Arizona Sonoran Copper Company Inc. (formerly Elim Mining)

Consolidated Financial Statements

December 31, 2021

(Expressed in thousands of United States Dollars, except where otherwise indicated)

Independent auditor's report

To the Shareholders of Arizona Sonoran Copper Company Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Arizona Sonoran Copper Company Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Assessment of indicators of impairment related to exploration and evaluation assets *Refer to note 3(d) – Significant accounting policies – Exploration and evaluation assets, note 5(a) – Critical accounting judgments and key sources of estimation uncertainty – Exploration and evaluation assets and note 8 – Exploration and evaluation assets to the consolidated financial statements.* The carrying value of exploration and evaluation assets amounted to $24.5 million as at December 31, 2021. Management reviews the Company's exploration and evaluation assets for an indication of impairment at each consolidated statement of financial position date. If any such indicator exists, management compares the carrying values of the exploration and evaluation assets to their recoverable amounts. Factors considered by management in their assessment of impairment include, but are not limited to, (i) whether there has been a significant adverse change in the legal, regulatory, accessibility, title and environmental or political factors that could affect the assets' value; (ii) whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the acquisition and development or cost of holding such assets; (iii) whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future; and (iv) whether the Company has the necessary funds to be able to maintain its interest in the mineral properties. No impairment indicators were identified by management as at December 31, 2021. We considered this a key audit matter due to the significance of the exploration and evaluation assets and the judgments by management in its	Our approach to addressing the matter included the following procedures, among others: • Assessed the judgment made by management in its assessment of indicators of impairment, which included the following: – Evaluated whether there has been a significant adverse change in the legal, regulatory, accessibility, title and environmental or political factors that could affect the assets' value by obtaining, for a sample of mining claims, by reference to government registries and other regulatory bodies, evidence to support (i) the right to explore the area and (ii) claim expiration dates. – Evaluated whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the acquisition and development or cost of holding such assets by comparing expenditures related to the capitalized exploration costs assets included in the approved budget to actual expenditures incurred in the current year. – Assessed whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future by (i) considering changes in reserve and resource estimates based on the most recent technical report; (ii) reading the board of directors' minutes, and obtaining budget approvals to evidence continued and planned substantive exploration expenditures; and (iii) evaluating the results of management's

Key audit matter	How our audit addressed the key audit matter
assessment of indicators of impairment related to exploration and evaluation assets, and these have resulted in a high degree of subjectivity in performing procedures related to these judgments applied by management.	current year work programs and longer term plans. – Assessed whether the Company has the necessary funds to maintain its interest in the capitalized exploration costs assets and whether there are other factors that could be considered as indicators of impairment by considering evidence obtained in other areas of the audit.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 29, 2022

ARIZONA SONORAN COPPER COMPANY INC. (FORMERLY ELIM MINING)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of United States dollars)

	Note		December 31, 2021		December 31, 2020
ASSETS					
Current assets					
Cash		$	27,307	$	7,248
Receivables			400		76
Prepaid expenses and other			118		2,052
			27,825		9,376
Other non current assets					
Exploration and evaluation assets	8		24,493		7,994
Property and equipment	7		1,957		620
Right of use asset	9		149		-
Total assets		$	54,424	$	17,990
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	10	$	2,506	$	4,570
Current portion of lease liability	9		34		-
Debentures	6b		6,729		-
			9,269		4,570
Other Liabilities- long term					
Debentures			-		6,345
Lease liability	9		115		-
Other long-term liabilities	6c		962		88
			1,077		6,433
Total liabilities			10,346		11,003
SHAREHOLDERS' EQUITY					
Share capital	13		58,675		11,617
Reserves			5,369		2,277
Deficit			(19,966)		(6,907)
Total shareholders' equity			44,078		6,987
Total liabilities and shareholders' equity		$	54,424	$	17,990

Commitments and contingencies (note 17)
Subsequent events (notes 20)

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

ARIZONA SONORAN COPPER COMPANY INC. (FORMERLY ELIM MINING)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in thousands of United States dollars, except share data)

	Note	December 31, 2021	December 31, 2020
Salaries and wages		$ 2,817	1,235
Share based compensation	13	2,094	436
Professional fees		1,014	406
Directors fees		466	250
Marketing and adminstration		2,009	410
Loss from operations		8,400	2,737
Other (income) expenses			
Accretion		2,771	1,226
Finance expenses		1,216	1,128
Depreciation, depletion and amortization		75	17
Loss on extinguishment and modification of debt	6,13	704	-
Interest income		(11)	(4)
Other income		(5)	-
Government loan forgiveness		(91)	-
Loss and comprehensive loss for the year		$ 13,059	$ 5,104
Loss per share			
Basic		$ 0.28	$ 0.23
Diluted		0.28	0.23
Weighted average number of common shares outstanding			
Basic		46,985,594	21,830,943
Diluted		46,985,594	21,830,943

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

ARIZONA SONORAN COPPER COMPANY INC. (FORMERLY ELIM MINING)
CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in thousands of United States dollars)

	Year ended December 31, 2021	Year ended December 31, 2020
Cash provided by (used in):		
Operating activities		
Loss for the year	$ (13,059)	$ (5,104)
Add back non-cash items:		
Share-based compensation	2,937	670
Accretion	2,771	1,226
Depreciation, depletion and amortization	75	17
Interest and finance expense, net	154	817
Loss on extinguishment and modification of debt	704	-
Changes in non-cash operating working capital items		
Receivables	(324)	(38)
Prepaid expenses and other	1,934	(14)
Accounts payable and accrued liabilities	(1,485)	951
Net cash used in operating activities	(6,293)	(1,475)
Investing activities		
Expenditures on mineral properties and capitalized mine development	(17,231)	(4,832)
Expenditures on equipment	(22)	(149)
Property payments	(1,348)	(8,338)
Sale of NSR	-	5,093
Sale of option on NSR	-	127
Transaction costs paid on sale of NSR and NSR option	-	(197)
Net cash used in investing activities	(18,601)	(8,296)
Financing activities		
Proceeds from IPO	30,857	-
Transaction costs from IPO	(2,423)	-
Proceeds from loans	6,000	2,783
Repayment of loans	(88)	(2,841)
Proceeds from private placement , net of fees and expenses	2,431	3,766
Proceeds from stock options exercise	58	-
Proceeds from warrants exercise	5,067	-
Proceeds from Tembo/RCF pre-emptive rights	4,169	13,355
Interest paid on various loans	(1,068)	(91)
Lease payments	(50)	-
Net cash provided by financing activities	44,953	16,972
Change in cash	20,059	7,201
Cash at beginning of year	7,248	47
Cash at the end of year	$ 27,307	$ 7,248

ARIZONA SONORAN COPPER COMPANY INC. (FORMERLY ELIM MINING)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of United States dollars, except share data)

	Note	Number of common shares	Share capital	Contributed Surplus	Accumulated loss	Total
Balance at December 31, 2019	13	15,270,829	3,626	-	(1,803)	1,823
Issue shares for cash		15,576,116	3,839	-	-	3,839
Issue shares for service		987,005	492	-	-	492
Issue shares for financing		-	3,590	1,503	-	5,093
Issue shares for interest		538,333	242	-	-	242
Transaction costs		-	(615)	(133)	-	(748)
Paid in capital for conversion of debenture		1,936,112	443	471	-	914
Stock options reserve		-	-	292	-	292
RSUs reserve		-	-	144	-	144
Loss for the period		-	-	-	(5,104)	(5,104)
Balance at December 31, 2020		34,308,395	11,617	2,277	(6,907)	6,987
Issue shares for cash		15,736,785	11,732	-	-	11,732
Issue shares from IPO		18,367,347	35,855	-	-	35,855
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)	-	-
Vested RSUs		1,053,012	1,200	(1,200)	-	-
Transaction costs		-	(2,426)	-	-	(2,426)
Fair valuation of incentive warrants issued		-	(2,537)	2,537	-	-
Issue shares for interest		596,851	537	-	-	537
Issue shares for service		271,319	391	-	-	391
Warrant reserve		-	-	148	-	148
Stock options reserve		-	-	483	-	483
RSUs reserve		-	-	1,179	-	1,179
DSUs reserve		-	-	244	-	244
Long-term incentive plan		-	-	843	-	843
Loss for the period		-	-	-	(13,059)	(13,059)
Balance at December 31, 2021		70,819,420	58,675	5,369	(19,966)	44,078

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

Note 1 – Description of Business and Liquidity

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.

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/Park Salyer mining properties, and any additional public or private land leases, water rights and other real property as determined.

In November 2021 the Company completed an initial public offering ("IPO") and its shares began trading on the Toronto Stock Exchange ("TSX") under the symbol "ASCU", (Note 6a).

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 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.

The Company has no source of revenue and has significant cash requirements to meet its exploration and development plans, administrative overhead, maintenance of its mineral interests, and its commitments, which includes fulfilling its option payments for purchase of land from LKY/Copper Mountain Investments Limited Partnership LLP (Note 7). The Company will need to obtain financing in the form of debt, equity, or a combination thereof to continue with its development and operation plans. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms.

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. The Company cannot predict the effect of unknown adverse changes to its business plans, financial position, cash flows, and results of operations during 2022 and beyond.

Note 2 – Basis of Preparation

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

The Board of Directors approved the consolidated financial statements on March 30, 2022.

Basis of measurement

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

Foreign currencies and functional currency

The functional currency of the Company and all of its subsidiaries is the United States dollar ("USD"). Functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The consolidated financial statements are presented in USD.

In preparing the financial statements, transactions in currencies other than an entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities are translated using the period end foreign exchange rate as needed. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the statement of loss.

Note 3 – Significant Accounting Policies

The significant accounting policies described below have been applied consistently throughout the periods presented in these consolidated financial statements.

a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date the Company obtains control and continue to be consolidated until the date that control ceases. Control is achieved when the Company is exposed to or has rights to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the entity.

The principal subsidiaries of the Company, their activities, and their geographic locations as at December 31, 2021 were as follows:

Subsidiary	Principal activity	Location	Ownership interest
Arizona Sonoran Copper Company USA Inc. (formerly Elim Mining (USA) Inc.)	Mineral exploration	United States of America	100%
Cactus 110 LLC.	Mineral exploration	United States of America	100%

All transactions and balances among the entities in the consolidated group are eliminated upon consolidation.

b) Cash and cash equivalents

The Company considers cash equivalents to include amounts held in banks and highly liquid investments with maturity at a point of purchase of 90 days or less. As of December 31, 2021, the Company did not have any cash equivalents.

c) Property and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment charges. Land is not depreciated.

Where an item of property and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property and equipment.

Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

The costs of day-to-day servicing are recognized in profit or loss as incurred. These costs are more commonly referred to as "maintenance and repairs."

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

Depreciation is charged using the straight-line method over the estimated useful lives as follows:

Depreciation item:	Useful life
Computer equipment and software	2 years
Vehicles	3-5 years
Mineral property and plant	Units Of Production

Mineral properties and mine development costs are stated at cost less accumulated depreciation and impairment losses. When production commences, these costs are amortized using the units of production ("UOP") method, based on recoverable pounds from the estimated proven and probable reserves and a portion of measured and indicated resources that are reasonably expected to be converted to proven and probable reserves. Capitalization of costs incurred ceases when the mining property is capable of commencement of mining operations in the manner intended by management. Costs incurred prior to this point, including depreciation of related plant and equipment, are capitalized. The Company applies judgment in its assessment of when a mine is capable of operating in the manner intended by management which takes account of the design of the mine and the nature of the initial commissioning phase of the mine. Non-recoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made or when the carrying value of the project is determined to be impaired.

The depreciation method, useful life and residual values are assessed annually.

Subsequent costs

The cost of replacing part of an item within property and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized as an expense as incurred.

Impairment

The Company's property, plant and equipment are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated to the cash-generating units carrying amount.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of Impairment

An impairment loss is reversed whenever events or changes in circumstance indicate that the impairment may be reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

d) Exploration and evaluation assets

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company are capitalized on an individual property basis until the property is put into production, sold, abandoned, or determined to be impaired. Administration costs and general exploration costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation costs are tested for impairment and subsequently transferred to property and equipment. When a property is placed into commercial production, capitalized costs will be depreciated using the units-of-production method.

When a determination is made that there will be no future benefit from the exploration activities, the costs will be written off and expensed to the consolidated statement of loss and comprehensive loss.

Proceeds from the sale of properties, water rights, or cash proceeds received from royalty agreements are recorded as a reduction of the related mineral interest, with any excess proceeds accounted for in net income (loss).

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company’s title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

The Company's exploration and evaluation assets are reviewed for an indication of impairment at each statement of financial position date. This review generally is made by reference to the timing of exploration work, work programs proposed and the exploration results achieved by the Company. When indicators of Impairment exist, the carrying value of a property is compared to its net recoverable amount, a write down is made for the decline in fair value. The amounts shown for the exploration and evaluation assets represent costs incurred to date and do not reflect present or future values. Acquisition costs represent shares or cash paid to acquire the rights to the resource property, while exploration expenditures represent amounts paid to explore and develop the resource properties. The recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to successfully complete their exploration program.

e) Provisions

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset.

A liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect a time value in the estimated future cash flows (accretion expense) considered in the initial measurement. The capitalized cost is amortized on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of provisions for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As of December 31, 2021, the Company has determined that it does not have any significant decommissioning and restoration obligations.

f) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Statement of Comprehensive Loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Financial instruments

Financial instruments are recognized in the statement of financial position when the Company becomes a party to a contractual obligation. At initial recognition, the Company classifies and measures its financial instruments as one of the following:

- At amortized cost if they are held to collect contractual cash flows which solely represent payments of principal and interest;
- Otherwise, they are classified at fair value through profit or loss ("FVTPL").

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligations specified in the contract are discharged, cancelled or they expire.

At each reporting date, the Company uses the expected credit losses model to assess the impairment of its loans and receivables. The expected losses represent possible outcomes weighted by the probability of their occurrence, and the model focuses on the risk of default rather than whether a loss has been incurred. If there has been a significant increase in credit risk, an allowance would be recognized in the statement of loss.

h) Share-based payments

The fair value of stock options granted to directors, officers, employees, and consultants is calculated using the Black Scholes option pricing model and are expensed over the vesting periods. If and when the stock options are exercised, the value attributable to the stock options is transferred to share capital.

The Company founders as well as several contractors have accepted Company stock in exchange for services. These transactions have been recorded, as required under IFRS 2, in equity of the Company with the offsetting entry going to stock-based compensation.

i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants, and convertible debentures, 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.

j) Comprehensive income

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as foreign currency translation adjustments for a subsidiary with a different functional currency. The Company's comprehensive income, components of other comprehensive income, and cumulative translation adjustments are presented in the Consolidated Statements of Loss and Comprehensive Loss and the Consolidated Statement of Changes in Equity.

k) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individual or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligation between related parties.

Note 4 - New accounting standards not yet adopted.

Property, Plant and Equipment

Proceeds before Intended Use (Amendments to IAS 16): The amendments prohibit an entity from deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This amendment is effective for the Company's annual reporting period beginning January 1, 2022, with early adoption permitted. The Company has noted that there is no impact of the adoption of this amendment on the financial statements.

Presentation of Financial Statements - Classification of debt with covenants as current or non-current

In October 2020, the International Accounting Standards Board published amendments to IAS 1 - Presentation of Financial Statements - Classification of debt with covenants as current or non-current. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. This new requirement may change how companies classify their debt. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. The board has now clarified that when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognized as equity. Therefore, companies may need to reassess the classification of liabilities that can be settled by the transfer of the company's own equity instruments. The effective date is for annual periods beginning on or after January 1, 2023, with early adoption permissible. The Company is still considering the impact of the adoption of this amendment on the financial statements.

None of the other standards and amendments to standards and interpretations that have been issued but are not yet effective are expected to significantly affect the Company's consolidated financial statements.

Note 5 – Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies, reported amounts and disclosures. Actual results could differ from those estimates, and these differences may be material.

The areas that require significant estimations or where measurements are uncertain are as follows:

a) Critical judgements in applying accounting policies

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is impaired in the statement of loss and comprehensive loss during the period the new information becomes available.

Factors considered in the assessment of impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, and environmental or political factors that could affect the assets' value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the acquisition and development or cost of holding such assets; whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future on mineral properties; and whether the Company has the necessary funds to be able to maintain its interest in the mineral properties.

Management has performed an impairment indicator assessment on the Company's exploration and evaluation assets and has concluded that no impairment indicators existed as at December 31, 2021.

Tembo Financing

In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the initial fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

Mineral properties – net smelter royalty

Upon entering into a net smelter royalty ("NSR") arrangement linked to production at Cactus, management's judgment was required in assessing the appropriate accounting treatment for the transaction on the closing date and in future periods. We considered the specific terms of the arrangement to determine whether we have disposed of an interest in the reserves and resources of the operation or executed some other form of arrangement. This assessment considers what the counterparty is entitled to and the associated risks and rewards attributable to the counterparty over the life of the operation. These factors include the contractual terms related to the total production over the life of the mine, the percentage being sold, the allowable deductions and the commodity price referred to in the ongoing payment. Management concluded that the initial deposit and value associated with any subsequent amendments should be applied against the carrying value of the mineral interest.

Note 6 – Financings

a) Initial Public Offering

On November 16, 2021, the Company completed an IPO. Upon closing, the Company issued 18,367,347 treasury shares together with a major shareholder who sold 699,171 shares through a secondary offering, at a price of CAD$2.45 (US$1.95) per share for gross proceeds of CAD$45,000 (approximately US$35,855). From the proceeds, $5,000 relates to a part of the Tembo standby loan that was converted into equity, (Note 6c). The Company also incurred share issuance costs of CAD$3,041 (approximately US$2,426).

The Company's shares began trading on the TSX under the symbol "ASCU".

b) Tembo/RCF financing

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:

- $5,093 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"*);
- $5,094 purchase by Tembo and RCF of a 1.27% NSR; and
- $127 purchase by Tembo and RCF of a 1.27% NSR purchase option with a $8,786 exercise price;

*All of the NSRs apply to the Company's mineral properties.

<u>Debenture loan</u>

As part of the Financing, the Company received $8,786 by 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 which was settled subsequent to year-end (see Note 20). 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 $0.15 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 $2,547 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.

<u>1.27% NSR Purchase Option</u>

As part of the Financing, the Company sold an option for proceeds of $127 whereby the option holders could acquire up to an additional 1.27% NSR in the Company's mineral properties through January 15, 2022 for $8,786, which is the original amount of the Debenture Loan (the "NSR Purchase Option"). After deducting $11 of transaction costs, the $116 net proceeds were recorded to other long-term liabilities on the Statement of Financial Position. The $116 net sale price was considered to be fair value.

On December 30, 2021, RCF exercised its portion of the NSR Purchase Option for $1,886, their portion of the Debenture Loan. The NSR was obtained through a contractual arrangement in which the debenture loan owed to RCF was set off against the purchase price of the NSR.

Debenture Loan

	($)
Proceeds	8,786
Less: Bonus NSR	(2,547)
Less: transaction costs	(779)
Accretion	885
Carrying Value, December 31, 2020	6,345
Accretion	2,270
Less: Setoff against NSR acquisition by RCF	(1,886)
Carrying Value, December 31, 2021	6,729

Upon RCF exercising its NSR Purchase Option, an amount of $24 of the $116 purchase cost was recognized within Loss on Extinguishment and Modification of Debt in the Statement of Loss and Comprehensive Loss.

In addition, an amount of $47 was recognized within Loss on Extinguishment and Modification of Debt in the Statement of Loss and Comprehensive Loss representing the difference between the carrying amount of the debt and the $1,886 NSR exercise price.

1.27% NSR

As part of the Financing, the Company sold a 1.27% NSR in its mineral properties for a $5,094 investment. After deducting $452 of transaction costs, the $4,642 net proceeds were recorded to mineral properties on the Statement of Financial Position. The $5,094 purchase price was considered to be fair value.

c) Tembo standby loan

During September 2021, the Company drew on a standby loan agreement with Tembo, a shareholder. Under the terms of the agreement, Tembo advanced $6,000 as a short-term loan to the Company repayable on December 31, 2021 with interest accruing at the rate of 8% per annum. The maturity date for both the principal and accrued interest was subsequently extended to July 31, 2023.

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.

During November 2021, $5,000 of the short-term loan was converted into equity as part of the IPO. This conversion resulted in the extinguishment of the loan balance and the recognition of the remaining loan balance at a fair value of $944, both of which are reflected in the Statements of Loss and Comprehensive Loss. The remaining loan balance was discounted at the rate of 15% and shall continue to accrue interest at 8% until the maturity date.

The continuity of the loan is as follows:

	$
Proceeds received	6,000
Value of shares issued to Tembo	(1,020)
Loan balance converted to equity	(5,000)
Loan balance derecognized	(585)
Fair value of the remaining loan balance	944
Accretion	541
Interest	82
Balance, December 31, 2021	962

d) Other equity transactions

During the year ended December 31, 2021, the Company raised a total of $11,732 (2020: $3,839) from private placements and exercises of warrants, options and pre-emptive rights (Note 13).

Note 7 – Property and equipment

Properties 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 11).

Additional properties have been purchased that were once part of the Sacaton Unit and are contiguous with the Trust properties. These properties 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 properties were brought to the Company’s attention by a consulting group TAGC Ventures LLC (“TAGC”). An initial amount of $200 was paid on July 10, 2020. In addition, three incremental payments totaling $1,100 are due to TAGC 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 are capitalized as part of the land acquisition costs above. 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 to purchase 750 acres of land adjacent to the Cactus Mine. The total purchase price of $6,000 was paid during the year ended December 31, 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: $7,614 was paid on the closing date of February 10, 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 December 31, 2021, the Company had paid a total of $500 in non-refundable deposits in connection with the LKY agreement which was applied toward the first of these disbursements due on the closing date.

Property and equipment comprises the following:

	Surface rights - Land ($)	Mine Fleet Light Vehicles and Equipment ($)	Office Furniture and Equipment ($)	Total ($)
Cost				
Balance as of 01/01/20	478	-	9	487
Additions/(Disposals)	-	149	-	149
Balance at 12/31/20	478	149	9	636
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	478	142	-	620
Cost				
Additions	1,348	20	2	1,370
Balance at 12/31/21	1,826	169	11	2,006
Accumulated depreciation, amortization and impairment				
Additions	-	(33)	-	(33)
Balance at 12/31/21	-	(40)	(9)	(49)
Net book value at 12/31/21	1,826	129	2	1,957

Note 8 - Exploration and Evaluation Assets

The Company's Exploration and evaluation assets consist of capitalized exploration expenses on the mineral properties mentioned above as well as the mineral property that comprise the Sacaton consolidation.

Following is the detail of the mineral properties:

	Capitalized Exploration Costs Assets ($)
Balance as of 01/01/20	11,537
Additions	5,218
Disposals	(6,733)
Reclamation fund and additional land cost	(2,028)
Balance at 12/31/20	7,994
Additions	18,385
Royalty option exercised	(1,886)
Balance at 12/31/21	24,493

		2021		2020
Drilling	$	4,800	$	2,793
Exploration		12,171		1,162
Salaries and wages		876		627
Operational		394		223
Sample and assay		144		413
	$	18,385	$	5,218

Note 9 – Leases

During the year ended December 31, 2021, the Company recognized $192 as lease obligations and right-of-use assets in connection with office leases in Arizona. Total future lease payments over 12 months were discounted using a rate of 15%, which is the Company's incremental borrowing rate.

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

	($)
Initial recognition	192
Payments	(50)
Accretion	7
Balance, December 31, 2021	149
Current portion	(34)
Non-current portion	115

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

	($)
Initial recognition	192
Amortization	(43)
Balance, December 31, 2021	149

Note 10 – Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	December 31, 2021	December 31, 2020
Trade payables	$ 776	$ 1,270
Accrued liabilities	1,613	2,330
Other payables	117	970
	$ 2,506	$ 4,570

Note 11 – 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 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 12 – Capital Management

The Company considers its capital to consist of debt and equity, the latter comprising share capital, reserves, and deficit. The Company’s objectives are to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, pursuit of accretive opportunities, and to maximize shareholder return through enhancing the share value.

The Company manages its capital through its budgeting and forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities.

To maintain its objectives, the Company may issue new shares, adjust capital spending, acquire, or dispose of assets. There is no assurance that these initiatives will be successful.

The Company is currently not exposed to any externally imposed capital requirements.

Note 13 – Equity

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2021, there were 70,819,420 common shares outstanding (December 31, 2020 – 34,308,395 common shares outstanding).

b) Issued Shares

The Company had the following share transactions during the year ended December 31, 2020

- During January 2020, the Company issued 41,667 shares with a fair value of $50 to a significant shareholder to act as a guarantor for short-term financing.
- During February 2020, the Company issued 10,417 shares for services valued at $13.
- During March 2020, the Company issued 22,508 shares for gross proceeds of $27.
- During April 2020, the Company issued 9,169 shares for services valued at $11.
- During June and July 2020, the Company issued 1,091,667 shares with a fair value of $156 pursuant to the conversion of $262 debt.
- During July 2020, the Company issued 11,318,519 shares, and 844,444 broker shares, with a fair value of $3,590 and $268 respectively pursuant to the Financing. Transaction costs associated with these issuances were $319.
- During October 2020, the Company paid financing interest of $242 by issuing 538,333 shares priced at $0.15 per share as prescribed in the Tembo and RCF loan agreements.
- During October 2020, the Company issued 395,556 common shares with a fair value of $178 for directors' fees.
- During December 2020, the Company completed a private placement by issuing 4,235,089 shares for gross proceeds of $3,812 and 530,196 common shares with a fair value of $239 for services. Transaction costs associated with these issuances were $296.

The Company had the following share transactions during the year ended December 31, 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. Also, during January, the Company issued 3,333 common shares to an employee for proceeds of $3.
- During February 2021, the Company settled financing interest of $269 by issuing 596,851 shares. The fair value of the shares issued was $0.90 per share, or $537, resulting in a loss on extinguishment of debt of $269.
- During March 2021, the Company completed a private placement by issuing 2,119,454 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
- 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 (Note 6c).
- During November 2021, the Company issued 1,053,012 common shares with a value of $1,200 as part of an employee restricted stock unit exercise.
- During November 2021, the Company issued 18,367,347 common shares with a value of $35,855 as part of an IPO. Included in the IPO shares issued was shares with a value of $5,000 that were part of a debt-to-equity conversion of the Tembo standby loan (Note 6c).

c) Stock Options

The Company established a stock option 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.

During the year ended December 31, 2021, the Company granted 530,481 (2020: 1,320,799) stock options to directors and officers of the Company with a weighted average exercise price of $1.66. The total fair value of the options granted was $538 (2020: $439).

As at December 31, 2021, the Company has the following stock options outstanding and exercisable:

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

Details of stock options outstanding as at December 31, 2021 are as follows:

Date of grant	Expiry date	Exercise price	December 31, 2021 outstanding	December 31, 2021 exercisable
July 20, 2020	July 20, 2025	$0.45	946,175	776,287
October 2, 2020	October 2, 2025	$0.45	116,666	116,666
November 12, 2020	November 12, 2025	$0.45	85,986	68,788
December 14, 2020	December 14, 2025	$0.45	42,993	42,993
January 4, 2021	January 4, 2026	$0.90	107,649	86,119
May 27, 2021	January 4, 2026	$1.50	172,832	74,698
July 6, 2021	July 6, 2026	$2.10	250,000	83,334
			1,722,301	1,248,885

As at December 31, 2021, outstanding stock options had a weighted average remaining life of 3.8 years (December 31, 2020 – 4.6).

The following Black Scholes assumption were used in the valuation of stock options granted during the year ended December 31, 2021:

	December 31, 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 year ended December 31, 2021 was $483 (2020 - $292).

d) Restricted Share Units (RSUs)

The Company established a restricted share plan (“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 the year ended December 31, 2021, the Company awarded 702,379 RSUs (2020: 547,486) to the directors and officers of the Company. The fair value of the RSUs awarded was $845 (2020: $246). The RSU's were valued based on the average estimated share price as at the date of grant of $1.00.

As at December 31, 2021, the Company had 141,577 RSUs outstanding (December 31, 2020 – 547,486) of which Nil were vested (December 31, 2020 – 164,246).

Total stock-based compensation recognized related to RSUs during the year ended December 31, 2021 was $1,179 (2020 - $144).

e) Deferred Share Units (DSUs)

On November 25, 2021, the Company granted 73,750 DSUs to the directors of the Company. The DSUs granted to the holders are to be held in a deferred share unit account until they become payable to the DSU holder on their termination date as a director. The fair value of each DSU was estimated using CAD $1.98 (US$1.56) which was the stock price of the Company's common shares on the date of the grant. The Company recognized a total of $115 as share-based payments expense for the award of the DSUs during the period ended December 31, 2021.

f) Warrants

On May 8, 2020, 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.

In July 2020, the Company issued 8,488,890 warrants, and 1,777,777 broker warrants, with a fair value of $1,370 and $315, respectively, pursuant to the Tembo/RCF financing (see Note 6(b)).

During June, July and September 2021, the Company issued a total of 2,498,421warrants with exercise prices between $0.30 and $2.10 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 year ended December 31, 2021, in exchange for employment services, the Company issued 114,583 (2020: Nil) warrants with a fair value of $148 (2020: $Nil).

As at December 31, 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, December 31, 2021	6,717,626	$	1.00

As at December 31, 2021 the Company had warrants outstanding to acquire common shares of the Company as follows:

Expiry Date	Exercise Price	Number of warrants December 31, 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 December 31, 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 December 31, 2021:

	December 31, 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 14 - Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Tembo and RCF are shareholders and warrant holders in the Company. In connection with the Tembo/RCF financing (Note 6(b)), 538,333 common shares were held with a fair value of $242 pursuant to the financing interest. As at December 31, 2021, carrying values of $6,729 (2020: $4,983) and $Nil (2020: $1,362) in debentures was payable to Tembo and RCF, respectively.

During the year ended December 31, 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.

During the year ended December 31, 2021, 1,117,045 (2020: 447,638) common shares were issued to directors and officers for services.

During the year ended December 31, 2021, 342,796 (2020: 720,000) common shares were issued to directors and officers for gross proceeds of $373 (2020: $400).

Total director fees for the year ended December 31, 2021, were $466 (2020: $250).

The remuneration of the president and chief executive officer, chief financial officer, and chief operating officer (collectively, the key management personnel) was as follows:

	Year ended December 31, 2021 ($)	**Year ended December 31, 2020 ($)**
Salaries and wages	1,070	920
Salaries and wages capitalized as exploration	428	-
Share-based compensation*	1,693	112
Directors' fees	466	250
	3,657	1,282

*Share-based compensation includes shares issued for services, stock options and RSUs.

As at December 31, 2021, $187 was owed to the Company by key management personnel (2020 – $400 payable).

Note 15 – Income Taxes

The tax expense at statutory rates for the Company can be reconciled to the reported loss per the statement of loss and comprehensive loss as follows:

		2021		**2020**
Loss before income taxes	$	(13,059)	$	(5,104)
Canadian federal and provincial income tax rates		27.0%		27.0%
Income tax expense (recovery) based on the above rates		(3,526)		(1,378)
Items not deductible for income tax purposes		565		250
Differences in foreign tax rates		163		105
Foreign exchange and other		(257)		222
Financing costs		(655)		(379)
Impact of deferred tax assets not recognized		3,710		1,180
Total income tax expense	$	-	$	-

The Company's unrecognized deferred income tax assets are as follows:

		2021		**2020**	**Expiry date range**
Unrecognized deferred income tax assets (liabilities)					
Non-capital losses carried forward	$	7,452	$	2,294	See below
Loans		852		239	2022-2023
Financing costs		752		304	2024-2025
Mineral properties		(3,787)		(1,278)	Not applicable
Total unrecognized deferred income tax assets	$	5,269	$	1,559	

The Company has non-capital losses available of $33,391 that may be carried forward to reduce future taxable income. These losses are with respect to Canadian and US operations, and if not utilized, will expire as follows:

Expiry Date	USA ($000)	Canada ($000)
2039	$ 2,298	$ 5
2040	6,938	1,537
2041	15,594	7,020
	24,830	8,562

Note 16 – Financial Instruments

	December 31, 2021	December 31, 2020
Financial assets at amortized cost		
Cash	$ 27,307	$ 7,248
Financial liabilities at amortized cost		
Accounts payable	776	1,270
Accruals	1,614	2,330
Lease liabilities	149	-
Other current liabilities	116	970
Tembo Capital Mining GP Ill Ltd. debenture loan	6,729	4,983
Resource Capital Funds debenture loan	-	1,362
Other long-term liabilities	962	88
	10,346	11,003

As at December 31, 2021, the fair value of the Company's Debenture Loan with Tembo, using a 12% discount rate, was $6,729. The carrying values of all other financial assets and financial liabilities approximate their fair value.

Management of financial risks

Currency risk

The Company is exposed to the financial risk due to changes in foreign exchange rates. The Company operates in the United States and Canada, and a portion of its expenses are incurred in Canadian dollars. A significant change in the exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. At December 31, 2021, the Company is exposed to currency risk through its cash and cash equivalents denominated in Canadian dollars totaling $2,509.

Based on the exposure as at December 31, 2021, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately $251 in the Company's loss for the year.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit risk the Company is exposed to is 100% of cash and cash equivalents and receivables.

The Company's cash and cash equivalents are held in large Canadian or US financial institutions. As a result, the Company concludes that there are negligible expected losses because it is cash.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements by taking into account anticipated cash expenditures for its exploration and operational activities. The Company will pursue additional equity or debt financing as required to meet its long-term commitments. There is no assurance that such financing will be available or that it will be available on favorable terms.

As at December 31, 2021, the contractual undiscounted future cash flows of the Company's significant financial liabilities are as follows:

December 31, 2021		**Less than 1 year**	**1 to 3 years**
Accounts payable	$	776	-
Accruals		1,613	-
Other current liabilities		117	-
Tembo Debenture		6,900	-
Lease liabilities		51	138
Other long- term liabilities		-	1,218
		9,457	1,356

December 31, 2020		**Less than 1 year**	**1 to 3 years**
Accounts payable	$	1,270	-
Accruals		2,330	-
Other current liabilities		970	-
Tembo Debenture		-	6,900
Resource Capital Funds		-	1,886
Other long-term liabilities		-	88
		4,570	8,874

Note 17 – Commitments and contingencies

If the Company achieves certain development milestones, the Company is obligated to make future payments to TAGC of up to $1,100 as discussed in Note 7.

The Company has also committed to NSR obligations with respect to its Tembo financing, described in Note 6.

Note 18 – Operating segments

As of December 31, 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.

Note 19 – Supplemental Cash Flow Information

Non-Cash Investing and Financing Activities	For the year ended December 31 2021 $	For the year ended December 31 2020 $
Common shares issued for Tembo loan	5,000	-
NSR setoff against RCF loan	1,886	-
Common shares issued for financing arrangement	1,020	-
Common shares issued for interest	537	242
Common shares issued for services	391	492
Bonus NSR	-	2,547
Mineral property expenditures in Accounts Payable and Accruals	-	2,039

Note 20 – Subsequent Events

(a) In January 2022, Tembo exercised its option to acquire a 1% NSR for $6,900. Tembo obtained the NSR through a contractual arrangement in which the debenture loan owed to Tembo was set off against the purchase price of the NSR.

(b) In February 2022, the Company entered into an assumption and assignment agreement with Bronco Creek Exploration Inc (“Bronco Creek”) under which Bronco Creek assigned an exploration permit to the Company in return for cash payments and 1.5% net smelter royalty. The permit relates to a portion of the Parks Salyer copper target, located approximately 1,500 meters southwest of the Sacaton open pit copper mine and covers an area of 158 acres.

(c) Also in February 2022, the Company paid $7,614 to LKY/Copper Mountain Investments Limited Partnership LL as part payment for its option to purchase the 1,000 acres of land adjacent to the Cactus Mine. The total purchase price is $20,000 to be settled in three disbursements, and this payment constitutes the first disbursement (Note 7).