Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)

Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited and expressed in thousands of United States Dollars, except where otherwise indicated)

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of United States dollars)
(Unaudited)

	Note	September 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		$ 4,448	$ 7,248
Receivables		106	76
Prepaid expenses and other		90	24
Reclamation trust fund	8	-	2,028
		4,644	9,376
Other non current assets			
Mineral properties, plant & equipment, net	4,5	25,619	8,614
Right of use asset	6	10	-
Total assets		$ 30,273	$ 17,990
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 3,489	$ 4,570
Other short-term liabilities	7	5,065	-
Lease liability	6	11	-
Debentures	3	7,944	-
		16,509	4,570
Other Liabilities- long term			
Debentures	3	-	6,345
Other long-term liabilities		-	88
		-	6,433
Total liabilities		16,509	11,003
SHAREHOLDERS' EQUITY			
Share capital	9	24,016	11,617
Reserves	9	6,005	2,277
Deficit		(16,257)	(6,907)
Total shareholders' equity		13,764	6,987
Total liabilities and shareholders' equity		$ 30,273	$ 17,990

Description of business (see Note 1)
Commitments and contingencies (see Note 11)
Subsequent events (see Note 14)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in thousands of United States dollars, except share data)
(Unaudited)

		Three months ended		Nine months ended	
	Note	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Salaries and wages	10	$ 544	$ 167	$ 2,280	688
Share based compensation	10	560	234	1,913	234
Professional fees		250	22	714	325
Directors fees		118	52	351	140
Marketing and adminstration		541	62	1,325	315
Loss from operations		2,013	537	6,583	1,702
Other (income) expenses					
Accretion	3, 6 ,7	652	865	1,680	917
Finance expenses		283	334	804	621
Depreciation, depletion and amortization	4, 6	18	-	54	9
Loss on extinguishment of debt	9	-	-	325	-
Interest income		(1)	-	(5)	-
Government loan forgiveness		(1)	-	(91)	-
Loss and comprehensive loss for the period		$ 2,964	$ 1,736	$ 9,350	$ 3,249
Loss per share					
Basic and diluted		$ 0.06	$ 0.06	$ 0.22	$ 0.18
Weighted average number of common shares outstanding					
Basic and diluted (note 1)		49,058,258	28,654,845	42,297,106	18,543,327

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

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in thousands of United States dollars)
(Unaudited)

	Nine months ended	
	September 30, 2021	**September 30, 2020**
Cash provided by (used in):		
Operating activities		
Loss for the period	$ (9,350)	$ (3,249)
Add back non-cash items:		
Share-based compensation	2,500	234
Accretion	1,680	917
Depreciation, depletion and amortization	54	9
Interest and finance expense, net	10	543
Foreign exchange	-	7
Changes in non-cash operating working capital items		
Receivables	(30)	30
Prepaid expenses and other	(66)	2
Accounts payable and accrued liabilities	989	325
Net cash used in operating activities	(4,213)	(1,182)
Investing activities		
Expenditures on mineral properties, plant and equipment	(6,751)	(2,721)
Property payments	(8,613)	(8,487)
Sale of NSR	-	5,093
Sale of option on NSR	-	127
Transaction costs paid on sale of NSR and NSR Option	-	(175)
Net cash used in investing activities	(15,364)	(6,163)
Financing activities		
Proceeds from loans	6,000	1,125
Repayment of loans	(88)	(1,000)
Transaction costs paid on loans	-	(258)
Proceeds from private placement	2,435	38
Proceeds from stock options exercise	58	-
Proceeds from warrants exercise	5,067	-
Proceeds from convertible debenture	-	1,880
Repayment of convertible debenture	-	(1,834)
Transaction costs paid on convertible debenture	-	(64)
Proceeds from Tembo/RCF debt	-	8,786
Transaction costs paid on debenture	-	(294)
Proceeds from Tembo/RCF pre-emptive rights	4,169	5,093
Interest paid on various loans	(799)	(137)
Transaction costs for private placements	(30)	(170)
Lease payments	(35)	-
Net cash provided by financing activities	16,777	13,165
Change in cash and cash equivalents	(2,800)	5,820
Cash at beginning of period	7,248	47
Cash at the end of period	$ 4,448	$ 5,867

Supplemental cash flow information (see Note 13)

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

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of United States dollars, except share data)
(Unaudited)

	Number of common shares (Note 1)	Share capital	Contributed Surplus	Accumulated loss	Total
Balance at December 31, 2019	15,270,829	3,626	-	(1,803)	1,823
Issue shares for cash	31,577	38	-	-	38
Issue shares for service	52,083	63	-	-	63
Issue shares for financing	13,255	3,696	-	-	3,696
Paid in capital for conversion of debenture	-	-	19	-	19
Warrant reserve	-	-	1,841	-	1,841
Stock options reserve	-	-	144	-	144
RSUs reserve	-	-	89	-	89
Loss for the period	-	-	-	(3,249)	(3,249)
Balance at September 30, 2020	15,367,744	7,423	2,093	(5,052)	4,464
Balance at December 31, 2020	34,308,395	11,617	2,277	(6,907)	6,987
Issue shares for cash	15,736,775	11,732	-	-	11,732
Issue shares for financing arrangement	485,711	1,020	-	-	1,020
Fair valuation of shares issued for cash	-	144	-	-	144
Fair valuation of warrants exercised	-	1,100	(1,100)	-	-
Fair valuation of options exercised	-	42	(42)	-	-
Transaction costs	-	(30)	-	-	(30)
Fair valuation of incentive warrants issued	-	(2,537)	2,537	-	-
Issue shares for interest	596,861	537	-	-	537
Issue shares for service	271,319	391	-	-	391
Warrant reserve	-	-	148	-	148
Stock options reserve	-	-	405	-	405
RSUs reserve	-	-	1,193	-	1,193
Long-term incentive plan	-	-	587	-	587
Loss for the period	-	-	-	(9,350)	(9,350)
Balance at September 30, 2021	51,399,061	24,016	6,005	(16,257)	13,764

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

Note 1 – Description of Business

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated) ("ASCU" or the "Company") is a company focused on the assessment, consolidation, exploration, development, and eventual mining of the Santa Cruz Copper Mining District in southern Arizona. The Company changed its name to Arizona Sonoran Copper Company Inc. on July 12, 2021. Pursuant to an initial public offering, in November 2021 the Company issued 18,367,347 treasury shares for gross proceeds of CAD$45,000. Effective November 16, 2021, the Company's shares began trading on the TSX stock exchange under the symbol "ASCU".

The Company was incorporated in British Columbia, Canada on April 3, 2019, and is the 100% parent company of Arizona Sonoran Copper Company USA Inc. (formerly Elim Mining (USA) Inc.) ("ASCU USA") and Cactus 110, LLC. ASCU USA was incorporated in the state of Delaware in April 2019 and is the entity with activities in the US Cactus/Park Salyer mining area. Cactus 110, LLC, a Delaware company, was incorporated in May 2019 and holds titles to the Cactus and Parks/Salyer mining properties, and any additional public or private land leases, water rights and other real property as determined.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration and development projects will result in profitable mining operations. The Company has no source of revenue and has significant cash requirements to meet its exploration plans and commitments, development activities, administrative overhead and maintain its mineral interests. The recoverability of amounts shown for resource properties is dependent on several factors. These factors include the discovery of economically recoverable reserves, the ability to complete development of these properties, and future profitable production or proceeds from disposition of mineral properties.

Ownership interests in mineral properties involve risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mineral properties. The Company has investigated ownership of its mineral properties, and to the best of its knowledge, ownership of its interests is in good standing.

COVID-19 has caused many localities to implement measures to reduce the spread of the virus. As at the date of these consolidated financial statements, work stoppages and slowdowns are still impacting both the world and local economies. The continuing impact and duration of COVID-19 and ongoing government responses to it remain uncertain. Consequently, the Company cannot predict the effect of unknown adverse changes to its business plans, financial position, cash flows, and results of operations during 2021 and beyond.

Note 2 – Basis of Preparation

These unaudited interim condensed consolidated financial statements (the "interim financial statements") have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to interim financial reports, including International Accounting Standard 34, "Interim Financial Reporting". The interim financial statements do not include all the notes normally included in the annual financial statements. These interim financial statements should be read in conjunction with the audited annual financial statements for the period ended December 31, 2020, which have been prepared in accordance with IFRS.

(Unaudited and expressed in thousands of US Dollars, except for share data)

These interim financial statements have been authorized for issue by the Board of Directors of the Company on November 15, 2021.

During the nine months ended September 30, 2021, the Company consolidated its share capital on a 3:1 basis. All share and per share amounts have been restated for the periods presented to reflect this consolidation.

Note 3 – Debentures

On July 10, 2020, the Company, Tembo Capital Mining GP III Fund (“Tembo”), and Resource Capital Fund (“RCF”), along with the assistance of Haywood Securities Inc. (“Haywood”), closed a $19,100 financing (the “Financing”) comprising the following components:

- $5,100 equity investment (units comprising one share and one warrant);
- $8,786 debenture loan bearing interest at a 12% annual rate (with a bonus 0.64% net smelter royalty “NSR”*);
- $5,100 purchase of a 1.27% NSR; and
- $100 purchase of a 1.27% NSR purchase option with a $8,800 exercise price;

*The NSRs apply to all of the Company’s currently owned mineral properties.

Both Tembo and RCF are considered related parties to ASCU due to their significant shareholding in the Company. As at September 30, 2021, Tembo and RCF owned 42.05% and 9.06%, respectively, of the outstanding shares of the Company. As of the date of completion of the initial public offering in November 2021, Tembo and RCF owned 38.24% and 5.67%, respectively, of the outstanding shares of the Company.

Debenture loan

As part of the Financing, the Company received $8,786 as a result of issuing debenture notes payable (the “Debenture Loan”) bearing interest at a 12% annual rate, fully secured by the Company and its subsidiaries, and a January 17, 2022 maturity date. The Company has the option to pay the quarterly interest in cash or in shares, whereby the shares would be issued by converting the interest owed at $0.45 per share.

As part of the consideration for the Debenture Loan, a subsidiary of the Company provided a 0.64% NSR (the “Bonus NSR”) to the lenders, which was determined to have a fair value of $2,500 based on the purchase price for the 1.27% NSR. The Bonus NSR fair value amount was recorded as a transaction cost directly against the Debenture Loan with the offset credited to mineral properties on the Statement of Financial Position. In addition, $779 of transaction costs were recorded against the debt.

	($)
Proceeds	8,786
Less: Bonus NSR	(2,547)
Less: transaction costs	(779)
Inception fair value - July 2020	5,460

(Unaudited and expressed in thousands of US Dollars, except for share data)

Accretion	885
Carrying Value, December 31, 2020	6,345
Accretion	1,599
Carrying Value, September 30, 2021	7,944

Note 4 - Mineral Properties, Land and Water Rights

Lands known as AR Sacaton LLC, under the management of the ASARCO Multi-state Environmental Custodial Trust (the "Trust"), consisting of approximately 2,035 acres were purchased for $6,000, of which $2,000 was deposited in an escrow account (see Note 8).

Additional lands have been purchased that were once part of the Sacaton Unit and are contiguous with the Trust lands. These lands consist of 423 acres as follows:

- From the Merrill Property Division, 160 acres to the south of the property, known as "Parks/Salyer", was purchased for $1,600.
- From Copper Mountain, 263 acres made up of 5 parcels was purchased for $2,600. Of this amount, the final payment of $800 was paid on September 29, 2021.

The Trust lands were brought to the Company's attention by a consulting group TAGC Ventures LLC ("TAGC"). TAGC will be paid the remaining founder's fees of $1,100 if the following performance achievements are met, as follows:

Due upon completion of permitting	$300
Due upon start of commercial production	$500
Due upon first anniversary of production start	$300

The founder's fee amounts will be capitalized as part of the land costs above. $200 was paid on July 10, 2020. The balance of payments will be recorded if and when the Company undertakes and completes the milestones stipulated in the agreement.

On February 2, 2021, and subsequently amended on May 17, 2021, the Company executed an agreement with Arcus Copper Mountain Holdings LLC and several other owners for an option to purchase 750 acres of land adjacent to the Cactus Mine. The total purchase price of $6,000 was paid during the third quarter of 2021.

On May 20, 2021, the Company's wholly owned subsidiary, Cactus 110 LLC, entered into an agreement with LKY/Copper Mountain Investments Limited Partnership LLP for an option to purchase 1,000 acres of land adjacent to the Cactus Mine. The agreement stipulates that the total purchase price of $20,000 be paid in three separate disbursements: $7,500 on the closing date (currently anticipated for January 2022), $7,500 on the first anniversary of the closing date, and the final $5,000 on the fifth anniversary of the closing date. As of August 18, 2021, the Company had paid a total of $500 in non-refundable deposits in connection with the LKY agreement which will be applied toward the first of these disbursements due on the closing date.

(Unaudited and expressed in thousands of US Dollars, except for share data)

Following is the detail of the mineral properties, plant and equipment:

	Mineral Properties - Land ($)	Capitalized Exploration Costs Assets ($)	Mine Fleet Light Vehicles and Equipment ($)	Office Furniture and Equipment ($)	Total ($)
Cost					
Balance as of 01/01/20	10,345	1,670	-	9	12,024
Additions/(Disposals)	(6,733)	5,218	149	-	(1,366)
Reclamation fund and additional land cost	(2,028)	-	-	-	(2,028)
Balance at 12/31/20	1,584	6,888	149	9	8,630
Accumulated depreciation, amortization and impairment					
Balance as of 01/01/20	-	-	-	-	-
Additions	-	-	(7)	(9)	(16)
Balance at 12/31/20	-	-	(7)	(9)	(16)
Net book value at 12/31/20	1,584	6,888	142	-	8,614
Cost					
Additions	8,590	8,417	21	2	17,030
Balance at 09/30/21	10,174	15,305	170	11	25,660
Accumulated depreciation, amortization and impairment					
Additions	-	-	(25)	-	(25)
Balance at 09/30/21	-	-	(32)	(9)	(41)
Net book value at 09/30/21	10,174	15,305	138	2	25,619

Following is the detail of net book value on September 30, 2021:

	($)
Mineral and land	
Cactus property	21,101
Parks/Salyer	1,563
Merrill 263	2,615
TAGC founders fee	200
Total accumulated costs	25,479
Vehicles and equipment and office furniture purchased	181
Less: accumulated depreciation	(41)
Net book value of Mineral Property, plant and equipment	25,619

(Unaudited and expressed in thousands of US Dollars, except for share data)

Note 5 - Capitalized Exploration Expenditures

The Company's mineral properties consist of capitalized exploration expenditures on the lands mentioned above as well as the real property that make up the Cactus project.

	($)
Balance December 31, 2019	1,670
Drilling	2,793
Exploration	654
Salaries and wages	627
Sample and assay	413
Geology	245
Operational	223
Engineering	135
Environmental	109
Travel	14
Office	5
Balance December 31, 2020	6,888
Drilling	3,677
Exploration	3,526
Salaries and wages	648
Geology	331
Sample and assay	126
Operational	92
Office	10
Environmental	3
Travel	2
Safety	2
Balance September 30, 2021	15,305

Note 6 – Leases

During the nine months ended September 30, 2021, the Company recognized $40 as lease obligation and right-of-use asset, in connection with its office lease in Arizona. Total future lease payments over 12 months were discounted using a rate of 12%, which is the Company's incremental borrowing rate.

A continuity of the Company's lease liability is as follows:

	($)
Initial recognition	40
Payments	(35)
Accretion	6
Balance, September 30, 2021	11
Current portion	(11)
Non-current portion	-

(Unaudited and expressed in thousands of US Dollars, except for share data)

A continuity of the Company's right of use asset is as follows:

	($)
Initial recognition	40
Amortization	(30)
Balance, September 30, 2021	10

Note 7 – Other Short-Term Liabilities

During September 2021, the Company drew on a standby loan agreement with Tembo, a related party . Under the terms of the agreement, Tembo advanced $6,000 as a short term loan to the Company repayable by December 31, 2021 with interest accruing at the rate of 8% per annum (see Note 14).

As consideration of the loan, the Company issued to Tembo 485,711 common shares valued at $1,020. The value of each share was $2.10 based on the most recently issued private placement.

The continuity of the loan is as follows:

	$
Proceeds received	6,000
Value of shares issued to Tembo Capital	(1,020)
Accretion	75
Interest	10
Balance, September 30, 2021	5,065

Note 8 – Asset Retirement Obligations

Asset retirement obligations arise from the acquisition, construction and normal operation of mining property, plant and equipment, due to government controls and regulations that protect the environment and are primarily related to closure and reclamation of mining properties. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily due to the unknown impact of technology changes and because of the changing character of environmental requirements that may be enacted by governmental authorities.

The mitigation of environmental risk was a key factor in the acquisition of the Cactus property. The purchase of the approximate 2,035-acre land parcel was finalized with the ASARCO Multi-state Environmental Custodial Trust (the "Trust") on July 13, 2020. The property clean-up has been completed and closure approvals are underway with the Arizona Department of Environmental Quality and the Environmental Protection Agency on behalf of the Department of Justice. The Company intends to revitalize this property, without assuming any of the past liability, and bring it back into production. An agreement with the Arizona Department of Environmental Quality was reached and executed on January 8, 2020 whereby ASCU will not be held liable for past environmental issues.

The Company had reached an agreement with the Trust whereby the current water pond that services activities at the mine site and the waste rock dump would not be closed until the Company made an economic decision whether to process the ore in the waste dump. As a result, $2,000 of the $6,000 million acquisition price was deposited in an escrow account to be used to reclaim the waste rock dump if the Company decided that there is no economic benefit in processing it.

On March 24, 2021, the Company provided written notice to the Asarco Multi-State Environmental Custodial Trust that ASCU had elected to proceed towards reprocessing the overburden and waste rock materials in accordance with the escrow agreement executed on July 10, 2020 in connection with the acquisition. As a result of such election, the Trust was entitled to receive a distribution of all the escrowed funds subject to this agreement. Upon issuing such notice, the Company reclassified the $2,000 escrow balance that had been recorded as additions to Mineral Properties.

Once future production plans are finalized and initiated, ASCU USA will be required to post a reclamation bond with the State of Arizona for future work. To date the Company does not have any reclamation liabilities.

Note 9 – Equity

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value. As at September 30, 2021, there were 51,399,061 common shares outstanding (December 31, 2020 – 34,308,391 common shares outstanding).

b) Issued Shares

The Company had the following share transactions during the nine months ended September 30, 2020:

- During January and February 2020, the Company issued 52,083 common shares with a fair value of $63 for services.
- During March 2020, the Company issued 22,508 common shares for gross proceeds of $27.
- During April 2020, the Company issued 9,169 common shares for services valued at $11.
- During June and July 2020, the Company issued 1,091,667 common shares with a fair value of $156 pursuant to the conversion of $262 debt.
- In July 2020, the Company issued 11,318,520 common shares, and 844,444 broker shares with a fair value of $3,272 and $268, respectively, pursuant to a financing arrangement.

The Company had the following share transactions during the nine months ended September 30, 2021:

- During January 2021, the Company issued 124,444 common shares for directors' fees outstanding as of December 31, 2020 of $56. The fair value of the shares issued was $0.90 per share, or $112, resulting in a loss on debt extinguishment of $56.
- During February 2021, the Company settled financing interest of $269 by issuing 596,851 shares (see Note 10). The fair value of the shares issued was $0.90 per share, or $537, resulting in a loss on extinguishment of debt of $269.

(Unaudited and expressed in thousands of US Dollars, except for share data)

- During March 2021, the Company completed a private placement by issuing 2,119,444 common shares for gross proceeds of $1,907. Transaction costs associated with these issuances were $16.
- During March 2021, the Company issued 4,632,621 common shares for gross proceeds of $4,169 as a result of Tembo and RCF exercising their pre-emptive rights (see Note 10).
- During May 2021, the Company issued 48,125 common shares with a value of $72 pursuant to an employment agreement.
- During June 2021, the Company issued 114,583 common shares to an employee for gross proceeds of $28. These shares were issued below fair value, resulting in an additional $144 being recorded as share based compensation. Also, during June 2021, the Company issued 98,750 common shares with a value of $207 pursuant to an employment agreement.
- During July 2021, the Company issued 238,095 common shares to an employee for gross proceeds of $500. Also, during July 2021, the Company issued 6,666,667 common shares with a value of $4,000 through a warrants exercise.
- The Company also issued 184,255 common shares in July 2021 to an employee as part of an options and restricted stock unit exercise for proceeds of $58.
- During September 2021, the Company issued 1,777,777 common shares for proceeds of $1,067 through a warrant exercise. Also, during September 2021, the Company issued 485,711 common shares with a value of $1,020 as part of the consideration of a loan from Tembo Capital (see Note 7).

c) Stock Options

On July 7, 2020 (amended July 21, 2021), the Board of Directors implemented a stock option plan under which the Company is authorized to grant a combination of stock options and restricted shares up to 10% of the total number of common shares issued and outstanding at any given time.

During the nine months ended September 30, 2021, the Company granted 530,481 stock options to officers and consultants of the Company with a weighted average exercise price of $1.66 per option. The total fair value of the options granted was $538.

During July 2021, 128,979 options were exercised by an employee for a consideration of $58. The total fair value of these options was $42. The value of the common shares of the Company at the time of the exercise of these options was $1.80 and the weighted average fair value of these options was $0.33.

As at September 30, 2021, the Company has the following stock options outstanding:

	Number of options outstanding		**Weighted average exercise price**
Balance, December 31, 2019	-	$	-
Granted	1,320,799		0.45
Balance, December 31, 2020	1,320,799	$	0.45
Granted	530,481		1.66
Exercised	(128,979)		0.45
Balance, September 30, 2021	1,722,301	$	0.77

(Unaudited and expressed in thousands of US Dollars, except for share data)

Details of stock options outstanding as at September 30, 2021 are as follows:

Date of grant	Expiry date	Exercise price	September 30, 2021 outstanding	September 30, 2021 exercisable
July 20, 2020	July 20, 2025	$0.45	774,203	619,362
July 20, 2020	July 20, 2025	$0.45	171,972	171,972
October 2, 2020	October 2, 2025	$0.45	116,666	116,666
November 12, 2020	November 12, 2025	$0.45	85,986	25,796
December 14, 2020	December 14, 2025	$0.45	42,993	42,993
January 4, 2021	January 4, 2026	$0.90	107,649	32,995
May 27, 2021	January 4, 2026	$1.50	76,166	45,700
May 27, 2021	January 4, 2026	$1.50	96,666	29,000
July 6, 2021	July 6, 2026	$2.10	250,000	83,333
			1,722,301	1,167,817

As at September 30, 2021, outstanding stock options had a weighted average remaining life of 4.9 years (December 31, 2020 – 4.6 years).

The following assumption were used in a Black Scholes model for the valuation of stock options granted during the nine months ended September 30, 2021:

	September 30, 2021
Annualized volatility	75%
Expected life in years	4.6 to 5 years
Dividend rate	0.00%
Risk-free rate	0.39% to 0.95%
Forfeiture rate	0.00%

Total stock-based compensation recognized related to stock options during the nine months ended September 30, 2021 was $405 (nine months ended September 30, 2020 - $137).

d) Restricted Share Units

On July 7, 2020 (amended July 21, 2021), the Board of Directors implemented a restricted share units ("RSUs") plan which is authorized to grant a combination of stock options and restricted shares up to 10% of the total number of common shares issued and outstanding at any given time.

The RSUs can be settled in either cash, shares, or a combination thereof at the sole discretion of the Company. Such a decision is to be made on each vesting date. The Company considers these RSUs as equity-settled share-based payments.

During January 2021, the Company awarded 110,553 RSUs to the officers and directors of the Company. The fair value of the RSUs awarded was $99. The RSUs were valued based on the estimated $0.90 share price as at the date of grant. 30% of the RSUs vested immediately with the remaining 70% vesting over time based on certain financing and operational milestones being achieved.

(Unaudited and expressed in thousands of US Dollars, except for share data)

During May 2021, the Company awarded 362,163 RSUs to the officers and directors of the Company. The fair value of the RSUs awarded was $438. The RSUs were valued based on the estimated $1.50 share price as at the date of grant. 229,516 of the RSUs vested immediately, with the remaining vesting over time based on certain financing and operational milestones being achieved.

During July 2021, the Company awarded 229,663 RSUs to the officers and directors of the Company. The fair value of the RSUs awarded was $482. The RSUs were valued based on the estimated $2.10 share price as at the date of grant. 62,997 of the RSUs vested immediately, with the remaining vesting over time based on certain financing and operational milestones being achieved.

As at September 30, 2021, the Company had 1,194,589 RSUs outstanding (December 31, 2020 – 547,486) of which 997,457 were vested and unissued (December 31, 2020 – 164,247).

Total stock-based compensation recognized related to RSUs during the nine months ended September 30, 2021 was $1,061 (nine months ended September 30, 2020 - $105).

e) Warrants

On May 8, 2020, the Company closed the Convertible Debenture (“CD”) Financing. Pursuant to the CD Financing the Company issued 1,270,602 warrants, and 34,716 broker warrants with a fair value of $48 and $1, respectively.

During June and July 2020, the Company issued 1,091,664 warrants with a fair value of $108 pursuant to the conversion of debt.

During July and September 2021, the Company issued 2,222,222 and 161,616 incentive warrants, respectively, with exercise prices of $1.95 and $2.10, respectively, for a period of three years. The Company also issued 6,666,666 and 1,777,777 shares from the exercise of warrants for proceeds of $4,000 and $1,067 respectively.

During the nine months ended September 30, 2021, in exchange for employment services, the Company issued 114,583 warrants with a fair value of $148.

As at September 30, 2021, the Company has the following warrants outstanding:

	Number of warrants outstanding		**Weighted average exercise price**
Balance, December 31, 2019	-	$	-
Issued	12,663,648		0.56
Balance, December 31, 2020	12,663,648	$	0.56
Issued	2,498,421		1.88
Exercised	(8,444,443)		0.60
Balance, September 30, 2021	6,717,626	$	1.00

(Unaudited and expressed in thousands of US Dollars, except for share data)

As at September 30, 2021 the Company had warrants outstanding to acquire common shares of the Company as follows:

Expiry Date	Exercise Price	Number of warrants September 30, 2021	Number of warrants December 31, 2020
May 8, 2023	$ 0.45	1,305,318	1,305,318
June 15, 2023	$ 0.30	916,664	916,664
June 26, 2023	$ 0.30	125,000	125,000
July 8, 2023	$ 0.30	50,000	50,000
July 10, 2023	$ 0.60	1,822,223	8,488,889
July 27, 2023	$ 0.60	-	1,777,777
June 8, 2024	$ 0.30	114,583	-
July 6, 2024	$1.95	2,222,222	-
September 8, 2024	$2.10	161,616	-
		6,717,626	12,663,648

As of September 30, 2021, outstanding warrants had a weighted average remaining life of 2.0 years (December 31, 2020 – 2.5 years).

The following Black Scholes assumption were used in the valuation of warrants granted during the nine months ended September 30, 2021:

	September 30, 2021
Annualized volatility	75%
Expected life in years	3 years
Dividend rate	0.00%
Risk-free rate	0.58%
Forfeiture rate	0.00%

Expected stock price volatility was estimated based on stock price volatility of a group of publicly listed companies involved in mineral exploration.

Note 10 - Related Party Transactions

During the nine months ended September 30, 2021, 469, 856 and 126,995 common shares were issued to Tembo and RCF, respectively, to settle financing interest. An additional 4,149,553 and 483,068 common shares were issued to Tembo and RCF, respectively, as a result of the exercising of pre-emptive rights (see Note 9). As at September 30, 2021, carrying values of $6,242 and $1,702 in debentures was payable to Tembo and RCF, respectively (see Note 3). During the nine months ended September 30, 2021, 271,319 (2020: 52,083) common shares with a fair value of $391 (2020: $63) were issued to directors and officers for services (see Note 9).

The remuneration of the president and chief executive officer, chief financial officer, chief operating officer, and directors was as follows:

(Unaudited and expressed in thousands of US Dollars, except for share data)

	Nine months ended September 30, 2021 ($)	Nine months ended September 30, 2020 ($)
Salaries and wages (1)	557	517
Salaries and wages capitalized as exploration	379	296
Share-based compensation*	1,536	-
Directors' fees	351	140
	2,823	953

*Share-based compensation includes shares issued for services, stock options, and RSUs.
(1) Includes severance amounts accrued and payable over the next nine months to the Company's former CEO.

Note 11 – Commitments and Contingencies

If the Company achieves certain development milestones, the Company is obligated to make future payments to TAGC of up to $1,050 as discussed in Note 4.

The Company has future NSR obligations with respect to its Tembo/RCF financings, described in Notes 3 and 14.

Note 12 – Operating Segments

As of September 30, 2021 and December 31, 2020, the Company is operating its business in one reportable segment: mineral exploration and development in the United States of America. All of the Company's non-current assets are situated in North America.

Note 13 – Supplemental Cash Flow Information

Non-Cash Investing and Financing Activities	Nine months ended September 30, 2021 ($)	Nine months ended September 30, 2020 ($)
Common shares issued for financing arrangement	1,020	3,696
Common shares issued for interest	537	-
Common shares issued for services	391	63

Note 14 – Subsequent Events

Subsequent to September 30, 2021:

a. Tembo and RCF provided notice of intent to convert their debentures in the principal amounts of $6,900 and $1,886, respectively, to 1.00% and 0.27% NSRs, respectively, prior to maturity in January 2022 as permitted under the terms of the July 2020 loan agreement (see Note 3). These NSRs cover the Sacaton, LKY, Arcus and Parks/Salyer properties.

b. Tembo subscribed for 2,524,082 common shares pursuant to the Company's initial public offering for an aggregate price of $5,000. Under the terms of a setoff agreement, the parties agreed that the purchase will be executed by setting off a portion of the Tembo standby loan drawn in September 2021. All remaining principal amounts on the standby loan, along with accrued interest, are to be paid on or before the revised maturity date of July 31, 2023.

c. The Company filed its final prospectus in connection with an initial public offering on the Toronto Stock Exchange on November 8, 2021. Under the terms of the prospectus, the Company was authorized to distribute an aggregate of 19,066,518 common shares at a price CAD $2.45 per share, consisting of a treasury issuance by the Company of 18,367,347 shares for gross proceeds of CAD$45,000 and a secondary offering of 699,171 shares held by RCF. The offering was underwritten by RBC Dominion Securities Inc. and Haywood Securities Inc. The Company agreed to pay the underwriters a cash fee equal to 6.5% of the gross proceeds of the treasury offering, subject to reduction to 2.5% of the gross proceeds from subscriptions from purchasers whose names appear on the list of purchasers for the offering introduced to the underwriters by the Company and 2.5% in respect of subscriptions by Tembo, and a cash advisory fee equal to an aggregate amount of $250. The Company began trading under the symbol “ASCU” on November 16, 2021. See Note 1.