



Arizona Sonoran Copper Company Inc.

Interim Condensed Consolidated Financial Statements

March 31, 2022

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

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

	Note	March 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		\$ 13,372	\$ 27,307
Receivables		237	400
Prepaid expenses and other		472	118
		14,081	27,825
Other non current assets			
Exploration and evaluation assets	5	30,061	24,493
Property and equipment	4	2,638	1,957
Right of use asset	6	137	149
Total assets		\$ 46,917	\$ 54,424
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 2,851	\$ 2,506
Current portion of lease liability	6	35	34
Debentures	3a	-	6,729
		2,886	9,269
Other Liabilities- long term			
Lease liability	6	104	115
Other long-term liabilities	3b	998	962
		1,102	1,077
Total liabilities		3,988	10,346
SHAREHOLDERS' EQUITY			
Share capital		58,920	58,675
Contributed surplus		6,622	5,369
Deficit		(22,613)	(19,966)
Total shareholders' equity		42,929	44,078
Total liabilities and shareholders' equity		\$ 46,917	\$ 54,424

Description of business (see Note 1)

Commitments and contingencies (see Note 11)

Events after the reporting period (see Note 14)

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

Arizona Sonoran Copper Company Inc.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****(Expressed in thousands of United States dollars except for share amounts)****(Unaudited)**

		Three months ended	
	Note	March 31, 2022	March 31, 2021
Salaries and wages		\$ 1,273	369
Share based compensation	9	710	205
Professional fees		165	103
Directors fees		48	112
Marketing and administration		305	441
Loss from operations		2,501	1,230
Other (income) expenses			
Accretion		191	499
Finance expenses		43	260
Depreciation, depletion and amortization		20	17
(Gain)/loss on extinguishment and modification of debt	3a	(91)	325
Interest income		(16)	(1)
Other income		(1)	-
Government loan forgiveness		-	(91)
Loss and comprehensive loss for the period		\$ 2,647	\$ 2,239
Loss per share			
Basic and diluted		\$ 0.04	\$ 0.06
Weighted average number of common shares outstanding			
Basic and diluted		70,979,702	35,619,961

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

Arizona Sonoran Copper Company Inc.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of United States dollars)
(Unaudited)

	Number of common shares	Share capital	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$
Balance at December 31, 2020	34,308,395	11,617	2,277	(6,907)	6,987
Issue shares for cash	6,752,075	6,080	-	-	6,080
Issue shares for service	724,628	648	-	-	648
Warrant reserve	-	-	-	-	-
Stock options reserve	-	-	64	-	64
RSUs reserve	-	-	141	-	141
DSUs reserve	-	-	-	-	-
Long-term incentive plan	-	-	-	-	-
Loss for the period	-	-	-	(2,239)	(2,239)
Balance at March 31, 2021	41,785,098	18,345	2,482	(9,146)	11,681
Balance at December 31, 2021	70,819,420	58,675	5,369	(19,966)	44,078
Issue shares for cash	328,679	148	-	-	148
Fair valuation of options exercised	-	40	(40)	-	-
Fair valuation of warrants exercised	-	57	(57)	-	-
Stock options reserve	-	-	544	-	544
RSUs reserve	-	-	352	-	352
DSU reserve	-	-	454	-	454
Loss for the period	-	-	-	(2,647)	(2,647)
Balance at March 31, 2022	71,148,099	58,920	6,622	(22,613)	42,929

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

Arizona Sonoran Copper Company Inc.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of United States dollars)
(Unaudited)

	Three months ended	
	March 31, 2022	March 31, 2021
Cash provided by (used in):		
Operating activities		
Loss for the period	\$ (2,647)	\$ (2,239)
Effect of non-cash items:		
Share-based compensation	623	205
Accretion	191	499
Depreciation, depletion and amortization	20	17
Long term incentive	275	-
Interest and finance expense, net	21	-
(Gain)/loss on extinguishment and modification of debt	(91)	-
Changes in working capital items		
Receivables	163	(78)
Prepaid expenses and other	(354)	10
Accounts payable and accrued liabilities	(717)	(1,329)
Net cash used in operating activities	(2,516)	(2,915)
Investing activities		
Expenditures on mineral properties and capitalized mine development	(10,862)	(2,615)
Expenditures on equipment	(49)	-
Property payments	(641)	-
Net cash used in investing activities	(11,552)	(2,615)
Financing activities		
Repayment of loans	-	(7)
Proceeds from private placement , net of fees and expenses	-	1,898
Proceeds from stock options exercise	54	-
Proceeds from warrants exercise	94	-
Proceeds from Tembo/RCF pre-emptive rights	-	4,169
Lease payments	(15)	(12)
Net cash provided by financing activities	133	6,048
Change in cash	(13,935)	518
Cash at beginning of the period	27,307	7,248
Cash at the end of the period	\$ 13,372	\$ 7,766

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

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

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 in the Santa Cruz Copper Mining District in southern Arizona. The Company’s equity securities are traded on the Toronto Stock Exchange (“TSX”) under the symbol “ASCU”. On March 29, 2022, the Company began trading on the Over-the-Counter Markets (“OTCQX”) under the symbol “ASCUF”.

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.

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 (“Copper Mountain”) (Note 4) and its commitments related to the agreement with Bronco Creek Exploration Inc (Note 5). 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. See note 14 for the financing that closed after the period ended March 31, 2022.

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.

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

Note 2 – Basis of Preparation**Compliance Statement**

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, 2021, which have been prepared in accordance with IFRS.

These interim financial statements have been authorized for issue by the Board of Directors of the Company on May 13, 2022.

Critical Accounting Estimates and Judgments

The preparation of the interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

In preparing the interim condensed consolidated financial statements, the significant judgments made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2021, except as noted below.

Changes in accounting policies including initial adoption***IAS 16, 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.

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 interim financial statements.

Arizona Sonoran Copper Company Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States dollars)

(Unaudited)

Note 3 – Financing

a) 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.

Debenture loan

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. 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.

1.27% NSR Purchase Option

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 and acquired NSRs to set off the debenture balance. Tembo also exercised its portion of the NSR Purchase Option on January 15, 2022, for \$6,900, their portion of the Debenture Loan. In both instances the NSRs were obtained through a contractual arrangement in which the debenture loans owed to Tembo and RCF were set off against the purchase price of the NSR.

Arizona Sonoran Copper Company Inc.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in thousands of United States dollars)
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Debenture Loan	(\$)
Carrying Value, December 31, 2021	6,729
Accretion	171
Less: Setoff against NSR acquisition by RCF	(6,900)
Carrying Value, March 31, 2022	-

Upon Tembo exercising its NSR Purchase Option, an amount of \$91 of the \$116 purchase cost was recognized as a gain on extinguishment and modification of debt in the Statement of Loss and Comprehensive Loss. The NSR has been credited to the capitalized Mineral Properties on the Statement of Financial Position as it represents a sale of mineral interests.

b) Tembo standby loan

During September 2021, the Company drew on a standby loan agreement with Tembo, a significant 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 initial public offer. This conversion resulted in the extinguishment of the loan balance and the recognition of the remaining loan balance at a fair value of \$944. 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:

	\$
Balance, December 31, 2021	962
Accretion	15
Interest	21
Balance, March 31, 2022	998

c) Other equity transactions

During the three months ended March 31, 2022, the Company received proceeds totaling \$148 (2021: Nil) from exercises of warrants and options (Note 9).

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

Note 4 – 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 8).

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.

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. The consideration paid includes an amount of \$1,826 allocated to surface rights and the balance was allocated to mineral rights.

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, at the Company’s option, 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 is to be paid on the first anniversary of the closing date, and the final \$5,000 on the fifth anniversary of the closing date. As of March 31, 2022, the Company had paid a total of \$8,114 in non-refundable deposits in connection with the LKY Agreement which was applied toward the first of these disbursements due on the closing date. From the \$8,114 paid, \$641 was allocated to surface rights and the balance was allocated to mineral rights.

Following is the detail of the mineral property and equipment:

Arizona Sonoran Copper Company Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States dollars)

(Unaudited)

	Surface rights - Land	Mine Fleet Light Vehicles and Equipment	Office Furniture and Equipment	Total
	(\$)	(\$)	(\$)	(\$)
Cost				
Balance at 12/31/21	1,826	169	11	2,006
Accumulated depreciation, amortization and impairment				
Balance at 12/31/21	-	(40)	(9)	(49)
Net book value at 12/31/21	1,826	129	2	1,957
Cost				
Additions	641	49	-	690
Balance at 03/31/22	2,467	218	11	2,696
Accumulated depreciation, amortization and impairment				
Additions	-	(9)	-	(9)
Balance at 03/31/22	-	(49)	(9)	(58)
Net book value at 03/31/22	2,467	169	2	2,638

Note 5 – Exploration and Evaluation Assets

Bronco Creek agreement

In February 2022, the Company entered into an assumption and assignment agreement (“the Agreement”) with Bronco Creek Exploration Inc (“Bronco Creek”) under which Bronco Creek assigned an exploration permit (“the Permit”) to the Company. 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. The terms of the Agreement are as follows:

- The Company is to make a payment of \$5 upon execution of the Agreement.
- The Company is to pay \$195 upon transfer and registration of the Permit to Cactus 110 LLC.
- Bronco Creek will retain a 1.5% NSR royalty interest on the Permit and the Company can buy back one percent (1%) of the royalty for a payment of \$500.
- Bronco Creek will receive annual advance royalty ("AAR") payments of \$50. The AAR payments cease upon commencement of commercial production and can be bought out at any time for a payment of \$1,000.

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

- The Company will make milestone payments of \$1,500 upon declaration of a mineral resource containing 100 million pounds or more of copper and another payment of \$1,500 upon further declaration of an additional 100 million pounds of copper contained in a resource.
- In the two years following the Registration Date, the Company will make yearly exploration expenditures totaling \$2,000 prior to the first anniversary and a cumulative total of \$4,000 prior to the second anniversary.

A total of \$200 was capitalized to Exploration and Evaluation Assets related to this Agreement which is the cash payment of \$5 made upon execution of the Agreement and \$195 being the cash paid to Bronco creek after registration of the Permit subsequent to period end March 31, 2022.

The following is the detail of the Exploration and evaluation assets:

	Capitalized Exploration Costs Assets (\$)
Balance at 12/31/21	24,493
Additions	12,468
Royalty option exercised	(6,900)
Balance at 3/31/22	30,061

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.

	For the three month period ended March 31, 2022	For the year ended December 31, 2021
Drilling	\$ 2,313	\$ 4,800
Exploration	9,813	12,171
Salaries and wages	253	876
Operational	83	394
Sample and assay	6	144
	\$ 12,468	\$ 18,385

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

Note 6 – Leases

The Company has 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:

	(\$)
Balance, December 31, 2021	149
Payments	(15)
Accretion	5
Balance, March 31, 2022	139
Current portion	(35)
Non-current portion	104

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

	(\$)
Balance, December 31, 2021	149
Amortization for the period	(12)
Balance, March 31, 2022	137

Note 7 – Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, December 31,	
	2022	2021
Trade payables	\$ 774	\$ 776
Accrued liabilities	1,931	1,613
Other payables	146	117
	\$ 2,851	\$ 2,506

Note 8 – Asset Retirement Obligations

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.

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

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 9 – Equity

a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2022, there were 71,148,099 common shares outstanding (December 31, 2021 –70,819,420 common shares outstanding).

b) Issued Shares

The Company had the following share transactions during the three months ended March 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

The Company had the following share transactions during the three months ended March 31, 2022:

- During January 2022, the Company issued 60,190 common shares as part of an option exercise for proceeds of \$27.

Arizona Sonoran Copper Company Inc.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Expressed in thousands of United States dollars)****(Unaudited)**

- During February 2022, the Company issued 60,190 common shares as part of an option exercise for proceeds of \$27. Also, during February 2022 the Company also issued 138,866 common shares through a warrants exercise for proceeds of \$62.
- In March 2022 the Company issued 69,433 common shares in a warrant exercise for proceeds of \$31.

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 three months ended March 31, 2022 a total of 1,335,483 options were granted (2021 - 107,649).

During January and February 2022, 120,380 options were exercised by employees for a consideration of \$54. The total fair value of these options was \$40. The value of the common shares of the Company at the time of the exercise of these options was \$2.21 and the weighted average fair value of these options was \$0.33.

As at March 31, 2022, the Company has the following stock options outstanding:

	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
Granted	1,335,483	1.66
Expired	(15,047)	0.45
Exercised	(120,380)	0.33
Balance, March 31, 2022	2,922,357	\$ 1.09

Details of stock options outstanding as at March 31, 2022 are as follows:

Arizona Sonoran Copper Company Inc.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of United States dollars)
(Unaudited)

Date of grant	Expiry date	Exercise price	Outstanding March 31, 2022	Exercisable March 31, 2022
July 20, 2020	July 20, 2025	\$0.45	810,748	655,907
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
January 10, 2022	January 10, 2027	\$1.58	475,000	158,000
January 28, 2022	January 28, 2027	\$1.61	860,483	286,828
			2,922,357	1,573,333

As at March 31, 2022, outstanding stock options had a weighted average remaining life of 3.24 years (December 31, 2021 – 3.8 years).

The following Black Scholes assumption were used in the valuation of stock options granted during the period ended March 31, 2022:

	March 31, 2022	December 31, 2021
Volatility since IPO	65%	75%
Expected life in years	5 years	5 years
Grant date share price	\$1.46 and \$1.66	\$2.10
Exercise price	\$1.58 and \$1.62	\$2.10
Dividend rate	0%	0%
Risk-free rate	1.51% to 1.63%	0.39% to 0.95%
Forfeiture rate	0%	0%

Total stock-based compensation recognized related to stock options during the three months ended March 31, 2022 was \$544 (three months ended March 31, 2021 - \$64).

d) Restricted Share Units (“RSUs”)

On July 7, 2020 (amended July 21, 2021), the Board of Directors implemented an RSU 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.

As at March 31, 2022, the Company had 233,577 RSUs outstanding (December 31, 2021 – 141,577) of which Nil were vested and unissued (December 31, 2021 – Nil).

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Total stock-based compensation recognized related to RSUs during the three months ended March 31, 2022 was \$72 (three months ended March 31, 2021 - \$141).

e) Warrants

During the three months ended March 31, 2022, warrant holders exercised 208,299 warrants with a fair value of \$57 for proceeds of \$94 (March 31, 2021- Nil).

As at March 31, 2022, the Company has the following warrants outstanding:

	Number of warrants outstanding		Weighted average exercise price
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
Exercised	(208,299)		0.45
Balance, March 31, 2022	6,509,327	\$	1.02

As at March 31, 2022 the Company had warrants outstanding to acquire common shares of the Company as follows:

Expiry Date	Exercise Price	Number of warrants March 31, 2022	Number of warrants December 31, 2021
May 8, 2023	\$ 0.45	1,097,019	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	1,822,223
June 8, 2024	\$ 0.30	114,583	114,583
July 6, 2024	\$1.95	2,222,222	2,222,222
September 8, 2024	\$2.10	161,616	161,616
		6,509,327	6,717,626

As of March 31, 2022, outstanding warrants had a weighted average remaining life of 0.83 years (December 31, 2021 – 2.0 years).

f) Deferred Share Units (“DSUs”)

During the three months ended March 31, 2022, the Company granted 281,305 DSUs to the directors of the Company as part of their compensation for the year. 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 \$1.61 which was based on the value of

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the director's compensation on the date of the grant. The Company recognized a total of \$88 as share-based payments expense for the award of the DSUs during the three-month period ended March 31, 2022 (2021-\$Nil).

As at March 31, 2022, the Company had 355,055 DSUs outstanding (December 31, 2021 – 73,750) of which Nil were vested and unissued (December 31, 2021 – Nil).

Note 10 - Related Party Transactions

The remuneration of the key executive management and directors was as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021,
	(\$)	(\$)
Salaries and wages	899	471
Severance pay	495	
Salaries and wages capitalized as exploration	247	-
Share-based compensation*	707	87
Directors' fees	48	-
	<u>2,396</u>	<u>558</u>

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

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 exploration and evaluation expenditure obligations with respect to its Bronco Creek agreement, described in Note 5.

Note 12 – Operating Segments

As of March 31, 2022, and December 31, 2021, 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

	Three months ended March 31, 2022	Three months ended March 31, 2021
	(\$)	(\$)
Non-Cash Investing and Financing Activities		
Sale of NSRs	6,900	-
Common shares issued for interest	-	537
Common shares issued for services	-	112

Note 14 – Events After the Reporting Period

(a) Non-brokered private placement

On May 13, 2022, the Company closed its strategic partnership announced on April 28, 2022 with Rio Tinto Holdings Corporation (“Rio Tinto”) and non-brokered private placement for total gross proceeds C\$35,000 (“the Offering”).

- Under the Offering, up to 17,500,000 Common Shares were issued at a subscription price of C\$2.00 per share. Rio Tinto and Tembo subscribed for 6,400,000 Common Shares and 3,911,916 Common Shares, respectively. Other institutional investors subscribed for 7,188,084 Common Shares.
- Rio Tinto holds 7.2% of the outstanding share capital of the Company, and although participating in the Offering, Tembo reduced its holding from 37.6% to 34.6% in the Company.