THEMAC Resources Group Limited

Consolidated Financial Statements

For the year ended June 30, 2020
(Expressed in Canadian dollars)

Suite 1500 – 409 Granville Street
Vancouver, BC
Canada V6C 1T2
TSXV: MAC

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
THEMAC Resources Group Limited

Opinion

We have audited the accompanying consolidated financial statements of THEMAC Resources Group Limited (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2020 and 2019, and the consolidated statements of loss and comprehensive income (loss), cash flow, and changes in shareholder's deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that The Company incurred a loss of $11,313,550 during the year ended June 30, 2020 and as at that date, the Company had a working capital deficiency of $121,066,730. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is David Harris.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

October 21, 2020

THEMAC Resources Group Limited
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT JUNE 30,

		2020		2019
ASSETS				
Current				
Cash	$	80,344	$	115,802
Receivables		717		2,132
Prepaid expenses and deposits		24,843		23,849
		105,904		141,783
Property and equipment (Note 4)		3,467,093		3,330,616
Bonds (Note 5)		199,102		202,501
Mineral property (Note 5)		36,161,367		34,688,902
Deferred exploration and evaluation (Note 5)		45,008,843		42,162,872
Total Assets	$	84,942,309	$	80,526,674
LIABILITIES				
Current				
Trade and other payables	$	443,416	$	484,762
Due to related parties (Note 9)		2,809,693		2,673,350
Property obligation (Note 7)		182,578		345,503
Loans payable - Tulla (Note 6)		117,719,121		104,714,965
Loans payable – Paycheck Protection Program (Note 6)		17,826		-
		121,172,634		108,218,580
Loans payable – Paycheck Protection Program (Note 6)		35,652		-
Property obligation (Note 7)		1,773,964		1,865,668
Asset retirement obligation (Note 5)		510,786		518,075
Total Liabilities		123,493,036		110,602,323
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 8)		19,159,411		19,159,411
Warrants (Note 8)		10,072,430		10,072,430
Share-based payment reserve (Note 8)		3,973,465		3,973,465
Foreign currency translation reserve		16,719,838		13,881,366
Deficit		(88,475,871)		(77,162,321)
Total Shareholders' Deficiency		(38,550,727)		(30,075,649)
Total Liabilities and Shareholders' Deficiency	$	84,942,309	$	80,526,674

Nature of operations and going concern (Note 1)
Subsequent event (Note 15)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

"Joel Schneyer"
Director

"Andrew Maloney"
Director

THEMAC Resources Group Limited
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JUNE 30,

	2020	2019
General Expenses		
Accounting and audit	$ 71,987	$ 96,637
Depreciation (Note 4)	4,701	9,542
Directors' fees (Note 9)	315,000	315,000
Filing fees and transfer agent fees	15,992	13,105
Finance expense (Note 6)	10,487,452	9,930,752
Foreign exchange	20,653	(3,813)
Interest on property obligation (Note 7)	73,574	121,986
Legal fees	10,186	6,892
Management fees (Note 9)	97,072	276,084
Office and sundry	220,372	330,265
Travel	17,393	55,126
Recovery of accounts payable	(20,832)	-
Loss for the year	(11,313,550)	(11,151,576)
Other comprehensive income (loss)		
Exchange differences on translating foreign operations	2,838,472	(420,270)
Total comprehensive loss	$ (8,475,078)	$ (11,571,846)
Net loss per share - basic and diluted	$ (0.11)	$ (0.14)
Weighted average number of outstanding shares - basic and diluted	79,400,122	79,400,122

See accompanying notes to the consolidated financial statements.

THEMAC Resources Group Limited
CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JUNE 30

		2020		2019
OPERATING ACTIVITIES				
Loss for the year	$	(11,313,550)	$	(11,151,576)
Add non-cash items:				
Accrued interest expense		73,574		121,986
Accretion of asset retirement obligation		12,673		13,402
Depreciation		4,701		9,542
Finance expense		10,487,452		9,930,752
Recovery of accounts payable		(20,832)		-
		(755,982)		(1,075,894)
Net change in non-cash working capital items:				
Receivables		1,415		5,618
Prepaid expenses and deposits		(18)		3,610
Trade and other payables		102,902		(117,661)
Amounts due to related parties		136,343		219,233
Cash used in operating activities		(515,340)		(965,094)
INVESTING ACTIVITIES				
Advance payments for purchase of Copper Flat		(413,250)		(1,050,196)
Deferred exploration and development expenditures		(1,240,950)		(2,083,281)
Cash used in investing activities		(1,654,200)		(3,133,477)
FINANCING ACTIVITIES				
Cash received from Tulla loan advances		2,087,400		3,963,715
Cash received from Government loan advances		54,782		-
Cash provided by financing activities		2,142,182		3,963,715
Effect of foreign exchange translation on cash		(8,100)		(8,730)
Net changes in cash position		(35,458)		(143,586)
Cash position, beginning of year		115,802		259,388
Cash position, end of year	$	80,344	$	115,802

Supplemental disclosure with respect to cash flows (Note 10)

See accompanying notes to the consolidated financial statements.

THEMAC Resources Group Limited
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIENCY
(Expressed in Canadian Dollars)

	Share capital				Foreign currency		
	Amount	Value	Warrants	Share-based payment reserve	translation reserve	Deficit	Total
Balance, June 30, 2018	79,400,122	$ 19,159,411	$ 10,072,430	$ 3,973,465	$ 14,301,636	$ (66,101,745)	$ (18,503,803)
Comprehensive loss for the year	-	-	-	-	(420,270)	(11,151,576)	(11,571,846)
Balance, June 30, 2019	79,400,122	19,159,411	10,072,430	3,973,465	13,881,366	(77,162,321)	(30,075,649)
Comprehensive loss for the year	-	-	-	-	2,838,472	(11,313,550)	(8,475,078)
Balance, June 30, 2020	79,400,122	$ 19,159,411	$ 10,072,430	$ 3,973,465	$ 16,719,838	$ (88,475,871)	$ (38,550,727)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

THEMAC Resources Group Limited ("THEMAC" or the "Company") was incorporated on February 24, 1997 under the Business Corporations Act (Yukon) by registration of its Articles of Incorporation. The Company is in the business of acquiring, exploring, and developing natural resource properties. The address of the Company's registered office is #1500 – 409 Granville Street, Vancouver, BC, V6C 1T2, Canada.

The Company has one operating segment, which is the exploration and development of its mineral property. The Company's main asset is the Copper Flat Project located in New Mexico, USA.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of $11,313,550 for the year ended June 30, 2020 and had a working capital deficiency of $121,066,730 at June 30, 2020. In addition, the Company's forecast cash requirements for the next twelve months exceeds the undrawn amount available under the Company's loan agreements with Tulla Resources Group Pty Ltd. ("Tulla") (Note 6). These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The continued support of shareholders and the ability to raise funds through the issuance of equity or debt will be required in order to enable the Company to continue and to advance the Copper Flat project. Realization values may be substantially different from carrying values, as shown, and these consolidated financial statements do not give effect to the adjustment that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for supplemental cash flow information.

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company.

These consolidated financial statements were authorized for issuance by the Company's board of directors on October 21, 2020.

2. BASIS OF PREPARATION (cont'd…)

Significant accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, income and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates and judgments.

Estimates

Accounts that require significant estimates as the basis for determining the stated amounts include the asset retirement obligation and share-based payments. Share-based payments expense is calculated using the Black-Scholes valuation model which requires significant judgment as to the consideration, such as stock option lives, forfeiture rates and stock volatility.

In estimating the asset retirement obligation provision, the Company makes assumptions about the required activities which will occur into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as decommissioning costs and techniques are subject to change, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, assumptions and estimates are made on ultimate settlement amounts in discussion with the Company's management and professional staff.

Judgments

The functional currency for the Company is the primary economic environment in which the entity operates. Management has assessed various factors including the costs of inputs and has determined the functional currency of the Company to be the Canadian dollar and its subsidiary, New Mexico Copper Corporation ("NMCC"), to be the US dollar.

The application of the Company's accounting policy for mineral property and deferred exploration and evaluation expenditures requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

An assessment of any impairment indicators for mineral properties, deferred exploration and evaluation costs is dependent upon factors such as resources, economic, and market conditions. The Company has judged that no such impairment indicators exist.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

The Company's wholly owned subsidiary, NMCC, was incorporated on June 15, 2010 in the State of New Mexico, USA.

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

On consolidation, the assets and liabilities of the Company's foreign subsidiary, NMCC, are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and its revenues and expenses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation of NMCC into Canadian dollars are recognized in other comprehensive income (loss).

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income (loss) is defined as revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as fair value through other comprehensive income and the foreign exchange amounts arising from the translation of the Company's net investment in NMCC.

Cash

Cash consists of cash held in banks.

Exploration and evaluation assets

Exploration and evaluation assets include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) to acquire mineral and exploration properties is capitalized. The amounts shown for deferred exploration and evaluation assets represent all direct costs relating to the exploration and evaluation of exploration properties, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the exploration and evaluation assets are abandoned, sold or considered impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets (cont'd…)

The Company has classified exploration and evaluation assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimates proven and probable reserves.

Ownership of exploration and evaluation assets involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for exploration and evaluation assets is dependent upon the delineation of economically recoverable ore reserves, the renewal of exploration licenses, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate the mine, and realizing profitable production or proceeds from the disposition thereof.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, initial estimates of the costs of dismantling and removing an item and restoring the site on which it is located, and, where applicable, borrowing costs.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The cost of replacing or overhauling a component of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the Company and its cost can be measured reliably.

The carrying amount of the replaced component is written off. Costs associated with routine repairs and maintenance of property and equipment are expensed as incurred.

Furniture and equipment are depreciated using a straight-line basis over their estimated useful lives of 5 – 22 years, and vehicles are depreciated over 5 years.

Depreciation methods and useful lives are reviewed at each annual reporting date and adjusted as appropriate.

Impairment of tangible and intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of tangible and intangible assets (cont'd…)

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.

Asset retirement obligation

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the decommissioning and reclamation of mine properties, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. A liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for asset retirement obligations is estimated using expected cash flows and is discounted at the applicable risk-free interest rate. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows.

In subsequent periods, the liability is adjusted for any changes in the amount or timing of the estimated future cash costs and for the accretion of discounted underlying future cash flows. The unwinding of the effect of discounting the provision is recorded as an expense in profit or loss.

Financial instruments

Financial assets

Financial assets, other than derivatives, are designated as amortized cost, fair-value-through-profit-or-loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). The Company determines the classification of its financial assets at initial recognition.

Financial assets classified as FVOCI are measured on initial recognition at fair value plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for financial assets that are considered to be impaired in which case the loss is recognized in profit or loss.

Financial assets classified as amortized cost are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest rate method. The Company's cash, receivables and bonds are classified as amortized cost.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in profit or loss. Transaction costs are expensed for assets classified as FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Trade and other payables, due to related parties, property obligation and loans payable are classified as amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of stock options is determined by the *Black-Scholes* option pricing model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options (including any estimated forfeitures). The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

Volatility is determined based on the historic closing market price of the Company's stock for a period equal to the life of the grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Loss per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

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

Deferred tax is recorded for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered the deferred tax asset is not set up.

New standards adopted during the year

IFRS 16 *Leases*

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 has been adopted by the Company effective July 1, 2019. The adoption of IFRS 16 did not have an impact on the Company's financial statements.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Land	Vehicles	Furniture and Equipment	Total
Cost				
Balance, June 30, 2018	$ 3,292,000	$ 79,417	$ 1,092,448	$ 4,463,865
Net exchange differences	(20,425)	(493)	(6,645)	(27,563)
Balance, June 30, 2019	3,271,575	78,924	1,085,803	4,436,302
Net exchange differences	138,765	3,348	45,147	187,260
Balance, June 30, 2020	$ 3,410,340	$ 82,272	$ 1,130,950	$ 4,623,562
Accumulated Depreciation				
Balance, June 30, 2018	$ -	$ 79,417	$ 1,023,547	$ 1,102,964
Depreciation	-	-	9,542	9,542
Net exchange differences	-	(493)	(6,327)	(6,820)
Balance, June 30, 2019	-	78,924	1,026,762	1,105,686
Depreciation	-	-	4,701	4,701
Net exchange differences	-	3,348	42,734	46,082
Balance, June 30, 2020	$ -	$ 82,272	$ 1,074,197	$ 1,156,469
Net Book Value				
As at June 30, 2019	$ 3,271,575	$ -	$ 59,041	$ 3,330,616
As at June 30, 2020	$ 3,410,340	$ -	$ 56,753	$ 3,467,093

5. MINERAL PROPERTY

Copper Flat Project

	Mineral property	Deferred exploration and evaluation	Total
Balance, June 30, 2018	$ 33,983,876	$ 40,271,607	$ 74,255,483
Additions	926,556	2,165,540	3,092,096
Net exchange differences	(221,530)	(274,275)	(495,805)
Balance, June 30, 2019	34,688,902	42,162,872	76,851,774
Additions	-	1,041,564	1,041,564
Net exchange differences	1,472,465	1,804,407	3,276,872
Balance, June 30, 2020	$ 36,161,367	$ 45,008,843	$ 81,170,210

Pursuant to the completion of its obligations under an acquisition agreement, the Company controls 100% of the mineral rights of the Copper Flat Project in New Mexico, USA.

The property is subject to a 3.25% net smelter return royalty, and quarterly advance royalty payments of US$50,000 (for copper prices under US$2.00/lb) or US$112,500 (for copper prices greater than US$2.00/lb).

(Expressed in Canadian Dollars)

5. MINERAL PROPERTY (cont'd…)

Copper Flat Project (cont'd…)

On September 9, 2010, the Company entered into an option agreement to acquire the water rights related to Copper Flat. The Company paid US$1,500,000 at the time of the agreement and paid a final amount of US$700,000 in the year ended June 30, 2019. However, some of these water rights have been deemed invalid by the State of New Mexico Third District Court. The Company is appealing the Court's decision and is reviewing additional options for water rights.

Bonds and deposits

As at June 30, 2020, the Company has posted bonds of $179,064 (US$131,266) (2019 – $173,404 (US$132,508)) on the Copper Flat claims and deposits of $20,038 (US$14,689) (2019 – $29,097 (US$22,235)) posted with the Bureau of Land Management pursuant to a cost recovery agreement.

Asset Retirement Obligation

The Company has an asset retirement obligation in connection with certain possible environmental liabilities resulting from work done at the Copper Flat project.

	2020	2019
Balance, beginning of the period	$ 518,075	$ 440,013
Finance expense	12,673	13,402
Change in estimates	(40,894)	68,318
Net exchange differences	20,932	(3,658)
Balance, end of the period	$ 510,786	$ 518,075

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is US$406,442 (2019 - US$406,442) which has been discounted using a pre-tax risk-free rate of 1.18% (2019 – 2.57%) and an inflation rate of 0.60% (2019 – 2.22%). The present value of the decommissioning liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

6. LOANS PAYABLE

Tulla Loans

	Principal	Finance Expense	Total
Balance, June 30, 2018	$ 47,161,203	$ 43,739,840	$ 90,901,043
Additions - CAD Loan	-	-	-
Additions - USD Loan	3,963,715	9,930,752	13,894,467
Net exchange differences	(65,600)	(14,945)	(80,545)
Balance, June 30, 2019	51,059,318	53,655,647	104,714,965
Additions - USD Loan	2,087,400	10,487,452	12,574,852
Net exchange differences	340,708	88,596	429,304
Balance, June 30, 2020	$ 53,487,426	$ 64,231,695	$ 117,719,121

The Company's subsidiary, NMCC, has a loan agreement (the "CAD Loan") with Tulla, a firm that invests in natural resources. Mr. Kevin Maloney, who is Chairman of THEMAC is also director of Tulla. The CAD Loan has a maximum facility of $44,500,000 and bears interest at 20% per annum. The CAD Loan can be repaid by the Company at any time without penalty, is unsecured and is payable on demand. Tulla has not made demand for payment. The Company has drawn $43,838,077 against the CAD Loan facility.

NMCC has entered into an additional loan agreement with Tulla (the "USD Loan") denominated in US dollars. The USD Loan has a maximum facility of US$7,500,000 and bears interest at 20% per annum. The USD Loan is unsecured and is payable on demand. The Company has drawn US$7,073,598 against the USD Loan facility as at June 30, 2020. Subsequent to June 30, 2020, the Company drew down a further US$486,950 on the USD Loan and extended the facility to US$8,000,000.

The Company has provided a guarantee of the repayment of the CAD and USD Loans on behalf of NMCC.

Paycheck Protection Program

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted to provide financial aid to family and businesses impacted by the COVID-19 pandemic. The Company participated in the CARES Act, and on May 4, 2020, the Company entered into a note payable with a bank under the Small Business Administration ("SBA"), Paycheck Protection Program ("PPP") in the amount of US$39,203. This note payable matures on May 3, 2022 with a fixed interest rate of 1% per annum with interest deferred for six months. The PPP loan has an initial term of two years, is unsecured and guaranteed by the SBA. Under the terms of the PPP note, the Company may apply for forgiveness of the amount due on the PPP loan. The Company used the proceeds from the PPP loan for qualifying expenses as defined in the PPP. The Company intends to apply for forgiveness of the PPP loan in accordance with the terms of the Cares Act. However, the Company cannot assure at this time that the PPP loan will be forgiven partially or in full. If the loan is not forgiven based on the PPP guidelines to be issued by the SBA, as defined, then, the monthly payment amount will be $1,651 beginning on November 1, 2020 through May 3, 2022. The current portion of the PPP loan is $17,826 (US$13,068) and the long-term portion is $35,652 (US$26,135).

(Expressed in Canadian Dollars)

7. PROPERTY OBLIGATION

During the year ended June 30, 2013, the Company entered into an agreement, as subsequently amended, ("Fancher Agreement") with a local rancher to purchase 1,220 acres of land within the Copper Flat Project area.

The total purchase price of the land is US$2,500,000 ("Purchase Price") with interest accruing at a rate of 3.5%, adjusted to changes in LIBOR, per year on the Purchase Price less installments paid to date.

The Purchase Price has been scheduled by installments. The Company paid US$325,000 (the "Initial Payment") at the inception of the Fancher Agreement and has made annual payments of US$125,000, plus accrued interest, on the second, third and fourth anniversaries of the Initial Payment. The balance of US$1,800,000 ("Final Payment") was scheduled for payment on or before the fifth anniversary of the Initial Payment.

If the Company has not, before the fifth anniversary of the Initial Payment, obtained all permits and approvals it deems necessary for the commercial operation of the Copper Flat Project, the Final Payment may be deferred for not more than five additional years if the Company makes ongoing annual installments of US$125,000 until the Final Payment (which will be reduced by the additional installments) and is making satisfactory progress toward obtaining such permits. As the Company had not currently obtained all permits and approvals deemed necessary for the commercial operation of the Copper Flat Project, nor has the Company obtained such permits and approvals by the fifth anniversary date (May 1, 2018), the Company has elected to defer the Final Payment by making the annual installments of US$125,000 by the fifth anniversary and subsequent anniversaries, until the earlier of the expiration of the Fancher Agreement, or such time that the permits and approvals are obtained. The Final Payment has been reduced by installment payments to a balance of US$1,425,000 (2019 – US$1,675,000).

	2020	2019
Balance, beginning of the period	$ 2,211,171	$ 2,225,371
Payment – principal	(332,777)	-
Payment – interest	(81,037)	(123,640)
Accrued interest	73,574	121,986
Net exchange differences	85,611	(12,546)
Balance, end of the period	1,956,542	2,211,171
Payable within the next fiscal year	(182,578)	(345,503)
Long-term portion	$ 1,773,964	$ 1,865,668

If the Company fails to make any payment under the terms of the Fancher Agreement, the vendors may issue notice of default which allows for a 30-day remedy period. If the period lapses without remedy, the vendors may elect to terminate the agreement, retain all payments made to date under the agreement and retain the land.

(Expressed in Canadian Dollars)

8. EQUITY

a) Authorized share capital

Unlimited common shares without par value.

b) Issued and fully paid

The Company did not complete any private placements during the year ended June 30, 2020 or 2019.

c) Stock options

The Company has adopted a formal stock option plan (the "Plan"). The Plan is a fixed plan and reserves up to 15,880,024 common shares for issuance at the time of the grant of a stock option under the Plan. Stock options can be granted for a term not to exceed ten years. Stock options are granted with an exercise price in accordance with the TSX Venture Exchange policy.

The continuity of stock options is as follows:

	Options outstanding	Weighted average exercise price
Balance on June 30, 2018	14,025,194	$ 0.05
Forfeit	(360,450)	0.05
Balance outstanding and exercisable June 30, 2019 and 2020	13,664,744	$ 0.05

Stock options outstanding and exercisable as at June 30, 2020 are as follows:

Options	Weighted average exercise price	Expiry date
9,216,744	$ 0.05	August 22, 2022
4,448,000	$ 0.05	September 12, 2022

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

Management Compensation

Key management personnel of the Company include the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Corporate Secretary and Directors of the Company.

The aggregate of amounts paid or accrued to parties not at arm's length to the Company for the year ended June 30, 2020 and 2019 consist of the following:

	2020	2019
Amounts paid or accrued to key management personnel:		
Cash compensation and accrued bonuses – expensed	$ 69,123	$ 249,444
Cash compensation and accrued bonuses – capitalized to deferred exploration and evaluation assets	276,486	269,900
Directors' fees	315,000	315,000
Related party transactions:		
Advances received on Tulla loans (Note 6)	2,087,400	3,963,715
Interest accrued on Tulla loans (Note 6) (unpaid)	10,487,452	9,930,752
Fees paid or accrued to Peacock Law, P.C., a law firm owned by a director	15,110	129,121

Amounts due to related parties consist of amounts due for expense reimbursements and accrued fees for compensation disclosed above. Amounts are non-interest bearing and due on demand.

In the year ended June 30, 2019, the Company entered into settlement agreements with the CEO, COO and key employees with respect to past bonuses accrued and owing. The Company has approved long term bonus agreements which allow for the settlement of US$917,406 of accrued bonuses with an immediate cash payment of US$28,812 (paid) and the balance of US$888,594, in a combination of cash and shares, in the event the Company completes an equity financing of not less than US$10,000,000. In the event the Company completes a sale transaction of not less than 50% of the Company's equity or interest in NMCC, the balance of US$888,594 will be settled in cash. The agreements expire in 5 years at which time any unpaid obligations will also expire. The liabilities have been recorded in prior periods.

In the year ended June 30, 2020, the Company recognized a recovery of US$88,686 against accrued bonuses due to the departure of certain employees of which US$73,163 was recovered against deferred exploration expenditures. The balance accrued and included in accounts payable due to related parties as at June 30, 2020 is $1,091,184 (2019 - $1,162,841).

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the years ended June 30, 2020 and 2019, the Company entered into the following non-cash transactions:

- Investing cashflows on the Copper Flat exploration and evaluation expenditures have been adjusted for amounts included in accounts payable and accrued liabilities of $247,719 (2019 - $321,225) and $839,594 (2019 - $901,174) included due to related parties.
- Recognized a recovery of $98,185 (2019 - $Nil) of accounts payable through exploration and evaluation expenditures.
- Recognized a recovery of $41,461 (2019 – expense of $68,318) against deferred Copper Flat exploration and evaluation expenditures for the adjustment of asset retirement obligations.

(Expressed in Canadian Dollars)

11. INCOME TAXES

A reconciliation between expense (recovery) and the product of accounting loss multiplied by the Company's domestic tax rate for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Statutory tax rate	27.00%	27.00%
Loss before income taxes	$ (11,313,550)	$ (11,151,576)
Expected income tax recovery	$ (3,055,000)	$ (3,011,000)
Foreign income tax rate difference, change in foreign exchange rates and other	11,000	204,000
Non-deductible items	2,691,000	2,549,000
Change in estimates	107,000	49,000
Changes in benefits not recognized	246,000	209,000
Income tax expense (recovery)	$ -	$ -

The components of deferred income tax assets and liabilities are:

	2020	2019
Non-capital losses	$ 5,876,000	$ 4,657,000
Start-up costs	1,171,000	1,125,000
Asset retirement obligation	131,000	133,000
Deferred exploration and evaluation	(7,234,000)	(5,984,000)
Equipment	56,000	69,000
	$ -	$ -

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Company has not recognized deferred tax assets on the following items:

	2020	2019
Non-capital losses	$ 4,743,000	$ 4,497,000
Mineral property	590,000	590,000
Other	7,000	7,000
	$ 5,340,000	$ 5,094,000

The Company has approximately $2,185,000 in foreign exploration development expenses in the Canadian entity, and $16,817,000 in mine development costs in the US entity, available for carry-forward, which may, subject to certain restrictions, be available to offset against future taxable income. The Company also has approximately $41,215,000 in non-capital losses available for carry-forward, of which $33,627,000 expire through 2040 and $4,270,000 will carry forward indefinitely.

The Company has recognized a provision of $112,000 (2019 - $112,000) for a potential withholding tax liability in accounts payable and accrued liabilities. The Company is in the process of reviewing its tax position.

12. SEGMENTED INFORMATION

The Company operates in one business segment which is the exploration of its mineral property in New Mexico, USA. The Company's non-current assets are located in the United States of America.

13. CAPITAL DISCLOSURES

The Company considers its loans payable and share capital as capital. The Company's objective when managing capital is to maintain a flexible capital structure for the benefit of its shareholders. The Company's main source of funds is from drawdowns on its loans from Tulla and the issuance of common shares.

The Company keeps its cash only in chequing accounts with major Canadian, Australian and US institutions of high credit worthiness. At June 30, 2020, the Company had cash of $80,344 (2019 - $115,802).

The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended June 30, 2020.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, bonds, trade and other payables, amounts due to related parties, loans payable and property obligation. The fair value of cash, receivables, bonds, trade and other payables, due to related parties and loans payable approximate their carrying values due to their short-term nature.

The property obligation is carried at amortized cost. The fair value of the property obligation approximates its carrying value as it reflects the amount payable as at the reporting date to discharge the liability.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Currency Risk

The Company is subject to currency risks. The Company's Copper Flat project is located in the United States of America, and many of the Company's expenditures on this project are denominated in US dollars. The Company maintains its principal office in Canada, and has monetary assets and liabilities in Canadian and US dollars. The currency exchange rate between the US and Canadian dollars fluctuated from a low of US$0.69 to a high of US$0.77 for CAD$1 during the year ended June 30, 2020. The Company has estimated that a change of 10% in the currency rate could affect the total comprehensive income (loss) by approximately $8,088,592. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and operating results of the Company. The Company has not undertaken to mitigate foreign currency risk at this time, and does not use derivative instruments to reduce its exposure to currency risk.

14. FINANCIAL INSTRUMENTS (cont'd…)

Interest rate and credit risk

The Company has a cash balance, receivables, trade and other payables, amounts due to related parties, loans payable (Note 6) and property obligation (Note 7). Amounts owed to related parties, excluding the loans payable, do not bear interest, and, therefore, these amounts are not exposed to interest rate variations. The loans payable bear an interest rate of 20% per annum on outstanding amounts. The property obligation bears interest at a rate of 3.5% per annum adjusted for fluctuations in LIBOR. While changes in LIBOR were insignificant in the period presented, it is possible that adjustments in the future could be significant.

Receivables typically consist of Canadian Goods and Services Tax ("GST") due from the Federal Government of Canada. Management believes that the credit risk with respect to receivables is remote. In addition, the Company is satisfied with the credit rating of the banks where the cash is held.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of trade and other payables, due to related parties, loans payable and property obligation. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and future obligations compared to the Company's current cash position and expected cash receipts. The objective of the Company is to manage its liquidity risk by maintaining sufficient cash to meet its anticipated operational needs. Due to the relatively low cash position of the Company, the Company is exposed to liquidity risk.

The Company has identified the outstanding Tulla Loans and negative working capital position as a significant liquidity risk to the Company. Tulla has not made demand for payment of the Loans to date.

15. SUBSEQUENT EVENT

Subsequent to June 30, 2020, the Company drew down a further US$486,950 on the USD Loan and extended the facility to US$8,000,000 from the existing facility of US$7,500,000 (Note 6).