



# **THEMAC Resources Group Limited**

## **Condensed Consolidated Interim Financial Statements**

**For the six months ended December 31, 2018**

(Unaudited – prepared by management)

(Expressed in Canadian dollars)

Suite 488 – 625 Howe Street  
Vancouver, BC  
Canada V6C 2T6  
TSXV: MAC

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

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

**THEMAC Resources Group Limited**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited - Expressed in Canadian Dollars)  
**AS AT**

	December 31, 2018	June 30, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 93,731	\$ 259,388
Receivables	9,927	7,750
Prepaid expenses and deposits (Note 4)	47,580	27,333
	151,238	294,471
Property and equipment (Note 5)	3,473,648	3,360,901
Bonds (Note 6)	394,679	350,331
Mineral property (Note 6)	36,131,390	33,983,876
Deferred exploration and evaluation (Note 6)	43,165,251	40,271,607
<b>Total Assets</b>	<b>\$ 83,316,206</b>	<b>\$ 78,261,186</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Trade and other payables	\$ 964,860	\$ 744,445
Due to related parties (Note 10)	2,487,159	2,454,117
Property obligation (Note 8)	253,431	184,331
Loans payable (Note 7)	98,680,581	90,901,043
	102,386,031	94,283,936
Property obligation (Note 8)	2,112,250	2,041,040
Asset retirement obligation (Note 6)	462,353	440,013
<b>Total Liabilities</b>	<b>104,960,634</b>	<b>96,764,989</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (Note 9)	19,159,411	19,159,411
Warrants (Note 9)	10,072,430	10,072,430
Share-based payment reserve (Note 9)	3,973,465	3,973,465
Foreign currency translation reserve	16,760,536	14,301,636
Deficit	(71,610,270)	(66,010,745)
<b>Total Shareholders' Deficiency</b>	<b>(21,644,428)</b>	<b>(18,503,803)</b>
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>\$ 83,316,206</b>	<b>\$ 78,261,186</b>

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

See accompanying notes to the condensed consolidated interim financial statements.

On behalf of the Board of Directors:

"Joel Schneyer"  
Director

"Andrew Maloney"  
Director

**THEMAC Resources Group Limited**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND**  
**COMPREHENSIVE INCOME (LOSS)**

*(Unaudited - Expressed in Canadian Dollars)*

**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31**

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
<b>General Expenses</b>				
Accounting and audit	\$ 26,352	\$ 16,690	\$ 43,407	\$ 25,322
Depreciation (Note 5)	2,510	2,415	4,990	4,794
Directors' fees (Note 10)	78,750	78,750	157,500	157,500
Filing fees and transfer agent fees	2,407	2,425	6,351	4,699
Finance expense (Note 7)	2,489,960	2,253,865	4,912,157	4,481,329
Foreign exchange	37,475	-	25,603	-
Interest on property obligation (Note 8)	30,363	26,393	60,383	52,408
Legal fees	846	16,305	4,363	33,643
Management fees	52,199	53,812	125,706	108,774
Office and sundry	111,141	121,445	241,848	236,223
Share-based payments (Note 9)	-	-	-	171,679
Travel	15,339	1,725	17,217	9,367
<b>Loss for the period</b>	<b>(2,847,342)</b>	<b>(2,573,825)</b>	<b>(5,599,525)</b>	<b>(5,285,738)</b>
<b>Other comprehensive income</b>				
Exchange differences on translating foreign operations	3,922,027	438,552	2,458,900	(2,607,346)
<b>Total comprehensive income (loss)</b>	<b>\$ 1,074,685</b>	<b>\$(2,135,273)</b>	<b>\$(3,140,625)</b>	<b>\$(7,893,084)</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.07)</b>	<b>\$ (0.07)</b>
Weighted average number of outstanding shares				
- basic and diluted	79,400,122	79,400,122	79,400,122	79,400,122

*See accompanying notes to the condensed consolidated interim financial statements.*

**THEMAC Resources Group Limited**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
*(Unaudited - Expressed in Canadian Dollars)*  
**FOR THE SIX MONTHS ENDED DECEMBER 31**

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (5,599,525)	\$ (5,285,738)
Add non-cash items:		
Accrued interest expense	60,383	52,408
Accretion of asset retirement obligation	6,652	2,359
Depreciation	4,990	4,794
Finance expense	4,912,157	4,481,329
Share-based payments	-	171,679
	<u>(615,343)</u>	<u>(573,169)</u>
Net change in non-cash working capital items:		
Receivables	(2,177)	(425)
Prepaid expenses and deposits	15,069	49,497
Trade and other payables	(71,943)	60,057
Amounts due to related parties	33,042	16,869
<b>Cash used in operating activities</b>	<u>(641,352)</u>	<u>(447,171)</u>
<b>INVESTING ACTIVITIES</b>		
Advance payments for purchase of Copper Flat	(919,847)	-
Deferred exploration and development expenditures	(1,224,537)	(654,558)
<b>Cash used in investing activities</b>	<u>(2,144,384)</u>	<u>(654,558)</u>
<b>FINANCING ACTIVITIES</b>		
Cash received from loan advances	2,624,813	1,210,148
<b>Cash provided by financing activities</b>	<u>2,624,813</u>	<u>1,210,148</u>
<b>Effect of foreign exchange translation on cash</b>	<u>(4,734)</u>	<u>(96,503)</u>
<b>Net changes in cash position</b>	(165,657)	11,916
Cash position, beginning of period	259,388	128,471
<b>Cash position, end of period</b>	<u>\$ 93,731</u>	<u>\$ 140,387</u>

Supplemental disclosure with respect to cash flows (Note 11)

*See accompanying notes to the condensed consolidated interim financial statements.*

**THEMAC Resources Group Limited**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**  
*(Unaudited - Expressed in Canadian Dollars)*

	Amount	Value	Warrants	Share-based payment reserve	Foreign currency translation reserve	Deficit	Total
Balance, June 30, 2017	79,400,122	\$ 19,159,411	\$ 10,072,430	\$ 3,801,786	\$ 13,530,836	\$ (55,412,683)	\$ (8,848,220)
Share-based payments	-	-	-	171,679	-	-	171,679
Comprehensive loss for the period	-	-	-	-	(2,607,346)	(5,285,738)	(7,893,084)
Balance, December 31, 2017	79,400,122	19,159,411	10,072,430	3,973,465	10,923,490	(60,698,421)	(16,569,625)
Comprehensive loss for the period	-	-	-	-	3,378,146	(5,312,324)	(1,934,178)
Balance, June 30, 2018	79,400,122	19,159,411	10,072,430	3,973,465	14,301,636	(66,010,745)	(18,503,803)
Comprehensive income (loss) for the period	-	-	-	-	2,458,900	(5,599,525)	(3,140,625)
Balance, December 31, 2018	79,400,122	\$ 19,159,411	\$ 10,072,430	\$ 3,973,465	\$ 16,760,536	\$ (71,610,270)	\$ (21,644,428)

*See accompanying notes to the condensed consolidated interim financial statements.*

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

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**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 #488 – 625 Howe Street, Vancouver, BC, V6C 2T6, 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 condensed consolidated interim 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 \$5,599,525 for the period ended December 31, 2018, and had a working capital deficiency of \$102,234,793 at December 31, 2018. 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 7). 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 condensed consolidated interim 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 condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**Basis of presentation**

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

These condensed consolidated interim financial statements were authorized for issuance by the Company's board of directors on March 1, 2019.

## **2. BASIS OF PREPARATION (cont'd...)**

### **Significant accounting judgments and estimates**

The preparation of the condensed consolidated interim 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.



**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

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### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the audited consolidated financial statements for the year ended June 30, 2018, except for the following:

#### *IFRS 9 Financial instruments*

On July 1, 2018, the Company adopted IFRS 9 – *Financial Instruments* (“IFRS 9”) which replaced IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected loss’ impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively.

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

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company’s financial assets on the transition date. The Company’s financial assets previously carried as loans and receivables are now classified as amortized cost. Prior periods were not re-stated and no material changes resulted from adopting this new standard.
- The adoption of the new “expected credit loss” impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date. The Company’s receivables are materially recoverable input tax credits receivable from the government of Canada.

#### **New standards not yet adopted**

#### *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 is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 on the Company’s leases has not yet been determined.

### 4. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits are integrated as follows:

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	December 31, 2018	June 30, 2018
Advances to vendors and contractors	\$ 1,200	\$ 300
Prepaid insurance	9,351	14,628
Lease and rent deposits	37,029	12,405
	<u>\$ 47,580</u>	<u>\$ 27,333</u>

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**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

**5. PROPERTY AND EQUIPMENT**

	Land	Vehicles	Furniture and Equipment	Total
<b>Cost</b>				
Balance, June 30, 2017	\$ 3,244,250	\$ 78,265	\$ 1,076,913	\$ 4,399,428
Net exchange differences	47,750	1,152	15,535	64,437
Balance, June 30, 2018	3,292,000	79,417	1,092,448	4,463,865
Net exchange differences	115,515	2,787	37,583	155,885
Balance, December 31, 2018	\$ 3,407,515	\$ 82,204	\$ 1,130,031	\$ 4,619,750
<b>Accumulated Depreciation</b>				
Balance, June 30, 2017	\$ -	\$ 78,265	\$ 832,357	\$ 910,622
Depreciation	-	-	172,900	172,900
Net exchange differences	-	1,152	18,290	19,442
Balance, June 30, 2018	-	79,417	1,023,547	1,102,964
Depreciation	-	-	4,990	4,990
Net exchange differences	-	2,787	35,361	38,148
Balance, December 31, 2018	\$ -	\$ 82,204	\$ 1,063,898	\$ 1,146,102
<b>Net Book Value</b>				
As at June 30, 2018	\$ 3,292,000	\$ -	\$ 68,901	\$ 3,360,901
As at December 31, 2018	\$ 3,407,515	\$ -	\$ 66,133	\$ 3,473,648

Depreciation of \$nil (2017 - \$162,263) has been capitalized to deferred exploration and evaluation expenditures.

**6. MINERAL PROPERTY**

**Copper Flat Project**

	Mineral property	Deferred exploration and evaluation	Total
Balance, June 30, 2017	\$ 33,494,038	\$ 37,447,731	\$ 70,941,769
Additions	-	2,439,780	2,439,780
Net exchange differences	489,838	384,096	873,934
Balance, June 30, 2018	33,983,876	40,271,607	74,255,483
Additions	919,847	1,428,264	2,348,111
Net exchange differences	1,227,667	1,465,380	2,693,047
Balance, December 31, 2018	\$ 36,131,390	\$ 43,165,251	\$ 79,296,641

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.

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

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**6. MINERAL PROPERTY** (cont'd...)

**Copper Flat Project** (cont'd...)

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).

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 period ended December 31, 2018. 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 December 31, 2018, the Company has posted bonds of \$361,964 (US\$265,563) (June 30, 2018 – \$349,605 (US\$265,496)) in connection with the drilling permits for Copper Flat and deposits of \$32,715 (US\$24,002) (June 30, 2018 - \$726 (US\$551)) 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.

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	December 31, 2018	June 30, 2018
Balance, beginning of the period	\$ 440,013	\$ 470,929
Finance expense	6,652	9,496
Change in estimates	-	(46,002)
Net exchange differences	15,688	5,590
Balance, end of the period	<u>\$ 462,353</u>	<u>\$ 440,013</u>

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The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is US\$406,442 (June 30, 2018 - US\$406,442) which has been discounted using a pre-tax risk-free rate of 3.03% (June 30, 2018 – 3.03%) and an inflation rate of 1.80% (June 30, 2018 – 1.80%). 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.

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

**7. LOANS PAYABLE**

	Principal	Finance Expense	Total
Balance, June 30, 2017	\$ 43,838,077	\$ 34,690,856	\$ 78,528,933
Additions - CAD Loan	-	8,767,616	8,767,616
Additions - USD Loan	3,205,401	271,400	3,476,801
Net exchange differences	117,725	9,968	127,693
Balance, June 30, 2018	47,161,203	43,739,840	90,901,043
Additions - USD Loan	2,624,813	4,912,157	7,536,970
Net exchange differences	214,360	28,208	242,568
Balance, December 31, 2018	\$ 50,000,376	\$ 48,680,205	\$ 96,680,581

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\$4,775,000 and bears interest at 20% per annum. The USD Loan is unsecured and is payable on demand which demand cannot be made before June 30, 2019. The Company has drawn US\$4,521,109 against the USD Loan facility as at December 31, 2018.

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

**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 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.

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

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**8. PROPERTY OBLIGATION (cont'd...)**

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 has 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\$1,675,000 (June 30, 2018 – US\$1,675,000).

	December 31, 2018	June 30, 2018
Balance, beginning of the period	\$ 2,225,371	\$ 2,353,427
Payment	-	(286,500)
Accrued interest	60,383	126,257
Net exchange differences	79,927	32,187
Balance, end of the period	2,365,681	2,225,371
Payable within the next fiscal year	(253,431)	(184,331)
Long-term portion	\$ 2,112,250	\$ 2,041,040

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 period ended December 31, 2018 or year ended June 30, 2018.

**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.

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

**9. EQUITY (cont'd...)**

**c) Stock options (cont'd...)**

The continuity of stock options is as follows:

	Options outstanding	Weighted average exercise price
Balance on June 30, 2017	9,577,194	\$ 0.05
Granted	4,448,000	0.05
Balance on June 30, 2018	14,025,194	\$ 0.05
Forfeit	(62,761)	0.05
Balance outstanding and exercisable, December 31, 2018	13,962,433	\$ 0.05

Stock options outstanding and exercisable as at December 31, 2018 are as follows:

Options	Weighted average exercise price	Expiry date
9,514,433	\$ 0.05	August 22, 2022
4,448,000	\$ 0.05	September 12, 2022

During the six months ended December 31, 2017, the Company granted 4,448,000 stock options to directors, employees, officers and consultants; each option is exercisable at a price of \$0.05 per share until September 12, 2022. The Company has recognized share-based payments expense of \$171,679. The weighted average assumptions used for the Black-Scholes valuation of the options were annualized volatility of 190%, risk-free interest rate of 1.75%, expected life of 5.0 years and a dividend rate of Nil%

**10. 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 periods ended December 31, 2018 and 2017 consist of the following:

	2018	2017
Amounts paid or accrued to key management personnel:		
Cash compensation and accrued bonuses – expensed	\$ 157,090	\$ 125,290
Cash compensation and accrued bonuses – capitalized to deferred exploration and evaluation assets	100,866	118,360
Directors' fees	157,500	157,500
Fair value of stock options granted to senior management and directors	-	106,142

continued...

**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

**10. RELATED PARTY TRANSACTIONS (cont'd...)**

...continued	2018	2017
Related party transactions:		
Advances received on Tulla loans (Note 7)	2,624,813	1,210,148
Interest accrued on Tulla loans (Note 7) (unpaid)	4,912,157	4,481,329
Fees paid or accrued to Peacock Law, P.C., a law firm owned by a director	87,797	-

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 period ended December 31, 2018, 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\$38,034 (paid) and the balance of US\$879,372, in a combination of cash and shares, in the event the Company completes an equity financing of not less than US\$10,000,000 or a sale transaction of not less than 50% of the Company's equity, interest in NMCC or assets. The agreements expire in 5 years at which time any unpaid obligations will also expire. The liabilities have been recorded in prior periods.

**11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

During the periods ended December 31, 2018 and 2017, 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 \$328,070 (2017 - \$236,092) and \$5,504 (2017 - \$47,768) included in due to related parties.
- Recognized depreciation of \$nil (2017 - \$162,263) in deferred Copper Flat exploration and evaluation expenditures.

**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 December 31, 2018, the Company had cash of \$93,731 (June 30, 2018 - \$259,388).

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 period ended December 31, 2018.

#### **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\$0.73 to a high of US\$0.78 for CAD\$1 during the period ended December 31, 2018. The Company has estimated that a change of 10% in the currency rate could affect the total comprehensive income (loss) by approximately \$6,136,800. 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, receivables, trade and other payables, amounts due to related parties, loans payable (Note 7) and property obligation (Note 8). 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.



**THEMAC Resources Group Limited**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*(Unaudited - Expressed in Canadian Dollars)*  
**December 31, 2018**

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**14. FINANCIAL INSTRUMENTS** (cont'd...)

*Liquidity risk* (cont'd...)

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 December 31, 2018, the Company drew down a further US\$522,060 on the USD Loan (Note 7) and extended the facility to US\$5,250,000 from the original facility of US\$4,775,000.