DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2017 AND 2016

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Defiance Silver Corp.

We have audited the accompanying consolidated financial statements of Defiance Silver Corp., which comprise the consolidated statements of financial position as at June 30, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Defiance Silver Corp. as at June 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

October 26, 2017

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

		2017		2016
ASSETS				
Current assets				
Cash (Note 3)	$	183,758	$	932,315
Receivables (Note 4)		13,022		13,941
Prepaid expenses		1,111		1,085
		197,891		947,341
Value added tax (Note 4)		264,711		243,786
Exploration and evaluation assets (Note 5)		2,898,890		2,019,716
TOTAL ASSETS	$	3,361,492	$	3,210,843
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 6 and 9)	$	490,341	$	392,693
Deferred income taxes (Note 11)		36,000		36,000
		526,341		428,693
Shareholders' equity				
Share capital (Note 8)		9,062,555		8,578,279
Share-based payment reserve		814,420		629,115
Deficit		(7,041,824)		(6,425,244)
		2,835,151		2,782,150
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	3,361,492	$	3,210,843

Nature and continuance of operations (Note 1)
Subsequent events (Note 14)

On behalf of the Board:

"Darrell A. Rader"	*"Bruce Winfield"*
Darrell A. Rader	Bruce Winfield

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended June 30,
(Canadian dollars)

	2017	2016
Expenses		
Investor relations	$ 17,165	$ 46,121
Legal and audit	86,690	142,536
Management and consulting fees (Note 9)	183,571	285,267
Office and administration	82,388	69,177
Share-based compensation (Note 8)	197,356	28,145
Transfer agent and filing fees	18,937	14,060
Travel	19,326	17,128
	(605,433)	(602,434)
Interest income	3,575	1,024
Interest expense (Note 7)	-	(5,348)
Foreign exchange loss	(14,722)	(43,743)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (616,580)	$ (650,501)
Loss per common share – basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	91,283,324	69,771,578

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

DEFIANCE SILVER CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian dollars)

	Number of Shares	Share Capital	Share-based Reserves	Deficit	Total
Balance, June 30, 2015	62,377,770	$ 6,940,896	$ 600,970	$ (5,774,743)	$ 1,767,123
Share-based compensation	-	-	28,145	-	28,145
Shares issued upon the exercise of warrants	26,782,550	1,637,383	-	-	1,637,383
Net loss for the year	-	-	-	(650,501)	(650,501)
Balance, June 30, 2016	89,160,320	8,578,279	629,115	(6,425,244)	2,782,150
Share-based compensation	-	-	197,356	-	197,356
Shares issued upon the exercise of options	130,000	25,051	(12,051)	-	13,000
Shares issued upon the exercise of warrants	3,061,500	459,225	-	-	459,225
Net loss for the year	-	-	-	(616,580)	(616,580)
Balance, June 30, 2017	92,351,820	$ 9,062,555	$ 814,420	$ (7,041,824)	$ 2,835,151

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

DEFIANCE SILVER CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,
(Canadian dollars)

	2017	2016
Operating Activities		
Net loss for the year	$ (616,580)	$ (650,501)
Adjustments for:		
Share-based compensation	197,356	28,145
Net changes in non-cash working capital items:		
Receivables	919	2,412
Value added tax	(4,575)	(32,444)
Prepaid expenses	(26)	75,644
Accounts payable and accrued liabilities	(23,408)	70,704
Net cash used in operating activities	(446,314)	(506,040)
Investing Activities		
Expenditures on exploration and evaluation assets	(787,772)	(640,923)
Recovery of exploration and evaluation assets	13,304	22,552
Net cash used in investing activities	(774,468)	(618,371)
Financing Activities		
Proceeds from loan payable	-	160,000
Repayment of loan	-	(160,000)
Proceeds from exercise of warrants	459,225	1,637,383
Proceeds from exercise of options	13,000	-
Net cash provided by financing activities	472,225	1,637,383
Change in cash	(748,557)	512,972
Cash, beginning of year	932,315	419,343
Cash, end of year	$ 183,758	$ 932,315

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Defiance Silver Corp ("the Company") was incorporated on July 19, 2007 under the Business Corporations Act of the Province of British Columbia. The Company's principal business is the acquisition and exploration of exploration and evaluation assets. The Company's registered and records office is at 595 Burrard Street Suite 2900, Vancouver, BC, V6C 2T6. The Company's head office is at Suite 2300, 1177 West Hastings Street, Vancouver, BC, V6E 2K3.

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.

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. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements were authorized by the Board of Directors of the Company on October 26, 2017.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

ii) The carrying value and the recoverability of exploration and evaluation assets, which are included in the consolidated statements of financial position;

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

iv) The amount of deferred income taxes recognized.

(Canadian Dollars)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Critical accounting judgments

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

- the accounting policies for exploration and evaluation assets;
- classification of financial instruments; and
- determination of functional currency.

Basis of consolidation

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

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

The principal subsidiaries of the Company as of June 30, 2017 are as follows:

Name of subsidiary	Principal activity	Place of Incorporation	Ownership Interest June 30, 2017	Ownership Interest June 30, 2016
Minera Santa Remy S.A. de CV	Mineral property exploration	Mexico	100%	100%
DefCap (BVI) Inc.	Holding company	British Virgin Islands	100%	100%

Foreign exchange

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

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

Financial instruments

<u>Financial assets</u>

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

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

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

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

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

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

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

Financial liabilities

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

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

Other financial liabilities - This category includes accounts payable which are recognized at amortized cost.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets

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

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

Cash

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

Impairment

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

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

Provision for environmental rehabilitation

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Loss per share

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

Share-based compensation

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

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

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

Valuation of equity units issued in private placements

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

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

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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

(Canadian Dollars)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2017 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements, are not expected to have a material effect on the Company's future results and financial position:

- IFRS 9, Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard is effective for annual periods beginning on or after January 1, 2018.
- IFRS 15, Revenue Recognition - Revenue from Contracts with Customers establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer This standard is effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for annual period beginning on or on after January 1, 2019. The extent of the impact of adoption has not yet been determined.

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

3. CASH

Cash consists of the following:

	June 30, 2017	June 30, 2016
Cash on deposit	$ 133,758	$ 332,315
Guaranteed investment certificate	50,000	600,000
	$ 183,758	$ 932,315

(Canadian Dollars)

4. RECEIVABLES

The Company's receivables primarily arise from refundable sales tax receivable from government taxation authorities in Canada and Mexico and interest receivable on the Company's guaranteed investment certificate.

	June 30, 2017	June 30, 2016
Interest receivable	$ 69	$ -
Goods and services tax ("GST")	12,953	13,941
	$ 13,022	$ 13,941
Value added tax ("VAT")	$ 264,711	$ 243,786

5. 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.

	San Acacio Project	Minerva Property	Total
Balance, June 30, 2015	$ 1,376,568	$ 23,248	$ 1,399,816
Acquisition costs			
Property option payments	335,325	-	335,325
Exploration costs			
Claim fees	11,793	-	11,793
Camp	15,170	-	15,170
Drilling	203,243	-	203,243
Sampling and assays	12,664	-	12,664
Geology & mapping	41,705	-	41,705
	284,575	-	284,575
Balance, June 30, 2016	1,996,468	23,248	2,019,716
Acquisition costs			
Property option payments	446,741	-	446,741
Exploration costs			
Claim fees	14,571	-	14,571
Consulting fees	27,713	-	27,713
Camp	13,394	-	13,394
Drilling	358,211	-	358,211
Sampling and assays	4,021	-	4,021
Geology & mapping	14,523	-	14,523
	432,433	-	432,433
Balance, June 30, 2017	$ 2,875,642	$ 23,248	$ 2,898,890
Represented by:			
Acquisition costs	$ 1,485,775	$ 9,574	$ 1,495,349
Exploration costs	1,389,867	13,674	1,403,541
Balance, June 30, 2017	$ 2,875,642	$ 23,248	$ 2,898,890

(Canadian Dollars)

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

San Acacio Project

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

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

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

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

On July 25, 2012, the Company and the Vendors entered into an amending purchase agreement to extend the Final Payment by up to 24 months.

As per the amending agreement, the Company had the option to pay US $150,000 (paid) to extend the final payment 24 months from the date of signing the trust agreement and an additional US $225,000 (paid) to extend the final payment 36 months from the date of signing the trust agreement.

On September 26, 2014, the Company renegotiated its San Acacio purchase agreement, extending its option by an additional three years. The amended agreement required the Company to make annual payments as follows:

Date	Extension payment	Amount credited toward final payment	Total yearly payment
September 27, 2015	US$ 150,000	US$ 200,000	US$ 350,000
September 27, 2016	US$ 150,000	US$ 400,000	US$ 550,000
September 27, 2017	US$ 150,000	US$ 600,000	US$ 750,000
September 27, 2018	-	US$4,300,000	US$4,300,000

During the year ended June 30, 2016, the Company renegotiated payment terms whereas the US$350,000 payment due on September 27, 2015 will be paid in four quarterly payments of US$87,500 commencing on September 27, 2015. During the year ended June 30, 2016, the first and second instalments have been paid, and the third and fourth instalments were re-negotiated as discussed below.

During the year ended June 30, 2016, the Company also renegotiated payment terms on its San Acacio silver project purchase agreement and postponed payments of US$300,000 originally due by September 27, 2017 to September 27, 2018. Under the renegotiated agreement, the Company will pay only four quarterly payments of US$37,500 totaling US$150,000 to December 27, 2016 (paid). As at December 27, 2016, the remaining payments were:

Date	Extension payment	Amount credited toward final payment	Total yearly payment
By September 27, 2017	US$ 225,000	US$ 800,000	US$ 1,025,000
On September 27, 2018	-	US$ 4,600,000	US$ 4,600,000

(Canadian Dollars)

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

During the year ended June 30, 2017, the Company made payments of US$150,000 against the extension payment obligation and US$200,000 against the US$800,000 option payment due as of September 27, 2017.

Subsequent to year end, the Company entered into an amending agreement whereby the remaining fees of US$750,000 will be due in quarterly amounts of US$187,500 commencing September 27, 2017 (paid). As a result of the amending agreement, the new payment terms are as follows:

Date	Extension payment	Amount credited toward final payment	Total yearly payment
By June 27, 2018	US$ 150,000	US$ 600,000	US$ 750,000
On September 27, 2018	-	US$ 4,600,000	US$ 4,600,000

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

Following the first anniversary of the purchase of the Assets, the Company must make minimum annual royalty payments of US$125,000. The minimum royalty commitment terminates in the event that the production royalty paid is equal to or higher than the equivalent to the minimum that would have been due during 6 consecutive months.

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.

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, 2017, the application was still pending approval by the Mexican mining authorities.

(Canadian Dollars)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2017	June 30, 2016
Accrued liabilities	$ 313,226	$ 364,838
Trade payables	177,115	27,855
	$ 490,341	$ 392,693

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

7. LOAN PAYABLE

During the year ended June 30, 2016, the Company received loan proceeds of $160,000 from a third party. The loan bore interest of 10% per annum, was due on March 31, 2016, and was callable at any time by the lender. On April 18, 2016, the Company repaid the loan in full including interest of $5,348.

8. SHARE CAPITAL

Authorized

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

Stock options

Under the Company's rolling stock option plan, the Company may grant options, with a maximum term of ten years, for up to 10% of the Company's issued and outstanding common shares, to directors, employees and technical consultants at exercise prices to be determined by the market value on the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Incentive stock options issued have an immediate vesting term, unless vesting is imposed by the Company's board of directors.

During the year ended June 30, 2017, the Company received proceeds of $13,000 from the exercise of 130,000 stock options. The Company transferred $12,051 to share capital from share-based payment reserve.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2015	3,995,000	$ 0.19
Granted	50,000	0.10
Expired	(675,000)	0.33
Balance, June 30, 2016	3,370,000	0.15
Granted	1,060,000	0.34
Exercised	(130,000)	0.10
Expired	(460,000)	0.29
Balance, June 30, 2017	3,840,000	$ 0.19

(Canadian Dollars)

8. SHARE CAPITAL (cont'd…)

Stock options (cont'd…)

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

	2017	2016
Risk-free interest rate	1.07%	0.90%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	142.23%	146.36%
Fair value per stock option	$0.26	$0.06

The following incentive stock options were outstanding to directors, officers and employees at June 30, 2017:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
440,000	0.27	November 22, 2017	440,000	0.27
100,000	0.27	December 10, 2017	100,000	0.27
1,840,000	0.10	November 6, 2019	1,840,000	0.10
100,000	0.15	March 12, 2020	100,000	0.15
250,000	0.11	June 10, 2020	250,000	0.11
50,000	0.10	November 27, 2020	50,000	0.10
200,000	0.41	July 20, 2021	200,000	0.41
830,000	0.32	December 14, 2021	276,667	0.32
30,000	0.32	December 16, 2021	10,000	0.32
3,840,000	0.19		3,266,667	0.17

The weighted average remaining life of the stock options was 2.70 years.

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, 2017, the Company recognized $197,356 (2016 - $28,145) in share-based compensation expense for options issued in the current and previous years.

(Canadian Dollars)

8. SHARE CAPITAL (cont'd…)

Warrants

During the year ended June 30, 2017, the Company received proceeds of $459,225 from the exercise of 3,061,500 warrants.

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

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2015	30,919,050	$ 0.07
Expired	(1,075,000)	0.15
Exercised	(26,782,550)	0.06
Balance, June 30, 2016	3,061,500	0.15
Exercised	(3,061,500)	0.15
Balance, June 30, 2017	-	$ -

9. 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, 2017, accounts payable and accrued liabilities included $19,775 (2016 - $36,156) 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, 2017, the Company:

(a) paid or accrued management fees of $60,000 (2016 – $82,500) to a company controlled by the CEO, President and director of the Company.

(b) paid or accrued management fees of $Nil (2016 – $86,267) to a former officer of the Company.

(c) paid or accrued management fees of $30,000 (2016 - $30,000) to a company controlled by a director of the Company.

(d) paid or accrued management fees of $Nil (2016 - $7,500) to a former officer of the Company.

(e) paid or accrued management fees of $14,000 (2016 - $9,000) to a company controlled by the CFO of the Company.

(f) paid or accrued $Nil (2016 - $22,000) in rent expense, included in office and administration, to a company related by common directors.

(g) paid or accrued geological consulting fees of $525 (2016 - $Nil) to a director of the Company.

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of $174,167 (2016 - $14,777).

(Canadian Dollars)

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended June 30, 2017 included:

a) A balance of $109,450 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Transferred a fair value of $12,051 from share-based payments reserve to share capital on the exercise of 130,000 stock options.

Significant non-cash transactions for the year ended June 30, 2016 included:

a) A balance of $4,744 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

11. INCOME TAXES

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

		2017		2016
Loss for the year before income taxes	$	(616,580)	$	(650,501)
Expected income tax (recovery)	$	(160,000)	$	(169,000)
Change in statutory, foreign tax, foreign exchange rates and other		(3,000)		(11,000)
Permanent difference		51,000		20,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		(298,000)		351,000
Change in unrecognized deductible temporary differences		410,000		(191,000)
Total income tax expenses	$	-	$	-

The Company's deferred income tax liability relates to the new Mexican mining royalty at the rate of 7.5%, which was enacted in Mexico from January 1, 2014 on a prospective basis and applies to earning before the deduction of interest, taxes, depreciation and amortization as follows:

		2017		2016
Deferred tax liabilities				
Exploration and evaluation assets	**$**	**(36,000)**	**$**	**(36,000)**

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

		2017		2016
Deferred tax assets				
Exploration and evaluation assets	$	45,000	$	45,000
Share issue costs		1,000		3,000
Capital assets		1,000		1,000
Operating losses carried forward		1,498,000		1,086,000

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

The Company has a non-capital losses for Canadian income tax purposes of approximately $4,081,000 and for Mexican income tax purposes of approximately $1,458,000 which may be carried forward and applied against taxable income in future years. These losses, if utilized, will expire through to 2037 in Canada and in Mexico through 2027.

12. 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, 2017 and June 30, 2016 were for exploration and evaluation assets in Mexico.

13. 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, and accounts payable and accrued liabilities, 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, 2017, the Company had cash of $183,758 (2016 - $932,315) to settle current liabilities of $490,341 (2016 - $392,693). 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. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2017, the Company had a total of $50,000 (2016 - $600,000) in investment-grade short-term deposit certificates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term deposits included in cash is minimal because of the short-term nature of these investments.

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

Market risk (cont'd...)

b) Foreign currency risk

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

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals, and the stock market to determine the appropriate course of action to be taken by the Company.

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

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration 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 debt and 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.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Company

a) closed the first tranche of a non-brokered private placement by issuing 4,860,001 units at a price of $0.30 per unit for gross proceeds of $1,458,000. 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. The warrants are 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.

b) granted 300,000 stock options to an officer of the Company, exercisable at a price of $0.31 per option for a period of 5 years.

c) closed the second tranche of a non-brokered private placement by issuing 890,000 units at a price of $0.30 per unit for gross proceeds of $267,000. 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. Finder's fees of $19,440 and 64,800 finders' warrants were paid in connection with the final tranche of the private placement. Each finder's warrant entitles the holder to acquire one common share of the Company at $0.45 for 24 months. Total finder's fees of $131,160 and 437,200 warrants were paid in connection with the private placement.

d) granted 300,000 stock options to an investor relations consultant of the Company, exercisable at a price of $0.30 per option for a period of 2 years.