DEFIANCE SILVER CORP.

(an exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

DECEMBER 31, 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	December 31, 2019	June 30, 2019
ASSETS		
Current assets		
Cash	$ 1,234,904	$ 129,811
Receivables (Note 4)	21,728	22,677
Prepaid expenses (Note 5)	102,253	131,660
Total current assets	1,358,885	284,148
Value added tax (Note 4)	873,612	729,702
Other assets (Note 6)	20,442	20,560
Exploration and evaluation assets (Note 8)	14,092,336	12,977,665
Total assets	$ 16,345,275	$ 14,012,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 663,063	$ 1,455,181
Loan payable (Note 10)	1,090,962	1,093,209
Total current liabilities	1,754,025	2,548,390
Non-current liabilities		
Deferred income tax liabilities	36,000	36,000
Total non-current liabilities	36,000	36,000
Total liabilities	1,790,025	2,584,390
Shareholders' equity		
Share capital (Note 11)	22,563,551	18,911,866
Share-based payment reserve (Note 11)	1,911,561	1,830,111
Deficit	(9,919,862)	(9,314,292)
Total shareholders' equity	14,555,250	11,427,685
Total liabilities and shareholders' equity	$ 16,345,275	$ 14,012,075

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

On behalf of the Board:

"Darrell A. Rader"	*"Chris Wright"*
Darrell A. Rader	Chris Wright

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Canadian dollars)

	THREE MONTH ENDED DECEMBER 31,		SIX MONTH ENDED DECEMBER 31,	
	2019	**2018**	**2019**	**2018**
EXPENSES				
Interest expense	$ 163	$ -	$ 8,404	$ -
Investor relations	146,427	4,771	187,920	9,016
Legal and audit	49,512	84,606	88,700	149,505
Management and consulting fees (Note 12)	57,449	74,000	145,531	148,000
Office and administration	29,524	25,704	49,324	45,265
Share-based compensation (Note 11)	31,860	17,117	80,138	40,686
Transfer agent and filing fees	6,885	1,036	10,577	4,465
Travel	1,785	5,356	1,881	9,578
Total expenses	(323,605)	(212,590)	(572,475)	(406,515)
Interest income	-	42	-	84
Gain (Loss) on foreign exchange	6,359	9,898	(33,095)	9,052
	6,359	9,940	(33,095)	9,136
Loss and comprehensive loss for the period	$ (317,246)	$ (202,650)	$ (605,570)	$ (397,379)
Basic and diluted loss per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Weighted average number of common shares outstanding - Basic and diluted	149,056,556	103,351,821	144,868,981	103,351,821

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

DEFIANCE SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Canadian dollars)

	SIX MONTHS ENDED DECEMBER 31,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (605,570)	$ (397,379)
Items not affecting cash:		
Share-based compensation	80,140	40,686
Interest on loans payable	586	-
Foreign exchange	118	-
Changes in non-cash working capital items:		
Receivables	949	8,091
Value added tax	(143,910)	(74,659)
Prepaid expenses	29,407	(6,939)
Accounts payable and accrued liabilities	(496,184)	208,239
Net cash used in operating activities	(1,134,464)	(221,961)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash on acquisition of VRO	-	20,867
Exploration and evaluation assets expenditures	(1,133,103)	(598,672)
Net cash used in investing activities	(1,133,103)	(577,805)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	3,494,586	-
Proceeds from loans	200,000	760,000
Repayment of loans	(201,381)	-
Repayment of directors loans	(28,042)	
Share issuance costs	(92,503)	-
Net cash provided by financing activities	3,372,660	760,000
Change in cash during the period	1,105,093	(39,766)
Cash, beginning of the period	129,811	118,621
Cash, end of the period	**$ 1,234,904**	**$ 78,855**

Supplemental disclosure with respect to cash flows (Note 13)

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited – Prepared by Management)
(Canadian dollars)

	Number of Shares		Share capital		Share-based payment Reserves		Deficit		Total
Balance at June 30, 2018	103,351,821	$	12,239,946	$	1,277,202	$	(7,905,119)	$	5,612,029
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	-		-		40,686		-		40,686
Net loss for the year	-		-		-		(397,379)		(397,379)
Balance at December 31, 2018	118,773,341		16,095,326		1,747,848		(8,302,498)		9,540,676
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
Share-based compensation	-		-		74,861		-		74,861
Net loss for the year	-		-		-		(1,011,794)		(1,011,794)
Balance at June 30, 2019	132,984,558	$	18,911,866	$	1,830,111	$	(9,314,292)	$	11,427,685
Private placement	14,448,286		3,323,106		-		-		3,323,106
Issuance costs	-		(92,503)		-		-		(92,503)
Issuance costs - broker warrants	-		(15,025)		15,025		-		-
Stock options exercised	1,590,000		305,039		(146,040)		-		158,999
Warrants exercised	48,000		17,746		(5,266)				12,480
Shares issued for debt	404,722		113,322		-		-		113,322
Warrants issued pursuant to loan agreement	-		-		137,591		-		137,591
Share-based compensation	-		-		80,140		-		80,140
Net loss for the year	-		-		-		(605,570)		(605,570)
Balance at December 31, 2019	149,475,566	$	22,563,551	$	1,911,561	$	(9,919,862)	$	14,555,250

The accompanying notes are an integral part of these condensed consolidated interim 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 condensed consolidated interim financial statements are presented in Canadian dollars which is the functional currency.

At the date of these condensed consolidated interim 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 condensed consolidated interim 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 December 31, 2019, the Company had cash of $1,234,904 (June 30, 2019 - $129,811) and working capital deficiency of $395,140 (June 30, 2019 $2,264,242). 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 condensed consolidated interim financial statements for the period ended December 31 2019, have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim 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.

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the year ended June 30, 2019.

The accounting policies applied in preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended June 30, 2019.

The financial statements were authorized for issue by the Audit Committee and Board of Directors on February 26, 2020.

The preparation of these condensed consolidated interim 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.

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

Critical Accounting Estimates (Cont'd)

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.

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.

(Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

New standards adopted

IFRS 16 – Leases.

On July 1, 2019, the Company adopted IFRS 16 – Leases. IRFS 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 standard is effective for annual periods beginning on or after January 1, 2019. As the Company has no leases, the change did not impact accumulated deficit or any assets and liabilities on the transition date.

4. RECEIVABLES

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

		December 31, 2019		June 30, 2019
VAT receivable	$	873,612	$	729,702
GST receivable		10,060		11,100
Advances receivable		4,189		4,165
Taxes receivable		7,479		7,412
	$	21,728	$	22,677

5. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		December 31, 2019		June 30, 2019
Security deposits	$	4,858	$	3,683
Insurance		18,407		871
Vendor prepayments		78,988		127,106
	$	102,253	$	131,660

(Canadian Dollars)

6. OTHER ASSETS

		December 31, 2019		June 30, 2019
Investment	$	5,000	$	5,000
Reclamation bond		15,442		15,560
	$	20,442	$	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.

(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

(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, 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**
Acquisition costs					
Property Acquisition costs	15,609	714,050	-	-	729,659
Exploration costs					
Claim Fees	15,811	17,275	-	-	33,086
Consulting Fees	(444)	101,181	-	-	100,737
Camp	10,717	62,077	-	-	72,794
Drilling	-	(4,062)	-	-	(4,062)
Borrowing costs	-	164,180	-	-	164,180
Geology & mapping	-	8,594	-	-	8,594
Geophysics	-	-	-	-	-
Travel and accommodation	265	9,418	-	-	9,683
	26,349	358,663	-	-	385,012
Balance at December 31, 2019	**$ 4,952,368**	**$ 7,526,720**	**$ 23,248**	**$ 1,590,000**	**$ 14,092,336**

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

(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$3,407,600 towards the agreement through December 31, 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 (US$400,000 paid)
On September 27, 2020	US$ 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 December 31, 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.

(Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		December 31, 2019		June 30, 2019
Trade payables	$	471,772	$	939,614
Accrued liabilities		191,291		515,567
	$	663,063	$	1,455,181

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

10. LOANS PAYABLE

During the period ended December 31, 2019, the Company:

i) 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 including interest of $1,381;

ii) extended its outstanding loan facility for a period of 12 months; the principal balance on extension was $1,221,649. The loan bears interest at the rate of 10% per annum, accrued daily and matures on December 21, 2020. The Company issued 2,350,000 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.20 until December 21, 2020. The warrants were valued using the Black-Scholes Model resulting in a fair value of $137,591 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 73.41%, and a risk-free interest rate of 1.67% (Note 11).

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

iii) 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).

iv) 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).

(Canadian Dollars)

10. LOANS PAYABLE (cont'd…)

v) 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).

vi) partially settled the loan in the amount of $500,000.

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 Note 8).

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
Loan proceeds		200,000
Bonus warrants (2)		(137,591)
Borrowing Costs (1)		164,182
Loan settlement		(201,381)
As of December 31, 2019	$	1,090,962

Summary of Loan Balance		
Principal Loan Balance		1,221,649
Interest to December 31, 2019		3,348
Unaccreted bonus warrants		(134,035)
	$	1,090,962

(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.

11. SHARE CAPITAL

Authorized

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

During the period ended December 31, 2019, the Company:

i) closed a non-brokered private placement by issuing 14,448,286 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 $30,065 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.

ii) issued 1,590,000 common shares pursuant to exercise of stock options for gross proceeds of $159,000.

iii) issued 48,000 common shares pursuant to exercise of warrants for gross proceeds of $12,480.

iv) issued 404,722 common shares to settle debt of $113,322.

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.

(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.

A summary of the Company's outstanding share purchase options as at December 31, 2019 and the changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price
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
Granted	275,000	0.30
Exercised	(1,590,000)	0.10
Expired / Cancelled	(410,000)	0.29
Balance, December 31, 2019	3,648,836	$0.43

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

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

	December 31, 2019	June 30, 2019
Annualized volatility	105.07%	95.08%
Risk-free interest rate	1.54%	1.59%
Dividend rate	0%	0%
Expected life of options	7.65 years	5.54 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.23	$ 0.11

The following incentive stock options were outstanding to directors, officers and employees at December 31, 2019:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
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
75,000	0.28	September 16, 2021	18,750	0.28
650,000	0.32	December 14, 2021	650,000	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
200,000	0.31	July 23, 2029	66,667	0.31
3,648,836	0.43		2,754,253	0.50

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value based method of accounting. During the period ended December 31, 2019, the Company recognized $80,138 (2018 - $40,686) in share-based compensation expense for stock options issued in the current and previous years.

(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, 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
Granted	16,886,066	0.29
Exercised	(48,000)	0.26
Expired / Cancelled	(4,957,990)	0.38
Balance, December 31, 2019	36,385,879	$0.34

At December 31, 2019, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
754,208	1.41	June 21, 2020
87,780	0.23	August 12, 2020
4,860,001	0.45	September 19, 2020
890,000	0.45	September 29, 2020
2,350,000	0.20	December 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
14,448,286	0.31	August 12, 2022
36,385,879	0.34	

During the period ended December 31, 2019, the Company recognized compensation for bonus warrants granted pursuant to the loan agreement using the Black-Scholes option pricing model (Note 10).

During the period ended December 31, 2019, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $15,025 (2018 - $Nil) being included in share issuance costs.

(Canadian Dollars)

11. SHARE CAPITAL (cont'd…)

Warrants (cont'd…)

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

	December 31, 2019	June 30, 2019
Annualized volatility	73.63%	88.60%
Risk-free interest rate	1.66%	1.96%
Dividend rate	0%	0%
Expected life of warrant	1 year	1 year
Forfeiture rate	0%	0%
Fair value per warrant	$ 0.06	$ 0.06

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 December 31, 2019, accounts payable and accrued liabilities included $41,749 (June 30, 2019 - $204,682) 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 period ended December 31, 2019, the Company:

(a) paid or accrued management fees of $30,000 (2018 - $30,000) to a company controlled by a director of the Company.

(b) paid or accrued management fees of $1,406 (2018 - $30,000) to a company controlled by a former CEO, President and director of the Company.

(c) paid or accrued management fees of $Nil (2018 - $60,000) to a former CEO of the Company.

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

(e) Accrued severance of $Nil (2018 - $260,630) to a former CFO of the Company

(f) paid or accrued management fees of $87,244 (2018 - $Nil) to the CFO of the Company.

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of $71,342 (2018 - $30,714).

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended December 31, 2019 included:

a) A balance of $23,209 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Borrowing costs of $164,182 capitalized as exploration and evaluation assets.

c) Bonus warrants issued pursuant to loan agreement valued at $137,591.

d) Issuance of 404,722 common shares to settle debt of $113,322.

Significant non-cash transactions for the period ended December 31, 2018 included:

a) A balance of $67,192 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 $274,075 capitalized as exploration and evaluation assets.

d) Replacement options and warrants issued at a value of $93,134

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, 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 December 31, 2019, the Company had cash of $1,234,904 (June 30, 2019 - $129,811) to settle current liabilities of $1,754,025 (June 30, 2019 - $2,548,390). 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.

14. 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 December 31, 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 $36,921 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 $85,411 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.

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2019 the following events occurred:

a. stock options to purchase 376,600 shares of the Company expired unexercised