# THEMAC Resources Group Limited

## Consolidated Financial Statements

**June 30, 2015**
(Expressed in Canadian dollars)

Suite 700 – 510 West Hastings Street
Vancouver, BC
Canada V6B 1L8
TSXV: MAC

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
THEMAC Resources Group Limited

We have audited the accompanying consolidated financial statements of THEMAC Resources Group Limited, which comprise the consolidated statements of financial position as at June 30, 2015 and 2014 and the consolidated statements of loss and comprehensive income (loss), cash flows, and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

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



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***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of THEMAC Resources Group Limited as at June 30, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

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

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

October 23, 2015

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

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 322,108 | $ 57,981 |
| Receivables | 2,914 | 1,926 |
| Prepaid expenses and deposits (Note 4) | 64,228 | 66,601 |
| | 389,250 | 126,508 |
| Property and equipment (Note 5) | 3,895,818 | 3,427,433 |
| Bonds (Note 6) | 444,354 | 345,142 |
| Mineral property (Note 6) | 32,236,082 | 27,550,390 |
| Deferred exploration and evaluation (Note 6) | 30,425,231 | 24,131,854 |
| Total Assets | $ 67,390,735 | $ 55,581,327 |
| **LIABILITIES** | | |
| **Current** | | |
| Trade and other payables | $ 487,701 | $ 315,550 |
| Due to related parties (Note 10) | 625,466 | 843,669 |
| Property obligation (Note 8) | 170,856 | 227,858 |
| Loan payable (Note 7) | 55,107,451 | 44,256,489 |
| | 56,391,474 | 45,643,566 |
| Property obligation (Note 8) | 2,404,065 | 2,188,580 |
| Asset retirement obligation (Note 6) | 415,470 | 173,243 |
| Total Liabilities | 59,211,009 | 48,005,389 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 9) | 19,159,411 | 19,014,011 |
| Warrants (Note 9) | 10,072,430 | 10,072,430 |
| Share-based payment reserve (Note 9) | 3,680,993 | 3,646,717 |
| Foreign currency translation reserve | 11,149,899 | 2,122,443 |
| Deficit | (35,883,007) | (27,279,663) |
| Total Shareholders' Equity | 8,179,726 | 7,575,938 |
| Total Liabilities and Shareholders' Equity | $ 67,390,735 | $ 55,581,327 |

Nature of operations and going concern (Note 1)
Subsequent events (Note 16)

*See accompanying notes to the consolidated financial statements.*

On behalf of the Board of Directors:

*"Joel Schneyer"*
Director

*"Kenneth Pickering"*
Director

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

| | 2015 | 2014 |
|---|---|---|
| **General Expenses** | | |
| Accounting and audit | $ 134,151 | $ 99,048 |
| Depreciation (Note 5) | 31,157 | 38,201 |
| Directors' fees (Note 10) | 350,000 | 335,000 |
| Filing fees and transfer agent fees | 17,960 | 26,120 |
| Finance expense (Note 7) | 6,879,738 | 6,254,552 |
| Gain on disposal of equipment (Note 5) | - | (406) |
| Interest on property obligation (Note 8) | 88,529 | 82,092 |
| Investor communications | 12,979 | 156,912 |
| Legal fees | 46,331 | 57,346 |
| Management fees | 240,451 | 361,001 |
| Office and sundry | 754,542 | 752,448 |
| Share-based payments (Note 9) | - | 216,107 |
| Travel | 47,506 | 209,745 |
| **Loss before income taxes** | (8,603,344) | (8,588,166) |
| Deferred tax recovery (Note 12) | - | 412,410 |
| **Loss for the year** | (8,603,344) | (8,175,756) |
| **Other comprehensive income (loss)** | | |
| Exchange differences on translating foreign operations, net of tax of $Nil (2014 - $412,410) | 9,027,456 | 389,287 |
| **Total comprehensive income (loss)** | $ 424,112 | $ (7,786,469) |
| Net loss per share - basic and diluted | $ (0.11) | $ (0.11) |
| Weighted average number of outstanding shares - basic and diluted | 77,838,566 | 75,679,949 |

*See accompanying notes to the consolidated financial statements.*

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

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Loss for the year | $ | (8,603,344) | $ | (8,175,756) |
| Add non-cash items: | | | | |
| Accrued interest expense | | 88,529 | | 82,092 |
| Depreciation | | 31,157 | | 38,201 |
| Gain on disposal of equipment | | - | | (406) |
| Share-based payments | | - | | 216,107 |
| Finance expense | | 6,888,705 | | 6,254,552 |
| Deferred tax recovery | | - | | (412,410) |
| | | (1,594,953) | | (1,997,620) |
| Net change in non-cash working capital items: | | | | |
| Receivables | | (988) | | 50,917 |
| Prepaid expenses and deposits | | 10,097 | | (5,617) |
| Trade and other payables | | 276,725 | | (183,238) |
| Amounts due to related parties | | (218,203) | | 500,256 |
| Payables related to deferred exploration and evaluation | | (159,753) | | 319,750 |
| **Cash used in operating activities** | | (1,687,075) | | (1,315,552) |
| **INVESTING ACTIVITIES** | | | | |
| Deferred exploration and development expenditures | | (1,586,286) | | (2,180,201) |
| Payment pursuant to property obligation | | (338,023) | | - |
| Proceeds on disposal of property and equipment | | - | | 12,241 |
| Bonds on Copper Flat Project | | (91,899) | | 150,954 |
| **Cash used in investing activities** | | (2,016,208) | | (2,017,006) |
| **FINANCING ACTIVITIES** | | | | |
| Cash received from loan advances | | 3,971,224 | | 2,911,775 |
| **Cash provided by financing activities** | | 3,971,224 | | 2,911,775 |
| **Effect of foreign exchange translation on cash** | | (3,814) | | 15,854 |
| **Net changes in cash position** | | 264,127 | | (404,929) |
| Cash position, beginning of year | | 57,981 | | 462,910 |
| **Cash position, end of year** | $ | 322,108 | $ | 57,981 |

Supplemental disclosure with respect to cash flows (Note 11)

*See accompanying notes to the consolidated financial statements.*

**THEMAC Resources Group Limited**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*(Expressed in Canadian Dollars)*

| | Amount | Value | Warrants | Share-based payment reserve | Foreign currency translation reserve | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, June 30, 2013 | 75,300,122 | $ 18,906,731 | $ 10,072,430 | $ 3,235,203 | $ 1,733,156 | $ (19,103,907) | $ 14,843,613 |
| Shares issued for debt (Note 10) | 1,192,000 | 107,280 | - | - | - | - | 107,280 |
| Share-based payments | - | - | - | 411,514 | - | - | 411,514 |
| Comprehensive loss for the year | - | - | - | - | 389,287 | (8,175,756) | (7,786,469) |
| Balance, June 30, 2014 | 76,492,122 | 19,014,011 | 10,072,430 | 3,646,717 | 2,122,443 | (27,279,663) | 7,575,938 |
| Shares issued for debt (Note 10) | 2,908,000 | 145,400 | - | - | - | - | 145,400 |
| Share-based payments | - | - | - | 34,276 | - | - | 34,276 |
| Comprehensive income for the year | - | - | - | - | 9,027,456 | (8,603,344) | 424,112 |
| Balance, June 30, 2015 | 79,400,122 | $ 19,159,411 | $ 10,072,430 | $ 3,680,993 | $ 11,149,899 | $ (35,883,007) | $ 8,179,726 |

*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 #700 – 510 West Hastings Street, Vancouver, BC, V6B 1L8, Canada.

The Company has one operating segment, which is the exploration and development of its mineral property. The Company's assets are distributed in two geographic regions, Canada and the United States of America; however the assets in Canada are not significant.

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 $8,603,344 for the year ended June 30, 2015, and had a working capital deficiency of $56,002,224 at June 30, 2015. In addition, the Company's forecast cash requirements for the next twelve months exceeds the undrawn amount available under the Company's loan agreement with Tulla Resources Group Pty Ltd. ("Tulla") (see Notes 7 and 16). 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 develop 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.

## 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

The 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 23, 2015.

## 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.

Accounts that require significant estimates as the basis for determining the stated amounts include mineral properties, deferred exploration and evaluation, 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; a detailed disclosure of management's estimates with respect to the pricing model is found in Note 9.

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.

The most significant judgment relates to determination of the functional currency for both the Company and its wholly owned foreign subsidiary. Management has assessed various factors including the costs of inputs and has determined the functional currency of its subsidiary, New Mexico Copper Corporation ("NMCC"), to be the US Dollar.

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 exists.

## 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### 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.

### 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 available-for-sale 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 or sold.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### 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 a pre-tax rate specific to the liability. 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 the consolidated statements of loss and comprehensive loss.

### Financial assets

Financial assets, other than derivatives, are designated as available-for-sale, loans and receivables or as at fair-value-through-profit-or-loss ("FVTPL"). The Company determines the classification of its financial assets at initial recognition.

Financial assets classified as available-for-sale 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 net income or loss.

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

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in income or loss. Transaction costs are expensed for assets classified as FVTPL. The Company's cash is classified as FVTPL.

### 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 loan payable are classified as other liabilities, which are measured at 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 net income or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### 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.

### Income taxes

Any tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below:

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Income taxes** (cont'd…)

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. To the extent that an asset not previously recognised fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*(Expressed in Canadian Dollars)*

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### New standards, interpretations and amendments adopted

As of July 1, 2014, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards. The Company has adopted these new and amended standards without any significant effect on its financial statements.

- IAS 32 (Amendment) — New standard that clarifies requirements for offsetting financial assets and financial liabilities.
- IAS 36 (Amendment) — This amendment addresses the disclosure of information regarding the recoverable amount of impairment assets as the amount is based on fair value less costs of disposal.
- IFRIC 21 — This is an interpretation of IAS 37, *Provisions, contingent liabilities and contingent assets*. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event, known as an obligating event. The interpretation clarifies that the obligation event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

### New standards not yet adopted

IFRS 9 *Financial Instruments (Revised)*

IFRS 9 was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 *Financial instruments: recognition and measurement*. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's financial instruments has not yet been determined.

## 4. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits are integrated as follows:

| | 2015 | 2014 |
|---|---|---|
| Advances to vendors and contractors related to the mineral property | $ 17,776 | $ 16,674 |
| Advances to other vendors and contractors | 6,982 | - |
| Prepaid insurance | 23,457 | 28,634 |
| Lease and rent deposits | 16,013 | 21,293 |
| | $ 64,228 | $ 66,601 |

*(Expressed in Canadian Dollars)*

## 5. PROPERTY AND EQUIPMENT

| | Land | Vehicles | Furniture and Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, June 30, 2013 | $ 2,522,880 | $ 84,880 | $ 883,434 | $ 3,491,194 |
| Additions | 104,385 | - | - | 104,385 |
| Disposals and refunds | - | (22,740) | (7,337) | (30,077) |
| Net exchange differences | 41,735 | 2,248 | 13,663 | 57,646 |
| Balance, June 30, 2014 | 2,669,000 | 64,388 | 889,760 | 3,623,148 |
| Net exchange differences | 453,500 | 10,940 | 147,546 | 611,986 |
| Balance, June 30, 2015 | $ 3,122,500 | $ 75,328 | $ 1,037,306 | $ 4,235,134 |
| **Accumulated Depreciation** | | | | |
| Balance, June 30, 2013 | $ - | $ 27,044 | $ 70,412 | $ 97,456 |
| Depreciation | - | 15,331 | 92,104 | 107,435 |
| Disposals | - | (10,905) | - | (10,905) |
| Net exchange differences | - | 875 | 854 | 1,729 |
| Balance, June 30, 2014 | - | 32,345 | 163,370 | 195,715 |
| Depreciation | - | 14,161 | 92,931 | 107,092 |
| Net exchange differences | - | 6,400 | 30,109 | 36,509 |
| Balance, June 30, 2015 | $ - | $ 52,906 | $ 286,410 | $ 339,316 |
| **Net Book Value** | | | | |
| As at June 30, 2014 | $ 2,669,000 | $ 32,043 | $ 726,390 | $ 3,427,433 |
| As at June 30, 2015 | $ 3,122,500 | $ 22,422 | $ 750,896 | $ 3,895,818 |

Depreciation of $75,935 (2014 - $69,234) has been capitalized to deferred exploration and evaluation expenditures.

*(Expressed in Canadian Dollars)*

## 6. MINERAL PROPERTY

### Copper Flat Project

| | Mineral property | Deferred exploration and evaluation | Total |
|---|---|---|---|
| Balance, June 30, 2013 | $ 27,126,767 | $ 21,712,810 | $ 48,839,577 |
| Additions | - | 2,078,133 | 2,078,133 |
| Net exchange differences | 423,623 | 340,911 | 764,534 |
| Balance, June 30, 2014 | 27,550,390 | 24,131,854 | 51,682,244 |
| Additions | - | 2,102,547 | 2,102,547 |
| Net exchange differences | 4,685,692 | 4,190,830 | 8,876,522 |
| Balance, June 30, 2015 | $ 32,236,082 | $ 30,425,231 | $ 62,661,313 |

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 $2.00/lb).

On September 9, 2010, the Company entered into an option agreement to acquire the water rights related to Copper Flat. The Company has paid US$1,500,000 in connection with the agreement and is required to pay US$700,000 within 60 days after the Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department issues a permit for the commercial operation of the mine, or on August 1, 2018, whichever occurs first.

### Bonds and deposits

As at June 30, 2015, the Company has posted bonds of $330,537 (US$264,642) (2014 – $198,964 (US$186,366)) in connection with the drilling permits for Copper Flat and deposits of $113,817 (US$91,126)(2014 - $146,178 (US$136,922)) posted with the Bureau of Land Management pursuant to a cost recovery agreement.

### Asset Retirement Obligation

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

| | 2015 | 2014 |
|---|---|---|
| Balance, beginning of the year | $ 173,243 | $ 258,128 |
| Additions | - | (89,147) |
| Change in estimate | 200,018 | - |
| Net exchange differences | 42,209 | 4,262 |
| Balance, end of the year | $ 415,470 | $ 173,243 |

*(Expressed in Canadian Dollars)*

## 7. LOAN PAYABLE

| | Principal | Finance Expense | Total |
|---|---|---|---|
| Balance, June 30, 2013 | $ 29,637,683 | $ 5,452,479 | $ 35,090,162 |
| Additions | 2,911,775 | 6,254,552 | 9,166,327 |
| Balance, June 30, 2014 | 32,549,458 | 11,707,031 | 44,256,489 |
| Additions | 3,971,224 | 6,879,738 | 10,850,962 |
| Balance, June 30, 2015 | $ 36,520,682 | $ 18,586,769 | $ 55,107,451 |

The Company has a loan agreement (the "Loan") with Tulla, a firm that invests in natural resources. Mr. Kevin Maloney, who is Chairman of THEMAC is also director of Tulla. The Loan bears interest at 20% per annum. The Loan can be repaid by the Company at any time without penalty, and is payable on demand. Tulla has not made demand for payment.

The Loan has a maximum principal amount of $36,600,000. As at June 30, 2015, the undrawn balance available is $79,318. Subsequent to June 30, 2015, the Company and Tulla have extended the Loan to a maximum principal amount of $37,900,000.

## 8. 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 land is subject to a grazing lease which expires in 2015 and may be terminated with 30 days' written notice.

The total purchase price of the land is US$2,500,000 ("Purchase Price") of which US$325,000 (the "Initial Payment") was paid during the year ended June 30, 2013. The Company will pay installments of US$125,000 on the second, third and fourth anniversaries of the Initial Payment and the balance of US$1,800,000 ("Final Payment") on or before the fifth anniversary of the Initial Payment. In the year ended June 30, 2015, the Company paid US$125,000 plus accrued interest pursuant to the second anniversary payment.

Interest accrues at a rate of 3.5%, adjusted to changes in LIBOR, per year on the Purchase Price less installments paid to date.

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.

*(Expressed in Canadian Dollars)*

## 8. PROPERTY OBLIGATION (cont'd…)

| | 2015 | 2014 |
|---|---|---|
| Balance, beginning of the year | $ 2,416,438 | $ 2,193,580 |
| Recognition of property obligation | - | 104,385 |
| Payment | (325,499) | - |
| Accrued interest | 88,529 | 82,092 |
| Net exchange differences | 395,453 | 36,381 |
| Balance, end of the year | 2,574,921 | 2,416,438 |
| Payable within the next fiscal year | (170,856) | (227,858) |
| Long-term portion | $ 2,404,065 | $ 2,188,580 |

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.

## 9. 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 years ended June 30, 2015 or June 30, 2014.

### c) Warrants

| | Warrants outstanding | Weighted average exercise price |
|---|---|---|
| Balance, June 30, 2013, June 30, 2014 and June 30, 2015 | 50,500,000 | $0.33 |

Warrants outstanding and exercisable as at June 30, 2015 are as follows:

| Grant date | Warrants outstanding | Weighted average exercise price | Expiry date |
|---|---|---|---|
| March 4, 2011 | 10,500,000 | $0.28 | March 4, 2016 |
| March 4, 2011 | 40,000,000 | $0.34 | March 4, 2016 |
| | 50,500,000 | $0.33 | |

*(Expressed in Canadian Dollars)*

**9. EQUITY** (cont'd…)

**e) Stock options**

The Company has adopted a formal stock option plan (the "Plan"). The Plan is a fixed plan and reserves up to 15,298,424 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, 2013 | 7,530,012 | $ 0.47 |
| Granted | 7,392,857 | 0.07 |
| Re-priced | 3,532,515 | 0.15 |
| Forfeited and expired | (5,509,147) | 0.57 |
| Balance on June 30, 2014 | 12,946,237 | 0.11 |
| Granted | 495,835 | 0.05 |
| Forfeited and expired | (746,467) | 0.12 |
| Balance outstanding and exercisable, June 30, 2015 | 12,695,605 | $ 0.11 |

Stock options outstanding and exercisable as at June 30, 2015 are as follows:

| Options | Weighted average exercise price | Expiry date |
|---|---|---|
| 258,983 | $ 0.51 | March 4, 2016 |
| 108,628 | 0.60 | March 4, 2016 |
| 1,271,726 | 0.15 | March 4, 2016 |
| 367,611 | 0.07 | March 4, 2016 |
| 200,000 | 0.15 | March 27, 2016 |
| 200,000 | 0.15 | May 6, 2016 |
| 75,000 | 0.15 | December 21, 2016 |
| 650,789 | 0.15 | August 24, 2017 |
| 200,000 | 0.15 | January 10, 2018 |
| 500,000 | 0.15 | February 14, 2018 |
| 350,920 | 0.07 | June 30, 2018 |
| 1,653,254 | 0.10 | June 30, 2018 |
| 495,835 | 0.05 | June 30, 2018 |
| 6,362,861 | 0.07 | April 24, 2019 |
| 12,695,605 | $ 0.15 | |

*(Expressed in Canadian Dollars)*

## 9. EQUITY (cont'd…)

### e) Stock options (cont'd…)

During the year ended June 30, 2014, the Company re-priced 3,900,126 stock options having an exercise price of $0.37 to $0.68 per share to a weighted average exercise price of $0.14 per share. The re-pricing of options led to additional share-based payments expense of $75,993. The weighted average assumptions used for the Black-Scholes valuation of re-priced options were annualized volatility of 138.97%, risk-free interest rate of 1.22%, expected life of 2.63 years and a dividend rate of Nil%.

### f) Share-based payments

During the year ended June 30, 2015, the Company granted 495,835 options (2014 – 7,392,857) and recognized total share-based payments for options granted, vested and cancelled in the year of $34,276 (2014 - $411,514). Inclusive of the stock option re-pricing, share-based payments expense of $Nil (2014 - $216,107) was recognized in the statement of comprehensive loss and $34,276 (2014 - $195,407) was capitalized to exploration and evaluation assets.

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

| | 2015 | 2014 |
|---|---|---|
| Risk-free interest rate | 0.94% | 1.09% |
| Expected life of options | 2.3 years | 2.18 years |
| Annualized volatility | 181.76% | 181.18% |
| Dividend rate | 0.00% | 0.00% |

## 10. PAYMENTS TO KEY MANAGEMENT PERSONNEL AND RELATED PARTY TRANSACTIONS

### Management Compensation

The aggregate of amounts paid or accrued to parties not at arm's length to the Company for the years ended June 30, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Payments to key management personnel: | | |
| Cash compensation | $ 489,438 | $ 636,179 |
| Stock-based compensation granted to senior management | 34,276 | 351,481 |
| Directors' fees | 350,000 | 335,000 |
| Related party transactions: | | |
| Advances received on Tulla loan (Note 7) | 3,971,224 | 2,911,775 |
| Interest accrued on Tulla loan (Note 7) (no payments made) | 6,879,738 | 6,254,552 |

During the year ended June 30, 2015, the Company issued 2,908,000 shares to six directors of the Company to settle $145,400 in accrued directors' fees.

During the year ended June 30, 2014, the Company issued 1,192,000 shares to five directors of the Company to settle $107,280 in accrued directors' fees.

*(Expressed in Canadian Dollars)*

## 10. PAYMENTS TO KEY MANAGEMENT PERSONNEL AND RELATED PARTY TRANSACTIONS (cont'd…)

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.

## 11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the year ended June 30, 2015, the Company entered into the following non-cash transactions:

- Incurred $266,479 (2014 - $106,726) of deferred Copper Flat exploration and evaluation expenditures through trade and other payables.
- Incurred $34,276 (2014 - $195,407) of deferred Copper Flat exploration and evaluation expenditures through share-based payments.
- Recognized $Nil (2014 - $89,147) of deferred Copper Flat exploration and evaluation expenditures through the accrual of asset retirement obligations.
- Issued 2,908,000 (2014 – 1,192,000) common shares to settle accrued directors' fees of $145,400 (2014 - $107,280).
- Incurred $191,051 (2014 - $104,385) of property and equipment acquisition costs through accrued property obligation.
- Recognized depreciation of $75,935 (2014 - $69,234) in deferred Copper Flat exploration and evaluation expenditures.
- Reclassified prepaid expenses of $Nil (2014 - $146,178) to long-term bonds and deposits.

## 12. 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, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Statutory tax rate | 26.00% | 25.25% |
| Loss before income taxes | $ (8,603,344) | $ (8,588,166) |
| Expected income tax recovery | $ (2,236,920) | $ (2,168,526) |
| Effect of income tax rate changes | 128,932 | (146,899) |
| Foreign income tax rate difference | (849,924) | (148,296) |
| Non-deductible items and other | 3,277,719 | 51,832 |
| Change in estimates | (526,626) | - |
| Changes in benefits not recognized | 209,818 | 1,999,479 |
| Income tax expense (recovery) | $ - | $ (412,410) |

*(Expressed in Canadian Dollars)*

**12. INCOME TAXES** (cont'd…)

The components of deferred income tax assets and liabilities:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Non-capital losses | $ | 3,951,768 | $ | 3,439,165 |
| Start-up costs | | 1,636,466 | | 1,760,881 |
| Asset retirement obligation | | 162,552 | | 109,056 |
| Deferred exploration and evaluation | | (5,593,992) | | (3,605,484) |
| Unrealized foreign exchange gain | | - | | (1,541,839) |
| Equipment | | (156,794) | | (161,779) |
| | $ | - | $ | - |

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.

No deferred tax assets have been recognized on the consolidated statements of financial position when the Company has concluded that it is not probable that the benefits of deferred income tax assets will be realized prior to their expiry. As such, the Company has not recognized deferred tax assets on the following items:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Non-capital losses | $ | 9,134,282 | $ | 4,772,508 |
| Mineral property | | 568,172 | | 568,172 |
| Other | | 11,700 | | - |
| | $ | 9,714,154 | $ | 5,340,680 |

The Company has approximately $2,185,000 in foreign exploration development expenses in the Canadian entity, and $16,160,000 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 $26,198,000 in non-capital losses available for carry-forward which expire through 2035.

The Company has recognized a provision of $112,000 (2014 - $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.

**13. 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.

## 14. CAPITAL DISCLOSURES

The Company considers its loan 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 loan 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, 2015, the Company had cash of $322,108 (2014 - $57,981).

The Company is not subject to any externally imposed capital requirements.

## 15. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, bonds, trade and other payables, amounts due to related parties, loan payable and property obligation. The fair value of cash is measured on the statement of financial position using Level 1 of the fair value hierarchy as it is based on unadjusted quoted prices in active market. The fair value of receivables, bonds, trade and other payables, due to related parties and loan 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$1.04 to a high of US$1.23 for CAD$1 during the year ended June 30, 2015. The Company has estimated that a change of 10% in the currency rate could affect the total comprehensive income (loss) by approximately $6,375,000. 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.

*Interest rate and credit risk*

The Company has a cash balance, taxes recoverable, trade and other payables, amounts due to related parties, loan payable (Note 7) and property obligation (Note 8). Amounts owed to related parties, excluding the loan payable, do not bear interest, and, therefore, these amounts are not exposed to interest rate variations. The loan payable bears 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.

## 15. FINANCIAL INSTRUMENTS (cont'd…)

*Interest rate and credit risk (cont'd…)*

Receivables typically consist of Canadian Goods and Services Tax ("GST") due from the Federal Government of Canada and bonds for the Copper Flat project refunded after period end. 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, loan 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 Loan and negative working capital position as a significant liquidity risk to the Company. Tulla has not made demand for payment of the Loan to date.

## 16. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2015, the Company and Tulla extended the Loan to a maximum principal facility of $37,900,000 (Note 7). The Company drew a further $971,000 on the Loan from Tulla.