DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2019 AND 2018

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Defiance Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of Defiance Silver Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a loss of $1,409,173 during the year ended June 30, 2019 and, as of that date, the Company's current liabilities exceeded its current assets by $2,264,242. As stated in Note 1, these events and conditions indicate that these material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Grant P. Block.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada
October 28, 2019

Chartered Professional Accountants

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30,
(Expressed in Canadian dollars)

	2019	2018
ASSETS		
Current assets		
Cash	$ 129,811	$ 118,621
Receivables (Note 4)	22,677	16,376
Prepaid expenses (Note 5)	131,660	1,042
Total current assets	284,148	136,039
Value added tax (Note 4)	729,702	493,040
Other assets (Note 6)	20,560	-
Exploration and evaluation assets (Note 8)	12,977,665	6,122,855
Total assets	$ 14,012,075	$ 6,751,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 1,455,181	$ 654,796
Loan payable (Note 10 and 12)	1,093,209	449,109
Total current liabilities	2,548,390	1,103,905
Non-current liabilities		
Deferred income tax liabilities (Note 14)	36,000	36,000
Total non-current liabilities	36,000	36,000
Total liabilities	2,584,390	1,139,905
Shareholders' equity		
Share capital (Note 11)	18,911,866	12,239,946
Share-based payment reserve (Note 11)	1,830,111	1,277,202
Deficit	(9,314,292)	(7,905,119)
Total shareholders' equity	11,427,685	5,612,029
Total liabilities and shareholders' equity	$ 14,012,075	$ 6,751,934

Nature and continuance of operations (Note 1)
Subsequent events (Note 17)

On behalf of the Board:

"Darrell A. Rader" — *"Chris Wright"*

Darrell A. Rader — Chris Wright

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	YEARS ENDED JUNE 30, 2019	2018
EXPENSES		
Interest expense	$ 3,490	$ -
Investor relations	2,282	71,546
Legal and audit	204,082	166,212
Management and consulting fees (Note 12)	518,179	293,314
Office and administration	108,867	72,133
Share-based compensation (Note 11)	115,547	176,167
Transfer agent and filing fees	28,736	22,128
Travel	16,337	33,150
Total expenses	(997,520)	(834,650)
Interest income	228	951
Loss on foreign exchange	(51,082)	(29,596)
Loss on de-recognition of loan (Note 10)	(360,799)	-
	(411,653)	(28,645)
Loss and comprehensive loss for the year	$ (1,409,173)	$ (863,295)
Basic and diluted loss per common share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding - Basic and diluted	114,740,149	96,881,519

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	YEARS ENDED JUNE 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (1,409,173)	$ (863,295)
Items not affecting cash:		
Share-based compensation	115,547	176,167
Interest on loans payable	3,490	-
Loss on de-recognition of loan	360,799	
Foreign exchange	650	-
Changes in non-cash working capital items:		
Receivables	12,199	(3,354)
Value added tax	(211,420)	(244,679)
Prepaid expenses	(117,883)	69
Accounts payable and accrued liabilities	195,865	208,239
Net cash used in operating activities	(1,049,926)	(726,853)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash on acquisition of VRO	20,867	-
Transaction costs	(111,839)	-
Exploration and evaluation assets expenditures	(1,500,917)	(1,654,921)
Recovery of exploration and evaluation assets	-	10,733
Net cash used in investing activities	(1,591,889)	(1,644,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	2,061,730	1,771,000
Proceeds from loans	740,000	700,000
Proceeds from Directors loans	26,000	-
Repayment of loans	(58,784)	-
Interest payment	-	(9,000)
Share issuance costs	(115,941)	(156,096)
Net cash provided by financing activities	2,653,005	2,305,904
Change in cash during the year	11,190	(65,137)
Cash, beginning of the year	118,621	183,758
Cash, end of the year	**$ 129,811**	**$ 118,621**

Supplemental disclosure with respect to cash flows (Note 13)

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

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

	Number of Shares		Share capital		Share-based payment Reserves		Deficit		Total
Balance at June 30, 2017	92,351,820	$	9,062,555	$	814,420	$	(7,041,824)	$	2,835,151
Private placement	5,750,001		1,725,000		-		-		1,725,000
Shares issued for property payments	5,000,000		1,600,000		-		-		1,600,000
Stock options exercised	250,000		85,632		(39,632)		-		46,000
Issuance costs	-		(156,096)		-		-		(156,096)
Issuance costs - broker warrants	-		(77,145)		77,145		-		-
Warrants issued pursuant to loan agreement	-		-		249,102		-		249,102
Share-based compensation	-		-		176,167		-		176,167
Net loss for the year	-		-		-		(863,295)		(863,295)
Balance at June 30, 2018	103,351,821		12,239,946		1,277,202		(7,905,119)		5,612,029
Private placement	12,838,104		2,567,620		-		-		2,567,620
Issuance costs	-		(115,941)		-		-		(115,941)
Issuance costs - broker warrants	-		(13,831)		13,831		-		-
Stock options exercised	70,000		13,429		(6,429)		-		7,000
Shares issued for debt	1,303,113		365,263		-		-		365,263
Shares issued pursuant to the acquisition of VRO	15,421,520		3,855,380		-		-		3,855,380
Issuance of replacement stock options and warrants	-		-		93,135		-		93,135
Warrants issued pursuant to loan agreement	-		-		336,825		-		336,825
Share-based compensation	-		-		115,547		-		115,547
Net loss for the year	-		-		-		(1,409,173)		(1,409,173)
Balance at June 30, 2019	132,984,558	$	18,911,866	$	1,830,111	$	(9,314,292)	$	11,427,685

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Defiance Silver Corp ("the Company" or "Defiance") 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 and exploration of exploration and evaluation assets. The Company's registered and records office is at Suite 704 - 595 Howe Street, Vancouver, BC, V6C 2T5. The Company is listed on the TSX Venture Exchange under the symbol "DEF".

The Company's consolidated financial statements are presented in Canadian dollars which is the functional currency.

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 exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets 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 exploration and evaluation asset. To date, the Company has not earned revenues and is considered to be in the exploration stage.

Going Concern of Operations

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 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. The Company expects to use similar financing techniques in the future and is pursuing such additional sources of financing as estimated to be required to sufficiently support its operations until such time that its operations become self-sustaining.

At June 30, 2019, the Company had cash of $129,811 (2018 - $118,621) and a working capital deficiency of $2,264,242 (2018 - $967,866). The Company will require additional funds to support its exploration activities and meet working capital requirements in the next twelve months. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. There can be no assurances that management's plans for the Company will be successful.

2. BASIS OF PREPARATION

Statement of Compliance

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") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were authorized for issue by the Audit Committee and Board of Directors on October 21, 2019.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value. In addition, these 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 financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, 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:

1. *Recoverability of receivables and value added tax:* which are included in the consolidated statements of financial position. Management has determined that receivables are recoverable given management's experience in realizing receivables and refunds of value added tax.
2. *Carrying value and the recoverability of exploration and evaluation assets*: Management has determined that exploration, evaluation and related costs incurred which have been capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and prefeasibility studies, accessibility of facilities and existing permits.
3. *Valuation of share-based compensation and brokers' warrants*: Management uses the Black-Scholes Pricing Model for valuation of share based compensation and brokers' warrants, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.
4. *Income Taxes*: In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

2. BASIS OF PREPARATION *(Cont'd)*

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operation and cash flows.

Critical Accounting Judgements

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1. *Going concern of operations*: The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).
2. *Determination of functional currency:* The Company determines the functional currency through the analysis of several indicators such as expenses and cash flow, financing activities, and frequency of transactions with the reporting entity.
3. *Determination of asset purchase vs business acquisition:* The Company performed an analysis of several indicators such as who is the acquirer in the transaction, the definition of a business and how the acquisition should be accounted for.
4. *Valuation of the acquisition of a public company:* The Company acquired a publicly-traded company in December 2018 (Note 7). The process for determining whether the acquisition was an asset purchase versus a business acquisition was performed and primary consideration was given to the exploration stage of mineral properties, among other items. Shares issued for the acquisition were valued on the issue date and the excess of overall acquisition costs over net assets acquired was attributed to the mineral properties acquired.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all years presented in these consolidated financial statements.

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 the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

The financial statements include the financial statements of Defiance Silver Corp. and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest	Principal Activity
Minera Santa Remy S.A. de CV	Mexico	100%	Mineral exploration
DefCap (BVI) Inc.	British Virgin Islands	100%	Holding company
Valoro Resources Inc.	Canada	100%	Mineral exploration
Geologix Explorations Mexico S.A. de C.V.	Mexico	100%	Mineral exploration
GEM Servicios S.A. de C.V.	Mexico	100%	Mineral exploration
Geologix (U.S.) Inc.	USA	100%	Mineral exploration

Foreign currencies

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 identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are re-translated at the rate of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Exchange gains and losses arising on translation are included in profit or loss.

Cash

Cash is comprised of cash on hand.

Receivables

Receivables are recorded at face value less any provisions for uncollectible accounts considered necessary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash, receivables and other assets are measured at amortized cost with subsequent impairments recognized in profit or loss.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities and loans payable are classified and measured at amortized on the statement of financial position.

As at June 30, 2019, the Company does not have any derivative financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Exploration and evaluation assets (Mineral properties)

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Reclamation deposits

Cash which is subject to contractual restrictions on use related to the Company's exploration and evaluation assets is classified separately as reclamation deposits. Reclamation deposits are classified as other assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of tangible and intangible assets

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 flows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Share-based payments

The Company grants stock options to buy 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 the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve the issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are valued based on the residual value method. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

Income taxes

Income tax expense 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. Current tax expense is the expected tax payable on 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 assets and liabilities are recognized on temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for amounts relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect either accounting or taxable loss, or 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 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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and are also rarely debt funded. Any related borrowing costs incurred during this phase are therefore generally recognized in profit or loss in the period they are incurred.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants and conversion of convertible notes, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

New standards adopted

IFRS 9 - Financial instruments

On July 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the previous standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of the Company's financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

IFRS 15 - Revenue from Contracts with Customers.

On July 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. The standard is effective for annual periods beginning on or after January 1, 2018. As the Company has no revenues, the change did not impact accumulated deficit or any assets and liabilities on the transition date.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

New standards not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended June 30, 2019:

1. IFRS 16 – Leases. Effective for annual periods beginning on or after January 1, 2019.

   IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

4. RECEIVABLES

The Company's receivables primarily arise from refundable sales tax receivable from government taxation authorities in Canada and Mexico.

		June 30, 2019		June 30, 2018
VAT receivable	$	729,702	$	493,040
GST receivable		11,100		16,376
Advances receivable		4,165		-
Taxes receivable		7,412		-
	$	22,677	$	16,376

5. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		June 30, 2019		June 30, 2018
Security deposits	$	3,683	$	-
Insurance		871		-
Vendor prepayments		127,106		1,042
	$	131,660	$	1,042

(Expressed in Canadian Dollars)

6. OTHER ASSETS

	June 30, 2019	June 30, 2018
Investment	$ 5,000	$ -
Reclamation bond	15,560	-
	$ 20,560	$ -

Investment

This represents the remaining guaranteed investment certificates held with the bank as collateral for the Company's credit cards issued to key personnel.

Reclamation bond

The Company has a deposit in place with a United States bank as security for a reclamation bond on former exploration and evaluation assets located in the United States. The reclamation bond is required by local jurisdictions at the time exploration activities commenced on the properties and do not represent a rehabilitation provision. Interest on the certificates of deposit with the United States bank is paid on a periodic basis to the Company.

7. ACQUISITION

Effective November 5, 2018, the Company and ValOro Resources Inc. ("Valoro") signed a Definitive Arrangement Agreement to complete a transaction whereby the Company acquired all of the issued and outstanding Valoro shares (the "Transaction").

The Company and Valoro completed the Transaction under the Business Corporations Act (British Columbia) on December 31, 2018. Former Valoro shareholders received 0.71 Defiance shares for each Valoro share held.

As consideration, the Company issued 15,421,520 common shares at a value of $3,855,380 (Note 11). As part of the arrangement, all unexercised Valoro stock options and warrants were replaced with 1,371,011 stock options and 1,357,708 warrants of the Company at the exchange ratio of 0.71 and a total Black Scholes value of $93,135 (Note 11). The Company incurred $27,409 in transaction costs and $260,630 in severance costs relating to the acquisition, and these costs were capitalized as part of the acquisition. Of the total severance costs, $176,200 was settled by issuance of 628,611 shares and $84,430 was paid in cash. The acquisition of Valoro has been treated as an acquisition of exploration and evaluation assets.

(Expressed in Canadian Dollars)

7. ACQUISITION (Cont'd)

The assets and liabilities of Valoro assumed on acquisition were as follows:

Cash	$	20,867
Receivables		18,500
Prepaid expenses		12,735
Value added tax		25,242
Other assets		21,210
Exploration and evaluation assets		4,863,447
Accounts payable and accrued liabilities		(659,174)
Loan payable		(66,273)
Net Assets	$	4,236,554

Total consideration for the acquisition was as follows:

Value of Shares Issued	$	3,855,380
Transaction Costs		288,039
Value of replacement stock options and warrants		93,135
Total Consideration	$	4,236,554

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets 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 exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing.

	Tepal	San Acacio Project	Minerva Property	Lagartos Project	Total
Balance at June 30, 2017	**$ -**	**$ 2,875,642**	**$ 23,248**	**$ -**	**$ 2,898,890**
Acquisition costs					
Property Acquisition costs	-	947,893	-	1,590,000	2,537,893
Exploration costs					
Claim Fees	-	8,249	-	-	8,249
Consulting Fees	-	25,775	-	-	25,775
Camp	-	14,161	-	-	14,161
Drilling	-	574,064	-	-	574,064
Extraction fees	-	8,054	-	-	8,054
Borrowing costs	-	21,211	-	-	21,211
Geology & mapping	-	34,558	-	-	34,558
	-	686,072	-	-	686,072
Balance at June 30, 2018	**-**	**4,509,607**	**23,248**	**1,590,000**	**6,122,855**
Acquisition costs					
Property Acquisition costs	4,868,212	1,014,497	-	-	5,882,709
Exploration costs					
Claim Fees	15,973	34,258	-	-	50,231
Consulting Fees	15,325	80,109	-	-	95,434
Camp	8,492	311,159	-	-	319,651
Drilling	-	104,367	-	-	104,367
Borrowing costs	-	352,669	-	-	352,669
Geology & mapping	-	6,092	-	-	6,092
Geophysics	-	31,344	-	-	31,344
Travel and accommodation	2,408	9,905	-	-	12,313
	42,198	929,903	-	-	972,101
Balance at June 30, 2019	**$ 4,910,410**	**$ 6,454,007**	**$ 23,248**	**$ 1,590,000**	**$ 12,977,665**

The carrying amounts of the Company's exploration and evaluation assets have been pledged as general collateral for loans (Note 10).

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Tepal Project

As a result of the acquisition of Valoro, the Company acquired a 100% right, title and interest in mining claims located in the state of Michoacán, Mexico (the "Tepal Project")

In 2009 Valoro and Arian Silver Corp. ("Arian") entered into an agreement whereby Valoro was granted the exclusive rights to purchase Arian's 100% interest in the Tepal Gold-Copper Project. Under the terms of the agreement, Valoro completed the purchase of 100% of the property, by delivering to Arian US$3.0 million in staged payments. Valoro also assumed the balance of Arian's obligations under the terms of an underlying property option agreement with Minera Tepal SA de CV ("Minera Tepal") subject to a 2.5% NSR and has completed staged payments to the underlying property vendor of US$3,200,000.

San Acacio Project

The Company entered into an option agreement on October 24, 2011, subsequently the subject of several amendments, 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. The San Acacio property is located approximately 6.5 km north of the city of Zacatecas, Mexico.

The Company has paid US$2,907,600 towards the agreement through June 30, 2019.

In August 2018, the Company renegotiated and extended the terms of its San Acacio Silver Project option agreement. The project vendor has agreed to postpone a substantial amount of the payments due in 2018 to September 27, 2020. As a result, the Company will be making four quarterly payments of US$226,900 totaling US$907,600 in year one and four quarterly payments of US$250,000 totaling US$1,000,000 in year two with the final option payment due September 2020. As a result of the amending agreement, the payment terms are as follows:

Date	Amount credited toward final payment	Total yearly payment
By September 27, 2019	US$ 600,000	US$ 907,600 (paid)
By September 27, 2020	US$ 800,000	US$ 1,000,000
On September 27, 2020	US$ 3,291,440	US$ 3,291,440

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 six consecutive months.

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Surface rights agreements

In August 2014, the Company obtained authorization to temporarily occupy and explore certain land holdings on the San Acacio property. In order to keep the agreement in good standing, the Company is required to make semi-annual payments of MX$9,000 during the exploration phase and MX$60,000 during the development phase. The agreement will be valid for 20 years with the option to extend in the future.

On February 27, 2015, the Company entered into an additional surface rights agreement for the right to occupy and perform exploration work on the San Acacio property. The Company will have authorization to explore the surface of the property for a term of three years which can be extended for an additional 3 years at the Company's choice, by making annual advance payments of MX$120,000 (paid) and by paying a one time fee of MX$100,000 (paid) on the signing of the agreement. The Company will have authorization to explore the surface of the property for a term of three years which can be extended for an additional 3 years at the Company's choice. The Company exercised its right to extend the term of the contract for an additional three years by signing an agreement on February 26, 2018 paying MX$150,000 on signing (paid), and MX$180,000 each year to be paid in two equal semi-annual payments (MX$90,000 paid on signing). All required payments have been made.

On July 14, 2016, the Company entered into an additional surface rights agreement for the right to occupy and perform exploration work on the San Acacio property. The Company will have authorization to explore the surface of the property for a term of five years which can be renewed for a further 5 years at the Company's choice by making advance annual payments of MX$120,000 (paid) and by paying a one time fee of MX$100,000 (paid) on signing of the agreement.

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, 2019, the application was still pending approval by the Mexican mining authorities.

Lagartos Project

In June 2018, the Company completed its acquisition of a group of assets from MAG Silver Corp ("MAG") by issuing 5,000,000 common shares (valued at $1,600,000) of the Company. The Company received a 100% interest in MAG's Lagartos project along with a significant regional exploration database and cash of $10,000.

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are comprised as follows:

		June 30, 2019		June 30, 2018
Trade payables	$	939,614	$	280,409
Accrued liabilities		515,567		374,387
	$	1,455,181	$	654,796

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

10. LOANS PAYABLE

a) During the year ended June 30, 2018, the Company entered into a loan agreement which allows the Company to borrow up to $700,000. The loan was unsecured, bears interest at 1% per month and is repayable on the earlier of June 19, 2019 or the date the Company closes its next equity financing. The Company will pay a 2% commitment fee of $14,000, payable on maturity or at the repayment date in addition to issuing 2,058,800 warrants to the lender. The warrants were valued using the Black-Scholes Model resulting in a fair value of $249,102 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 94%, and a risk-free interest rate of 1.83%. Each warrant entitling the holder to acquire one common share of the Company at $0.34 until June 19, 2019 (Note 11).

On September 17, 2018, the Company increased its loan facility from $700,000 to $1,120,810. The loan was unsecured, bears interest at the rate of 1% per month, and matures on the earlier of September 17, 2019 or the date the Company closes its next equity financing. The Company will pay a commitment fee of 2% of the loan, payable on maturity or repayment; and issued 1,618,500 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.26 until September 17, 2019. The warrants were valued using the Black-Scholes Model resulting in a fair value of $177,567 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 93.87%, and a risk-free interest rate of 2.12% (Note 11).

On December 21, 2018, the Company increased its loan facility from $1,120,810 to $1,543,232. The loan bears interest at the rate of 1% per month and matures on the earlier of December 21, 2019 or the date the Company closes its next equity financing. The Company will pay a commitment fee of 2% of the loan, payable on maturity or repayment; and issued 2,346,790 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.18 until December 21, 2019. The warrants were valued using the Black-Scholes Model resulting in a fair value of $159,258 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 96.62%, and a risk-free interest rate of 1.93% (Note 11).

On June 27, 2019 the Company signed a general security agreement with the lender whereby the assets of the Company's subsidiaries including property, plant and equipment have been pledged as collateral for this loan. (see Notes 8).

During the year the loan was partially settled in the amount of $500,000 and as at June 30, 2019, the principal balance of the loan was $1,043,232.

(Expressed in Canadian Dollars)

10. LOANS PAYABLE (cont'd…)

As of June 30, 2017	$	-
Loan proceeds		700,000
Commitment fees (1)		(14,000)
Bonus warrants (2)		(249,102)
Borrowing Costs (1)		21,211
Loan repayments		(9,000)
As of June 30, 2018		449,109
Loan proceeds		740,000
Loss on de-recognition of loan (3)		360,799
Bonus warrants (2)		(336,825)
Borrowing Costs (1)		352,669
Loan settlement		(500,000)
As of June 30, 2019	$	1,065,752

Summary of Loan Balance		
Principal Loan Balance		1,043,232
Commitment Fee		30,865
Interest to June 30, 2019		84,884
Unaccreted commitment Fees		(15,135)
Unaccreted bonus warrants		(78,094)
	$	1,065,752

(1)Capitalized to exploration and evaluation assets
(2)Included in Share-based payment reserves
(3)Represents the difference between carrying value of the loans derecognized and fair value of new loans, net of transaction costs, recognized upon execution of new loan agreements.

The Company has outstanding promissory notes of $26,000 payable to directors of the Company. Accrued interest payable of $1,457 is included in the total loans payable balance of $27,457 (Note 12).

11. SHARE CAPITAL

Authorized

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

During the year ended June 30, 2019, the Company

i) issued 15,421,520 common shares at a value of $3,855,380 in connection to the acquisition of Valoro (Note 7).

ii) issued 1,303,113 common shares to settle debt of $365,263 (Note 12).

iii) issued 70,000 common shares pursuant to exercise of options for gross proceeds of $7,000.

iv) closed the first tranche of a non-brokered private placement by issuing 6,147,500 units at a price of $0.20 per unit for gross proceeds of $1,229,500. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before March 11, 2021. The Company paid finder's fees of $600.

v) closed the second tranche of a non-brokered private placement by issuing 5,289,452 units at a price of $0.20 per unit for gross proceeds of $1,057,890. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before April 5, 2021. The Company paid finder's fees of $21,300 and issued 106,500 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.20 per share on or before April 5, 2021.

vi) closed the third and final tranche of a non-brokered private placement by issuing 1,401,152 units at a price of $0.20 per unit for gross proceeds of $280,230. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.30 per share on or before May 3, 2021. The Company paid finder's fees of $10,200 and issued 51,000 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.20 per share on or before May 3, 2021.

During the year ended June 30, 2018, the Company

i) closed a non-brokered private placement by issuing 5,750,001 units at a price of $0.30 per unit for gross proceeds of $1,725,000. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire an additional common share of the Company for a period of twenty-four months at an exercise price of $0.45. Total finder's fees of $131,160 were paid and 437,200 warrants were issued with a value of $77,145 in connection with the private placement. Other share issue costs of $24,936 were incurred. Each finder's warrant entitles the holder to acquire one common share of the Company at $0.45 for 24 months, subject to an acceleration clause such that if the closing price of the Company's shares on the TSX Venture Exchange is at or above $0.65 per share for a period of ten consecutive trading days during the term of the warrants, the Company may accelerate the expiry date of the Warrants to not less than 30 days following the date of notice.

ii) issued 250,000 common shares pursuant to exercise of options for gross proceeds of $46,000.

iii) issued 5,000,000 common shares with a value of $1,600,000 pursuant to the acquisition of the Lagartos project (Note 8).

(Expressed in Canadian Dollars)

11. 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, officers, employees and 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, unless vesting is imposed by the Company's board of directors.

On December 31, 2018, in connection to the acquisition of Valoro, the Company issued 1,371,011 replacement stock options with a weighted average exercise price of $0.79 per share, at a fair value of $90,609 (Note 7).

During the year ended June 30, 2019, the Company received proceeds of $7,000 (2018 - $46,000) from the exercise of 70,000 (2018 – 250,000) stock options. The Company transferred $6,429 (2018 - $39,632) to share capital from share-based payment reserve.

A summary of the Company's outstanding share purchase options as at June 30, 2019 and the changes during the year are presented below:

	Number of Options	Weighted Agerate Exercise Price
Balance, June 30, 2017	3,840,000	$0.19
Granted	735,000	0.31
Exercised	(250,000)	0.18
Expired / Cancelled	(740,000)	0.28
Balance, June 30, 2018	3,585,000	0.20
Granted	2,361,011	0.54
Exercised	(70,000)	0.10
Expired / Cancelled	(502,175)	0.42
Balance, June 30, 2019	5,373,836	$0.33

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	June 30, 2019	June 30, 2018
Annualized volatility	95.08%	130.50%
Risk-free interest rate	1.59%	1.64%
Dividend rate	0%	0%
Expected life of options	5.54 years	3.78 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.11	$ 0.21

The following incentive stock options were outstanding to directors, officers and employees at June 30, 2019:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
300,000	0.30	October 23, 2019	262,500	0.30
1,620,000	0.10	November 6, 2019	1,620,000	0.10
220,100	0.56	February 9, 2020	220,100	0.56
100,000	0.15	March 12, 2020	100,000	0.15
7,100	0.70	March 16, 2020	7,100	0.70
3,550	0.56	May 5, 2020	3,550	0.56
100,000	0.11	June 10, 2020	100,000	0.11
197,913	0.70	January 13, 2021	197,913	0.70
125,848	0.70	March 2, 2021	125,848	0.70
42,600	1.13	June 16, 2021	42,600	1.13
200,000	0.41	July 20, 2021	200,000	0.41
730,000	0.32	December 14, 2021	730,000	0.32
257,375	1.13	March 1, 2022	257,375	1.13
135,000	0.35	February 15, 2023	90,000	0.35
344,350	0.70	March 16, 2023	344,350	0.70
40,000	0.20	May 29, 2024	13,333	0.20
950,000	0.20	May 29, 2029	316,667	0.20
5,373,836	0.33		4,631,336	0.35

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, 2019, the Company recognized $115,547 (2018 - $176,167) in share-based compensation expense for stock options issued in the current and previous years.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Agerate Exercise Price
Balance, June 30, 2017	-	$0.00
Granted	8,246,001	0.42
Balance, June 30, 2018	8,246,001	0.42
Granted	18,318,602	0.36
Expired / Cancelled	(2,058,800)	0.34
Balance, June 30, 2019	24,505,803	$0.38

At June 30, 2019, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
603,500	1.41	July 22, 2019
5,232,401	0.45	September 19, 2019
1,618,500	0.26	September 27, 2019
954,800	0.45	September 29, 2019
2,346,790	0.18	December 21, 2019
754,208	1.41	June 21, 2020
6,147,500	0.30	March 11, 2021
5,289,452	0.30	April 5, 2021
106,500	0.20	April 5, 2021
1,401,152	0.30	May 3, 2021
51,000	0.20	May 3, 2021
24,505,803	0.38	

During the year ended June 30, 2018, the Company recognized compensation for bonus warrants granted pursuant to loan agreement using the Black-Scholes option pricing model (Note 10).

On December 31, 2018, in connection to the acquisition of Valoro, the Company issued 603,500 replacement warrants with an expiry date of July 22, 2019 and 754,208 replacement warrants with an expiry date of June 21, 2020. These warrants have a weighted average exercise price of $1.41 per share, and a fair value of $2,526 (Note 7).

During the year ended June 30, 2019, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $13,831 (2018 - $77,145) being included in share issuance costs.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Warrants (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants:

		June 30, 2019		June 30, 2018
Annualized volatility		88.60%		118.66%
Risk-free interest rate		1.96%		1.55%
Dividend rate		0%		0%
Expected life of warrant		1 year		2 years
Forfeiture rate		0%		0%
Fair value per warrant	$	0.06	$	0.18

12. RELATED PARTY TRANSACTIONS

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

As at June 30, 2019, accounts payable and accrued liabilities included $204,682 (2018 - $107,619) 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.

During the year ended June 30, 2019, the Company:

(a) paid or accrued management fees of $60,000 (2018 - $42,500) to a company controlled by a director of the Company.

(b) paid or accrued management fees of $Nil (2018 - $62,185) to a company controlled by the former CEO of the Company.

(c) paid or accrued management fees of $10,000 (2018 - $17,500) to a company controlled by a former CFO of the Company.

(d) paid or accrued management fees of $37,130 (2018 - $Nil) to a former CFO of the Company.

(e) paid or accrued management fees of $60,000 (2018 - $60,000) to a company controlled by a former CEO, President and director of the Company.

(f) paid or accrued management fees of $Nil (2018 - $59,680) to a former officer of the Company.

(g) paid or accrued management fees of $115,000 (2018 - $15,000) to a former CEO of the Company.

(h) paid or accrued management fees of $82,219 (2018 - $Nil) to the CFO of the Company.

(i) issued 674,502 shares to settle debt of $189,063 with a director.

(j) issued 628,611 shares to settle debt of $176,200 with a former CFO.

12. RELATED PARTY TRANSACTIONS (cont'd…)

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of \$80,792 (2018 - \$119,055). Stock options granted to directors and officers on December 31, 2018 recorded at a fair value of \$21,071 is included in the acquisition value of Valoro Resources Inc.

The Company has outstanding promissory notes of \$26,000 with directors of the Company and recorded accrued interest payable of \$1,457 (Note 10).

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended June 30, 2019 included:

a) A balance of \$205,793 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Bonus warrants issued pursuant to loan agreement valued at \$336,825.

c) Borrowing costs of \$338,714 capitalized as exploration and evaluation assets.

d) Replacement options and warrants issued at a value of \$93,135.

e) Issuance of 1,303,113 common shares to settle debt of \$365,263.

f) Settled shares subscriptions received in advance of \$512,890 through the issuance of 2,564,450 common shares.

Significant non-cash transactions for the year ended June 30, 2018 included:

a) A balance of \$68,016 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Warrants issued as finder's fees of \$77,145.

c) Bonus warrants issued pursuant to loan agreement valued at \$249,102.

d) Borrowing costs of \$21,211 capitalized as exploration and evaluation assets.

e) Loan commitment fee of \$14,000 included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

14. INCOME TAXES

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

	2019	2018
Loss before income taxes for the year	$ (1,409,173)	$ (863,295)
Expected income tax recovery	$ (380,000)	$ (229,000)
Change in statutory, foreign tax, foreign exchange rates and other	(62,000)	(38,000)
Permanent differences	153,000	110,000
Share issuance costs	(31,000)	(41,000)
Adjustment of prior year tax attributes	660,000	(379,000)
Change in unrecognized deductible temporary differences and other	(340,000)	577,000
Total income tax expense	-	-

In 2013, the Mexican government enacted tax reform to introduce a mining royalty effective January 1, 2014. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year.

The Company has taken the position that the 7.5% mining royalty is an income tax in accordance with IAS-12 for financial reporting purposes, as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as exploration and evaluation assets have a book basis but no tax basis for purposes of the royalty. The Company recognized a deferred tax liability of $36,000 in respect of this royalty.

The significant components of the Company's deferred tax assets and liabilities are as follows:

Deferred Tax Assets (Liabilities)		
Exploration and evaluation assets	$ (1,730,000)	$ (36,000)
Non-capital losses	1,694,000	-
Net deferred tax liability	**$ (36,000)**	**$ (36,000)**

(Expressed in Canadian Dollars)

14. INCOME TAXES (*Cont'd)*

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2019	2018
Deferred Tax Assets		
Exploration and evaluation assets	$ 1,000	$ 45,000
Property and equipment	121,000	58,000
Share issue costs and other	50,000	34,000
Non-capital losses available for future period	1,610,000	1,985,000
	1,782,000	2,122,000
Unrecognized deferred tax assets	(1,782,000)	(2,122,000)
Net deferred tax assets	**$ -**	**$ -**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	$ 2,000	No expiry	$ 149,000	No expiry
Equipment	448,000	No expiry	-	No expiry
Share issue costs and other	186,000	2040 to 2043	126,000	2039 to 2042
Non-capital losses available for future periods				
Canada	5,350,000	2028 to 2039	4,623,000	2028 to 2038
USA	48,000	2039	-	
Mexico	517,000	2021 to 2029	2,458,000	2021 to 2028

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

15. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets in Mexico. All of the costs at June 30, 2019 and June 30, 2018 were for exploration and evaluation assets in Mexico.

16. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, and loan payable, approximate carrying value, due to their short-term nature. The Company's other financial instrument, cash, under the fair value hierarchy, is measured 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 GST/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, 2019, the Company had cash of $129,811 (2018 - $118,621) to settle current liabilities of $2,548,390 (2018 - $1,103,905). The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

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 and has no debt instruments that bear variable interest rates. 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.

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

b) Foreign currency risk

The Company's operations are in Canada, the United States and Mexico. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Based on the Company's net exposures as at June 30, 2019 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of $55,211 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican peso would result in a decrease/increase of $53,648 in the Company's net earnings.

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 of its exploration and evaluation assets, acquire additional exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes 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.

There were no changes in the Company's approach to capital management.

17. SUBSEQUENT EVENTS

Subsequent to June 30, 2019 the following events occurred:

a. the Company closed a non-brokered private placement by issuing 14,448,283 units at a price of $0.23 per unit for gross proceeds of $3,323,106. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.31 per share on or before August 12, 2022. The Company paid finder's fees of $30,056 and issued 87,780 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.23 per share on or before August 12, 2020;

b. stock options to purchase 380,000 shares of the Company expired unexercised;

c. the Company issued 990,000 common shares pursuant to exercise of stock options for gross proceeds of $99,000;

d. 4,860,001 warrants issued on September 19, 2017 with an exercise price of $0.45 per share, which were due to expire on September 19, 2019, have been extended to September 19, 2020;

e. 890,000 warrants issued on September 29, 2017 with an exercise price of $0.45 per share, which were due to expire on September 29, 2019, have been extended to September 29, 2020;

f. broker warrants to purchase 437,200 shares of the Company expired unexercised;

g. the Company issued 48,000 common shares pursuant to exercise of warrants for gross proceeds of $12,480;

h. warrants to purchase 2,174,000 shares of the Company expired unexercised;

i. the Company entered into a loan agreement in the amount of $200,000. The loan is unsecured, bears interest at 1% per month and is repayable on or before July 24, 2020. The loan was repaid on August 15, 2019;

j. the Company issued 404,722 common shares at a price of $0.28 to settle debt of $113,322.