8. SHARE CAPITAL (cont'd…)

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

The fair value of the Agent's warrants was estimated at the date of issuance using the Black-Scholes option pricing model using the following weighted average assumptions:

	2013	2012
Expected stock price volatility	133.04%	-
Risk-free interest rate	1.18%	-
Expected life of options	1 year	-
Expected dividend yield	0.00%	-
Fair value per Agent warrant granted	$ 0.09	

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value based method of accounting. During the year ended June 30, 2013, the Company granted 930,000 (2012 – 120,000) stock options and recognized $184,252 (2012 – $38,600) in share-based compensation expense.

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

	2013	2012
Expected stock price volatility	94.67%	75.69%
Risk-free interest rate	1.33%	1.42 %
Expected life of options	5 years	5 years
Expected dividend yield	0.00%	0.00%
Fair value per option granted	$ 0.20	$ 0.32

9. RELATED PARTY TRANSACTIONS

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

As at June 30, 2013, accounts payable and accrued liabilities include $133,366 (June 30, 2012 - $124,777) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

The Company entered into the following transactions with related parties:

a) Paid or accrued $135,000 (2012 - $125,510) in management fees to a company controlled by a director of the Company.

b) Paid or accrued $62,195 (2012 - $70,446) in management fees to an officer of the Company.

c) Paid or accrued $42,000 (2012 - $31,500) in management fees to a company controlled by a director of the Company.

d) Paid or accrued $24,000 (2012 – $nil) in management fees to an officer of the Company.

e) Paid or accrued $24,000 (2012 - $16,000) in rent expense, included in office and administration, to a company related by common directors.

f) Paid or accrued $nil (2012 - $20,000) in mineral properties expenditures to a company with a common director.

g) Issued 735,000 (2012 – 60,000) stock options to directors and officers with a fair value of $141,153 (2012 - $19,300).

(Canadian Dollars)

10. CONVERTIBLE PROMISSORY NOTES

During the year ended June 30, 2012, the Company entered into convertible promissory note agreements with three non-arm's length lenders for a total principal amount of $120,000 ($40,000 from each lender). The loans bear interest at 10% per annum (if repayment is made within one year, the lenders will receive not less than one full year of interest on the principal). The loans are due within one year from the date of advance. At the election of the lenders, the loans are convertible into the Company's common shares at $0.50 per share.

The Company calculated the value of the equity portion of the convertible promissory notes and determined it to be immaterial for segregation between debt and equity on the statement of financial position.

The Company settled the convertible promissory notes with two lenders for a total cash payment of $88,000 ($80,000 towards the principal amount and $8,000 interest expense). The remaining outstanding principal amount of $40,000 was applied towards the private placement subscription for the benefit of the lender (80,000 shares issued for $40,000) and accrued interest of $4,000 which was included in accounts payable and accrued liabilities as at June 30, 2012 and paid during the year ended June 30, 2013.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There were no significant non-cash transactions for the year ended June 30, 2013.

Significant non-cash transactions for the year ended June 30, 2012 included:

a) Issuance of 80,000 common shares to settle the principal of $40,000 relating to the convertible promissory note.
b) Issuance of 2,830,500 common shares with a value of $1,450,665 for mineral property interests.
c) An accrual of $2,612 of mineral property costs included in accounts payable and accrued liabilities.
d) An accrual of $11,177 relating to share issue costs.

12. 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 June 30, 2013 and 2012 were for mineral property interests in Mexico.

13. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	June 30, 2013	June 30, 2012
Loss before income taxes	$ (890,654)	$ (1,220,670)
Expected income tax recovery	$ (225,000)	$ (314,000)
Expenses not deductible for income tax purposes	47,000	10,000
Share issue costs	(7,000)	(3,000)
Changes in statutory and foreign tax rates	(23,000)	9,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(82,000)	-
Change in unrecognized deductible temporary differences	290,000	298,000
Total	$ -	$ -

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

(Canadian Dollars)

13. INCOME TAXES (cont'd…)

Significant components of deferred tax assets that have not been recorded are as follows:

	June 30, 2013	June 30, 2012
Operating losses carried forward	$ 568,000	$ 282,000
Share issue costs	9,000	5,000
Capital assets	1,000	1,000
Total	$ 578,000	$ 288,000

No net deferred tax asset has been recognized in respect of the above because the amount of future taxable profit that will be available to realize such assets is not probable.

Tax attributes are subject to review and potential adjustment by tax authorities.

The Company has non-capital losses for Canadian income tax purposes of approximately $2,170,000 and for Mexican income tax purposes of approximately $80,000 which may be carried forward and applied against taxable income in future years. These losses, if utilized, will expire through to 2033 in Canada and in Mexico through 2023.

14. 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, 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:

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.

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 June 30, 2013, the Company had cash of $81,712 (June 30, 2012 - $339,848) to settle current liabilities of $377,451 (June 30, 2012 - $317,723). 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.

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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances and interest-bearing investments. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2013, the Company had a total of $60,000 (2012-$40,000) in investment-grade short-term deposit certificates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash 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.

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.

15. SUBSEQUENT EVENT

Subsequent to June 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.