ARIZONA SONORAN COPPER COMPANY INC.
(FORMERLY ELIM MINING INCORPORATED)

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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INTRODUCTION

The following Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated) ("ASCU" or the "Company") Management Discussion and Analysis ("MD&A") was prepared as of March 29, 2023 and should be read in conjunction with the audited consolidated financial statements ("Financial Statements") of the Company as at and for the years ended December 31, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). All dollar amounts are expressed in United States dollars unless otherwise noted. Additional information relating to the Company is available on the Company's website (www.arizonasonoran.com) and System for Electronic Document Analysis and Retrieval ("SEDAR") – (www.sedar.com). The Company trades on the Toronto Stock Exchange ("TSX") under symbol "ASCU" and the OTCQX under the symbol "ASCUF."

This MD&A should be read in conjunction with the Financial Statements dated March 29, 2023 and the Annual Information Form dated March 30, 2023 ("AIF") filed with the Canadian Securities Administrators ("CSA") under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and also available on its website at www.arizonasonoran.com. Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements. A description of significant risks may be found in the Company's AIF for the year ended December 31, 2022 and in "Risks and Uncertainties" below.

ASCU is an emerging U.S. copper advanced stage exploration company intending to build a scalable, multi-phase, multi-billion-pound copper porphyry project on private land in the infrastructure-rich state of Arizona. The Company holds 100% ownership in both the Cactus Project (comprised of private land and a state land lease) and the Parks/Salyer Property ("P/S" or "P/S Project") in Pinal County, Arizona.

Except where otherwise indicated, ASCU's exploration programs and pertinent disclosure of a technical or scientific nature are supported by Mr. Allan Schappert, Stantec, for the mineral resource and Mr. Russell Alley, MAG, for metallurgy, both of whom are Qualified Persons as defined by National Instrument 43-101– Standards of Disclosure for Mineral Projects.

DEFINITIONS

"**Cactus East**" herein means the mineral rights representing the Cactus East development as referred to in the context of the Cactus Project, previously known as the Sacaton East deposit.

"**Cactus West"** herein means the mineral rights representing the Cactus West development as referred to in the context of the Cactus Project, previously known as the Sacaton West deposit.

"**Parks/Salyer Property"** herein means the mineral rights representing the porphyry copper deposit, located immediately southwest of the Cactus Project on contiguous private land in Arizona, USA. The P/S Project is located 1.3 mi (2 km) SW from the Cactus open pit along the mine trend and demonstrates the same geological characteristics.

"**Stockpile Project**" herein means the historic waste dump created through dumping of defined waste material from the mining of the old Sacaton open pit deposit. All oxide copper mineralization, and sulfide copper mineralization below the working grade cut-off of 0.3% copper (Cu) was deposited to the waste dump.

COMPANY HIGHLIGHTS – 2022 AND YEAR-TO-DATE 2023

Corporate Updates

- Effective January 10, 2022, the Company appointed Nicholas Nikolakakis as Vice President Finance and Chief Financial Officer.

- On May 3, 2022, the Company announced it had received Depository Trust Company eligibility which facilitates settlement transfers and electronic clearing of ASCU common shares within the USA.

- On May 13, 2022, the Company finalized its strategic partnership announced on April 28, 2022 with Rio Tinto Technology Holdings Corporation ("Rio Tinto") focused on Rio Tinto's Nuton™ venture ("Nuton LLC" or "Nuton") following the closing of the non-brokered private placement for total gross proceeds C$35 million ("the May 2022 Offering"). Nuton offers a portfolio of proprietary copper leach related technologies and capability developed by Rio Tinto to deliver increased copper recovery and leading environmental performance. In connection with its subscription under the May 2022 Offering, ASCU and Rio Tinto entered into an investor rights agreement, which was subsequently assigned to Nuton (the "Nuton Investor Rights Agreement").
  - Under the May 2022 Offering, 17,500,000 Common Shares were issued at a subscription price of C$2.00 per share. Rio Tinto and Tembo Capital Elim Co-Investment LP (together with Tembo Capital Mining GP III Ltd, collectively "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.
  - Nuton holds 7.2% of the outstanding share capital of the Company, and although participating in the May 2022 Offering, Tembo reduced its holding from 37.6% to 34.6% in the Company.

- On February 16, 2023, the Company announced that it had closed its bought deal financing of 15,000,000 common shares in the capital of the Company at a price of C$2.00 per Common Share, for gross proceeds to the Company of C$30,000,000 (the "February 2023 Offering") initially announced on January 25, 2023. The Offering was underwritten on a "bought deal" basis by a syndicate of underwriters.
  - The net proceeds from the Offering will be used for exploration and development at the Company's Cactus Project located in Arizona, and for general working capital and corporate purposes, as described in the short form prospectus dated February 9, 2023, filed in all provinces of Canada, except Québec (the "Prospectus").
  - The Common Shares were offered to U.S. buyers on a private placement basis pursuant to available exemptions from the registration requirements of the United States Securities Act of 1933, as amended, and other jurisdictions outside of Canada provided that no prospectus filing, or comparable obligation arises.
  - Tembo acquired 2,833,717 Common Shares decreasing its share of the Company from 30,683,633 or approximately 34.5% of the issued and outstanding Common Shares of the Company to 33,517,350 Common Shares or approximately 32.3% of the total issued and outstanding common shares of the Company.
  - In connection with the February 2023 Offering as at the date hereof, Nuton LLC has indicated its intention to exercise its pre-emptive rights under the Nuton Investor Rights Agreement to maintain its ownership interest percentage in ASCU of 7.2%. The transaction is expected to close in April 2023.The participation by Nuton will be in addition to the C$30,000,000 from the February 2023 Offering.

Exploration Updates

- On April 5, 2022, ASCU announced an additional 2 drill holes (4,725 ft | 1,440 m) from a 12-hole program at the P/S Project totaling six holes reported from the initial drill program of 24,000 ft (~7300 m) aimed to test the extension of the porphyry copper system from the southern border of the P/S Project along the mine trend towards the Cactus Project and within the newly defined Exploration Target Area. Highlights of the holes were as follows:
  - **ECP-057:**
    - 199.4 ft @ 0.86% CuT, 0.81% TSol, 0.033% Mo – Oxides
      - Incl.102.0 ft @ 1.04% CuT, 0.97% TSol, 0.028% Mo – Oxides
    - 302.0 ft @ 1.23% CuT, 1.21% TSol, 0.021% Mo – Enriched
      - Incl. 10.0 ft @ 7.95% CuT, 7.94% TSol, 0.112% Mo
    - and 75 ft @ 1.65% CuT 1.64% TSol, 0.037% Mo
      - 427.0 ft @ 0.19% CuT, 0.009% Mo – Primary
  - **ECP-065:**
    - 439.7 ft @ 0.92% CuT, 0.90% TSol, 0.033% Mo – Enriched
      - Incl. 85.0ft @ 1.43% CuT, 1.40% TSol, 0.042% Mo
    - and 137.0 ft @ 1.19% CuT, 1.17% TSol, 0.053% Mo
      - 687.7 ft @ 0.23% CuT, 0.005% Mo – Primary

- On May 2, 2022, ASCU announced results of 25 drill holes (30,926 ft | 9,426 m), from its now complete Cactus Prefeasibility Study ("PFS") infill drilling program.
  - The PFS drilling program tightened the drill spacing within the entire integrated Preliminary Economic Assessment ("PEA") mine plan, including Cactus East and West and the Stockpile, with the intent of upgrading the Inferred mineral resources to Indicated mineral resources. As a result of tighter drill spacing, data shows an improved resolution of lithological, structural, and mineral zonation controls. Additionally, drilling to support further metallurgical and geotechnical test work was undertaken.
  - Drilling improved definition of various host lithologies that potentially affect acid consumption in the heap leaching process. The majority of mineralization is hosted in granite and monzonite porphyry which to date has indicated low acid consumption characteristics. Infill drilling was performed within expectations with no significant changes to the global interpretations supporting the previously reported resource model. Drilling Highlights were as follows (please see press release dated May 2, 2022 on SEDAR for full set of drilling results):
    - **ECE-053:** 200.9 ft. of 1.28% CuT, 0.91% TSol (Enriched – underground)
    - **ECE-051**: 90 ft of 1.56% CuT, 1.45% TSol (Enriched – underground); incl. 40 ft of 2.53% CuT, 2.38% TSol
    - **ECW-032:** 465.7 ft of 0.27% CuT, 0.24% TSol (Oxides – open pit); incl. 104.0 ft of 0.40% TSol
    - **ECW-056:** 462.9 ft of 0.31% CuT, 0.25% TSol (Oxides – open pit)
    - **ECW-036:** 617.0 ft of 0.21% CuT, 0.19% TSol (Oxides – open pit); and 351.0 ft @ 0.37% CuT (Primary)

- On June 23, 2022, the Company announced an additional 3 drill holes (6,440 feet | 1,960 metres) from its initial 12- hole exploration program at the P/S Project, while a new 80,000 ft (24,400 m) program was well-underway at the P/S Project. The new drilling program tests the extents of the previously defined exploration target (see press release dated February 10, 2022 also summarized below), from the southern border of P/S Project and in a north-eastern trend towards the Cactus, at 500 ft centres. Assays are pending on an additional 12 holes. Highlights of the results were as follows:

- Drilling supports the upper end of the exploration target's volumetric calculation below, currently defined to be at least 1,500 ft by 2,000 ft and within 2 km from the Cactus Project.
  - 40-90 million ("M") tons of potential leachable material @ 1.05%-1.3% total soluble copper ("TSol") for potential of 1.0-2.35 billion ("B") lbs. of contained copper
  - 8-35 M tons of potential primary material @ 0.85-1.05% copper per ton ("CuT") for 0.15-0.75 B lbs. of contained copper
  - Hole ECP-079 together with ECP-061, confirms east-west continuity for 1,500 ft width.
  - ECP-086 and ECP-092 logging results suggest an additional 1,000 ft of mineralization to the east for a potential width of 2,500 ft.
- **ECP-79:** 479 ft @ 1.32% CuT, 0.90% TSol, 0.017% Molybdenum ("Mo") (enriched)
  - and 225 ft @ 0.96% CuT, 0.63% TSol, 0.039% Mo – Primary (cut off by Basement Fault)
- **ECP-61:** 474 ft @ 0.89% CuT, 0.83% TSol, 0.026% Mo – (enriched)
  - and 690 ft @ 0.33% CuT, 0.011% Mo – Primary
- **ECP-68:** 324 ft @ 1.10% CuT, 0.96% TSol, 0.005% Mo – (enriched)
  - and 753 ft @ 0.63% CuT, 0.016% Mo – Primary
  - ECP-068 shows a thickening to the southeast of grades previously intersected in historic hole S-200

- On July 11, 2022, the Company entered into a one-year exclusivity period with Nuton. The exclusivity was triggered by successfully modelling the Cactus and P/S Project ore samples and achieving the previously contemplated indicative metallurgical recoveries of at least 72% (copper recovery to cathode), under the Nuton Investor Rights Agreement and filed on SEDAR. Nuton will continue to test the application of its copper heap-leach related technology to the primary sulphides component of the Cactus Project and P/S Properties through column leaching and scoping out capital and operating costs and design parameters.

- On August 23, 2022, the Company announced assays from the final 6 drill holes at the P/S Project to complete its initial 12-hole (27,722.6 ft | 8,450 m) exploration program. These results extend mineralization to the north and the west of the P/S Exploration Target and demonstrate the continuity of grade and tonnage within the porphyry copper target located 1.3 mi (2 km) from the Cactus Project. The Company continued its 500 ft (152 m) centre program to the west and eastward onto newly leased land with an additional 14 – hole program.

- On August 30, 2022, the Company released an additional 7 drill holes from the Cactus East, Cactus Project infill drilling program. The drill program was designed at 125 ft (38 m) centres to generate measured mineral resources. These results support the previously defined thick and high-grade intercepts outlined within the underground Cactus East resource. Cactus East is located, at depth, immediately to the northeast of the historic Sacaton pit.

- On September 7, 2022, the Company released assays from 9 drill holes from the 14-hole expanded exploration program at P/S, located ~1.3 mi (2 km) southwest of the Company's Cactus Project. Drilling extended mineralization east by up to 1,000 ft (300 m) onto the Bronco Creek ("BCE") land, a part of the P/S Project which was acquired earlier this year.

- On September 13, 2022, the Company released results of 7 drill holes from the Cactus East, Cactus Project infill drilling program. The Company believes the new set of assays continue to support the previously defined geological interpretations with thick and high-grade intercepts outlined within the underground Cactus East orebody, immediately to the northeast of the historic Sacaton pit. Infill drilling is targeting 125 ft (38 m) spacings with the goal of generating measured mineral resources.

- On September 28, 2022, the Company declared its maiden inferred mineral resources on its P/S Project consisting of 143.6 million tons at 1.015% Cu containing 2.92 billion pounds Cu.
  - The inferred mineral resources consist of:
    - Leachable: 2.46 billion pounds of 1.066% total soluble copper
    - Primary Sulphides: 0.45 billion pounds at 0.804% total copper
  - Inferred Resources at Parks/Salyer are comprised of oxide, enriched and primary mineral zones; the oxides and enriched material are considered amenable to heap leach processing methods. A revised Technical Study to include Cactus and P/S is expected in the next 12-18 months. See "The Cactus Project – Parks/Salyer" below and September 28, 2022 press release on SEDAR for further details.

- On November 2, 2022, the Company released assays from 3 drill holes from its infill to indicated drilling program at the P/S Project. Results from these drill holes were included in the Inferred Mineral Resource Estimate ("MRE") reported on September 28, 2022.

- On November 10, 2022, the Company filed the technical report in connection with the Parks/Salyer MRE on SEDAR.

- On November 29, 2022, the Company released assays from 5 drill holes from its 105,000 ft (32,000 m) infill to indicated drilling program at P/S, located ~1.3 mi (2 km) southwest of the Company's Cactus Project. ECP-106 intersected 645 ft of 1.58% CuT and 1.22% Cu TSol, situated 250 ft south of ECP-079 (see PR dated June 23, 2022) in the southern region of the deposit and represents the best hole drilled to-date into the Cactus and Parks/Salyer property in terms of grade thickness. The program continues to reduce drill spacing from 500 ft to 250 ft centres, and intersects continue to support the tenor of mineralization recently released in the inferred Mineral Resource Estimate MRE at P/S.

- On December 8, 2022, the Company and the Arizona Department of Environmental Quality ("ADEQ") were together presented with the 2022 Award for Environmental Excellence by the American Exploration & Mining Association ("AEMA"), a national trade organization representing the hard rock mining industry, at the association's annual meeting in Reno, NV.

- On December 13, 2022, the Company provided an update on metallurgical programs and project management appointments including installation of an onsite metallurgical and sample prep lab, column testing. Greg Phillips was also appointed as Project Process Superintendent and Graeme Hendricks as Senior Mine Engineer.

- On January 17, 2023, the Company announced 60% completion of its 105,000 ft (32,000 m) infill to indicated drilling program at P/S, located ~1.3 mi (2 km) southwest of the Company's Cactus Project. A total of 27 holes were drilled out of an anticipated 46 holes, with assays received to date for 15 holes, including the five noted below, and ECP-108 grade thickness surpassing the prior best intercept on the property.
  - **ECP-108**: 872.5 ft (265.9 m) @ 1.64% CuT of continuous mineralization, including:
    - 621.0 ft (189.3 m) @ 2.00% CuT, 1.58% Cu TSol, 0.013% Mo (enriched)
    - Incl. 108.0 ft (32.9 m) @ 2.58% CuT, 2.45% Cu TSol, 0.009% Mo
    - 251.5 ft (76.7 m) @ 0.73% CuT, 0.019% Mo (primary)

- **ECP-107**: 1,188.9 ft (362.4 m) @ 0.68% CuT of continuous mineralization, including:
  - 489.5 ft (149.2 m) @ 1.19% CuT, 1.13% Cu TSol, 0.013% Mo (enriched)
  - Incl. 139.3 ft (42.5 m) @ 2.42% CuT, 2.39% Cu TSol, 0.010% Mo
  - 699.4 ft (213.2 m) @ 0.33% CuT, 0.012% Mo (primary)
- **ECP-110:** 762.2 ft (232.3 m) @ 0.90% CuT of continuous mineralization, including:
  - 419.0 ft (127.7 m) @ 1.15% CuT, 1.01% Cu TSol, 0.005% Mo (enriched)
  - 343.2 ft (104.6 m) @ 0.58 % CuT, 0.011% Mo (primary)
- **ECP-111:** 443.0 ft (135.0 m) @ 0.78% CuT, 0.71% Cu TSol, 0.035% Mo (enriched)

- On February 21, 2023, the Company announced assays from 7 drill holes from the Parks/Salyer infill program Highlights including:
  - **ECP-113**: 438.8 ft (133.7 m) @ 1.17% CuT, 1.13% Cu TSol, 0.008% Mo (enriched)
    - Incl. 58.4 ft (17.8 m) @ 4.0% CuT, 3.82% Cu Tsol, 0.021% Mo
  - **ECP-112:** 528.2 ft (161 m) @ 1.11% CuT, 0.75% Cu Tsol, 0.013% Mo (enriched)
    - Incl**.** 176.8 ft (53.9 m) @ 1.52% CuT, 0.98% Cu Tsol, 0.011% Mo
  - **ECP-105:** 562.7 ft (171.5 m) @ 0.93% CuT, 0.77% Cu Tsol, 0.013% Mo (enriched)
    - Incl. 258.0 ft (78.6 m) @ 1.35% CuT, 1.12% Cu Tsol, 0.017% Mo
    - 556.7 ft (169.7 m) @ 0.63% CuT, 0.028% Mo (primary)
  - **ECP-118:** 291.5 ft (88.8 m) @ 1.05% CuT, 0.91% Cu Tsol, 0.006% Mo (enriched)
  - **ECP-104:** 792.8 ft (241.6 m) @ 0.37% CuT, 0.006% Mo (primary)

- On February 28, 2023, the Company announced ASCU's wholly owned subsidiary, Cactus 110 LLC had entered into a purchase and sale agreement ("PSA") for 523 acres of private land, contiguous to the Company's Parks/Salyer project (the "Mainspring Property"). The new land package provides the Company with significant operational flexibility with respect to site and infrastructure requirements for the re-scoped PFS due in Q4 2023 or early 2024. The total land position of the combined Cactus and Parks/Salyer project is expected to be 5,368 acres, providing significant operational flexibility for the Company. The total purchase price for the property is US$14 million to be paid as below:
  - Payment of a $1,000 non-refundable deposit put into an escrow account at the time of signing of the agreement (the "Effective Date");
  - Payment of $2,000 on or prior to the expiry of the PSA Due Diligence date (such date being 5 months from the Effective Date (subject to one month's extension at the option of ASCU) into escrow;
  - Payment of $5,000 one year from the Effective Date (being the signing date of the PSA) ("Closing Date"). Title is then transferred to Cactus 110 LLC;
  - Payment of $6,000 million together with accrued interest at 6% per annum, within 1 year from the Closing Date secured by way of a promissory note and deed of trust on the subject property. The promissory note may be repaid at any time prior to maturity with no penalties following which the deed of trust will be released.

COMPANY HIGHLIGHTS – 2021

- On February 2, 2021, the Company executed an agreement with Arcus Copper Mountain Holdings LLC and several co-owners to purchase 750 acres of land adjacent to the Cactus. The total purchase price of $6.0 million was paid during the year ended December 31, 2021.

- On March 9, 2021, a second tranche of a private placement was completed, primarily consisting of common shares subscribed by a technical consortium (the “Consortium”) composed of Samuel Engineering and Battle Born Materials LLC (“BBM”). The Company and the Consortium had agreed in December 2020 that $1.9 million of the fees payable for certain services on the Stockpile Project (see the “Stockpile Project” section of this report) were to be satisfied by issuing approximately 6.3 million common shares at the price of $0.30 per common share. Subsequently, the Company and BBM determined that the portion of the fees that had been attributable to BBM ($0.9 million) would instead be settled in the form of a cash subscription at the same price.

- On March 19, 2021, the Company’s two largest shareholders exercised their pre-emptive rights relative to the private placements that had occurred in December 2020 and March 2021. Tembo exercised its pre-emptive rights on both private placements, subscribing for 12.4 million shares at $0.30 per share for proceeds of $3.7 million. RCF Opportunities Fund LP (“RCF”) exercised its pre-emptive rights on the March 2021 private placement only, subscribing for 1.4 million shares at $0.30 per share for proceeds of $0.4 million.

- On March 24, 2021, the Company provided written notice to the ASARCO Trust that the Company had elected to reprocess the overburden and waste rock materials contained in the Waste Dump (“Stockpile”) in accordance with an escrow agreement executed on July 10, 2020. As a result of such election, the ASARCO Trust received a distribution of all the escrowed funds subject to this agreement.

- 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 to purchase 1,000 acres of land adjacent to the Cactus. The agreement stipulates that the total purchase price of $20.0 million be paid in three separate disbursements during the period commencing from the closing date to the fifth anniversary of such closing date.

- On May 28, 2021, Paul Huet resigned as Chairman and David Laing was appointed as Chairman of the board.

- On June 8, 2021, the Company completed a non-brokered private placement of 114,583 units for gross proceeds of $0.28 million to an employee in respect of previously agreed contractual arrangements. Each unit consisted of one common share and one warrant entitling the holder thereof to acquire one common share at an exercise price of $0.30 per share.

- Effective June 16, 2021, John Antwi resigned as President and Chief Executive Officer of the Company. A non-executive member of the board, Alan Edwards, assumed the role of interim CEO until a permanent replacement was named.

- On June 22, 2021, the Company and Tembo entered into a $6.0 million standby loan facility. The interest rate is 8% and the funds were available for drawdown until December 31, 2021, at which time full repayment was due. For every $1,000 drawn the Company issued shares based on the following schedule:

  - First $1.0 million - 100,952 shares
  - Second $1.0 million - 92,380 shares
  - Third $1.0 million - 83,809 shares
  - Fourth $1.0 million – 75,238 shares
  - Each subsequent draw of $1.0 million – 66,666 shares

- Effective July 6, 2021, the Company appointed George Ogilvie as President, Chief Executive Officer ("CEO") and Director of the Company.

- On July 7, 2021, Tembo exercised 6.7 million warrants at $0.60 for gross proceeds to the Company of $4.0 million. As an incentive to compensate Tembo for the time value of money lost in exercising these warrants well in advance of expiration, the Company issued 2.2 million new three-year warrants to Tembo at an exercise price of $1.95 per warrant.

- On July 7, 2021, the Company closed a private placement and issued 238,095 common shares for $0.5 million, to an employee in respect of previously agreed contractual arrangements.

- On July 12, 2021, the Company changed its name to Arizona Sonoran Copper Company Inc.

- On July 20, 2021, the Company consolidated its share capital on a 3:1 basis. All share and per share amounts have been restated for all periods presented.

- Effective July 22, 2021, the Company appointed Rita Adiani as Senior Vice President Strategy and Corporate Development.

- On August 30, 2021, the Company paid $2.7 million in connection with the Phase I closing of the Arcus property acquisition.

- On September 8, 2021, Haywood Securities ("Haywood") exercised 1.78 million warrants at $0.60 for gross proceeds to the Company of $1.1 million. As an incentive to compensate Haywood for the time value of money lost in exercising these warrants well in advance of expiration, the Company issued 161,616 new three-year warrants to Haywood at an exercise price of $2.10 per warrant.

- On September 23, 2021, the Company received $6.0 million from Tembo pursuant to the standby loan facility agreement. As stipulated in the agreement, Tembo received 485,711 common shares in compensation for the full drawdown on the loan.

- On September 29, 2021, the Company paid $3.281 million in connection with the Phase II and Phase III closings of the Arcus property acquisition and paid $0.856 million (including interest) for the final installment.

- On November 16, 2021, the Company completed an initial public offering ("the IPO"). An aggregate of 18,367,347 common shares of ASCU at a price of C$2.45 ($1.95) per common share were issued for total gross proceeds of C$45.0 million ($35.9 million). The Company converted $5.0 million of the short-term loan from Tembo into common shares as part of the IPO.

- On December 30, 2021, RCF received consideration of a 0.27% NSR in lieu of the $1.886 million principal amount due on the debenture loan. The debenture loan from RCF has been fully repaid.

OUTLOOK 2023

As of March 29, 2023 the Company had cash of approximate $25.8 million. The Company has sufficient financial resources to carry out the Company's non-discretionary activities over the next twelve months. The Company may require further financing to achieve all of its planned operational and strategic activities in the form of debt, equity, or a combination thereof.

The Company continues to progress its planned work programs with key milestones expected to be as follows:

- The PFS is expected in 4Q23/1Q24 following the completion of infill, metallurgical, hydrological and geotechnical drilling as well as trade-off and gap analyses.

- Drilling Programs targeting oxide and enriched copper mineralization:
  - Complete 105,000 ft (32,000 m) infill drilling program on Parks/Salyer (Q1 2023)
  - Complete 90,000 ft (27,000 m) infill drilling program at the Cactus East and Parks/Salyer projects (Q2-Q4 2023) which is a requirement for Definitive Feasibility Study ("DFS") in 2024
  - Begin small exploration program along the 4 km mine trend (Q1-Q3 2023)

- Metallurgy:
  - Testing programs for the PFS and DFS level include at least 12 columns, 20 ft (6 m) in height and composed of material from the Stockpile, Parks/Salyer and Cactus deposits, separated into different rock type, copper grades and mineralogy.
  - 5 additional columns, 30 ft (9 m) in height are scheduled to be constructed and online within Q1 2023.
  - Program completion anticipated in Q3 2023.

- Permitting:
  - Complete permitting of Cactus based on the 2021 Cactus PEA.

- Primary Sulphide Potential:
  - Ongoing column testing the leachability of the primary sulphide material at Cactus and Parks/Salyer.
  - The full impact of the success of the Nuton technologies in relation to Cactus and Parks/Salyer and/or integration within a technical study remains under consideration and will be determined by the output of the technical work and commercial arrangements to be reached.
  - Potential to infill drill the primary sulphide material at Cactus, related to the Nuton technologies requirements.

THE CACTUS PROJECT

The 100%-owned Cactus Project is a porphyry copper project located on private land, near the city of Casa Grande, Arizona, USA. The city of Phoenix and Sky Harbor International Airport are situated approximately 55 miles to the north and Tucson is approximately 75 miles to the southeast. The property location provides easy access to infrastructure and amenities such as power, water, rail, roads and a skilled workforce. The Cactus Project itself covers approximately 5,000 acres (with the remainder of the land package covering additional exploration properties).

The Cactus Project, previously known as the Sacaton Mine, was owned and operated by ASARCO from 1972-1984. The mine was shut down due to economic conditions. The property has since undergone a $20 million reclamation program under the guidance of the ASARCO Trust and the Arizona Department of

Environmental Quality. The program reclaimed the majority of the property, including the tailings storage facility and the former milling facilities.

The core shack, return water impoundment and water wells, rail spur, power lines and roads are in good condition and have undergone some renovation since the acquisition. The vent raise and shaft are still in place but have not been accessed since the initial shut down of Sacaton Mine. An environmental baseline study has been completed for the Cactus Project and work is steadily progressing through project permitting.

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 ("LKY") for an option to purchase land adjacent to the Cactus Project (the "LKY Purchase"). The agreement stipulates that, at the Company's option, the total purchase price of $20,000 be paid in three separate disbursements: $8,114 was paid as at the closing date of February 10, 2022, $7,950 was paid on the first anniversary of the closing date on February 10, 2023, and the final $5,000 on the fifth anniversary of the closing date. As of December 31, 2022, the Company had paid a total of $8,114 in non-refundable deposits in connection with the Copper Mountain 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.

Since completion of the acquisition from the ASARCO Trust in July 2020 and LKY in 2021, significant technical studies have been conducted to assess the economic viability of the Project and support an overall approach of a phased development plan. These studies include:

1. The Stockpile Project:
   - Stockpile assessment, including associated mineral resource estimation and metallurgical work for issuance of a Preliminary Economic Assessment
   - An updated Mineral Resource Estimate based on further infill drilling to support the Integrated Preliminary Economic Assessment combining the Stockpile Project and Cactus Project.

2. The Cactus Project:
   - Exploration drill programs of the Cactus West and East deposits including associated mineral resource estimation and metallurgical work for the issuance of an Integrated Preliminary Economic Assessment combining the Stockpile Project and Cactus Project.

3. The Parks/Salyer Project:
   - Ongoing exploration drilling of the Parks/Salyer project to support initial resource estimation work. Recent declaration of an exploration target was mentioned above.

The exploration program for the Cactus Project is comprised of over 30,000 metres of drilling targeted at converting the current inferred and indicated resources into measured and indicated resources to further de-risk the project and move towards detailed mine scheduling as required for the PFS and DFS.

In 2022, work programs undertaken to support the ongoing PFS were as follows:

1. In respect of the Stockpile Project, assay results from the infill drilling program continue to be received to support the phased development plans of the Cactus Project.

2. Infill drilling at Cactus West and East using diamond drilling for 18,247 feet (5,561 meters) to support upgrading of the resource classification of material for the planned mineral resource update. This has been completed as of May 2, 2022.

3. Further trade-off studies in respect of various areas are being undertaken as part of the technical

studies to determine appropriate operating and capital cost estimates for the project. Front-end engineering work will also need to be undertaken to establish detailed design parameters from a capital cost perspective.

Expenditures at the Cactus Project in the year ended December 31, 2022 and 2021

The following table sets forth a breakdown of material components of expenditures incurred at the Cactus Project in the year ended December 31, 2022 and 2021.

	December 31, 2022	December 31, 2021
Exploration	$ 15,954	$ 12,171
Drilling	10,497	4,800
Salaries and wages	1,475	876
Operational	1,059	394
Sample and assay	18	144
	$ 29,003	$ 18,385

In the year ended December 31, 2022, total expenditures at Cactus Project increased to $29 million, compared to $18.4 million during the same period in 2021. The 2022 expenditures were higher than in 2021 due to increased project expenditures overall to support the ongoing PFS, LKY land agreements, BCE option payments and higher drilling to support the maiden resource at the P/S Project.

Cactus East, Cactus West and Stockpile

The Company completed a PEA in Q3/2021 that ascertains initial project economics of all leachable ores including the Stockpile Project, Cactus West, and Cactus East. Further details of the PEA are provided below. The Company is currently advancing the Cactus Project with a PFS and plans to subsequently compile a DFS stage (subject to a positive outcome from the PFS).

As at December 31, 2022, the Company has completed 27 drill holes (59,289 ft | 17,966 m) from its Cactus PFS infill drilling program. The PFS drilling program tightened the drill spacing within the entire integrated PEA mine plan, including Cactus East and West and the Stockpile, with the intent of upgrading the Inferred mineral resources to Indicated mineral resources. As a result of tighter drill spacing, data shows an improved resolution of lithological, structural, and mineral zonation controls. Additionally, drilling to support further metallurgical and geotechnical test work was undertaken.

Drilling improved definition of various host lithologies that potentially affect acid consumption in the heap leaching process. The majority of mineralization is hosted in granite and monzonite porphyry which to date has indicated low acid consumption characteristics. Infill drilling was performed within expectations with no significant changes to the global interpretations supporting the previously reported resource model.

Parks/Salyer

The P/S Project is an exploration stage asset. In 2020, ASCU drilled two exploration holes to the north of two historic ASARCO drill holes. These holes successfully intersected well mineralized porphyry copper mineralization over significant widths. In 2021, the Company began exploring the P/S Project with 500 ft (152 m) spaced drilling to test its defined Exploration Target. The Exploration Target presented the potential of a second underground operation on the Cactus Project private property. In total, 31 drill holes over 66,507 ft (20,271 m) were used to define the P/S target for its maiden inferred MRE. The Company released its maiden inferred MRE on the project on September 28, 2022 consisting of 143.6 million tons at 1.015% Cu containing 2.92 billion pounds Cu.

Due to the significant increase in the Company-wide Mineral Resources, the oxide and enriched material at P/S will be considered for inclusion in a future technical study incorporating both the Cactus and Parks/Salyer deposits. Future studies will be based on the expanded leachable inventory, heap leaching and SX/EW process methodology. An integrated technical study is expected to be completed in the next 12-18 months. The primary sulphides are currently being tested for leachability (based on the Nuton technology) and may form the basis of further project upside.

- Parks/Salyer inferred underground MRE is summarized as follows (values may not add due to rounding):

Inferred Resource	Tons (kt)	CuT (%)	Cu TSol (%)	Contained Cu (k lbs)	Contained Cu (k Tons)
Oxide	14,100	-	0.827	233,700	117
Enriched	101,200	-	1.100	2,227,200	1,113
Leachable	**115,400**	**-**	**1.066**	**2,460,900**	**1,230**
Primary	28,300	0.804	-	454,400	228
Total Inferred	**143,600**	**1.015**	**-**	**2,915,400**	**1,458**

Management estimates that the high-grade nature of Parks/Salyer's mineral resource inventory offers significant potential to increase scale within an integrated operation at conservative copper price estimates. The Company will continue advancing work study programs, specifically, metallurgical and geotechnical test work, hydrology, permitting, infill drilling and associated projects to advance the combined Cactus and P/S Project through the technical study phases.

The MRE was prepared by Stantec in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards and National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101"). Due to the proximity of P/S to the Cactus Project, and associated future shared infrastructure, the P/S MRE is stated as an inferred mineral resource in a new technical report in conjunction with the Cactus MRE effective August 31, 2021. The Cactus Project economics are as of the date as contained in the technical report titled "Arizona Sonoran Copper Company, Inc. Cactus Project, Arizona, USA Preliminary Economic Assessment" with an effective date of August 31, 2021 (the "2021 Technical Report"). The new technical report covering the Cactus Project and Parks/Salyer, was filed on November 10, 2022.

Preliminary Economic Assessment

The scientific and technical information in this section relating to the Project is derived from, and in some instances is a direct extract from, and based on the assumptions, qualifications and procedures set out in, the technical report titled "Mineral Resource Estimate and Technical Report – Arizona Sonoran Copper Company Inc. (Parks / Salyer)" dated November 10, 2022 (the "Technical Report"). Such assumptions, qualifications and procedures are not fully described below, and the following summary does not purport to be a complete summary of the Technical Report. Reference should be made to the full text of the Technical Report, which is available for review under the Company's profile on the System for Electronic Document Analysis and Retrieval, which may be accessed at www.sedar.com ("SEDAR").

A PEA was finalized in Q3/2021 estimating initial project economics of all leachable ores. The PEA includes Cactus East, Cactus West, and the Stockpile Project, with Cactus East potentially being considered for underground mining methods, Cactus West as an open pit, and the Stockpile Project as a surface rehandle deposit. All mineralized material movements will report to surface leach pads, with process solutions subsequently flowing to a solvent extraction electrowinning ("SX/EW") circuit for the recovery of copper to LME Grade A cathode standards.

- The PEA is summarized under Table 2 (Economic Analysis Summary), Table 3 (LOM Plan Summary) and the following key points:

Table 2: Economic Analysis Summary (Estimates)		
Assumption / Outcome	**Value / Results**	**Value / Results**
Copper Price	US$3.35/lb. (Base Case)	US$4.55/lb.
Post Tax Internal Rate of Return ("IRR")(%)	33%	56%
Post Tax Net Present Value ($NPV_{8\%}$)	US$312 million	US$678
Post Tax Cumulative Life of Mine ("LOM") Free Cash Flow *("FCF"), Net of Initial Capital*	US$960M	US$1.83 billion
Initial Construction Capital Expenditures ("CAPEX")	US$124M	US$124M
Payback Period	3.5 years	1 year
Operating Costs *(Per Ton Processed)*	US$9.06/Ton	US$9.06/Ton
Average Cash Cost *(C1)*	US$1.55/lb.	US$1.55/lb.
Average All-In Sustaining Cost *(C1 Cost + Sustaining CAPEX)*	US$1.88/lb.	US$1.88/lb.
Sustaining CAPEX Over LOM *(Including OP and UG, SX/EW and Leach Pad Expansion)*	US$340M	US$340M

Table 3: LOM Plan Summary (Base Case Estimate)	
Operating Metrics	**Total**
Total LOM from Initial Production	18 Years
Construction Period to Commercial Production ("CP")	18 months
Total Mineralized Material Processed	179 million Tons
Annual Average Processing Rate Over LOM	10 million Tons per annum
Average Grades Over LOM	**Stockpile Project:** 0.14%
	Open Pit (“OP”) / Underground (“UG”): 0.26%, 1.27%
Average Recovery Rates Over LOM	**Stockpile Project:** CuAS: 90%, CuCN: 40%
	OP / UG: CuAS: 90%, CuCN: 72%
Average Production Over LOM	28,000 Tons per annum/ 56 million lbs.

Permitting

The Cactus Project is situated on private land and will require the following major permits and certifications:

1. Arizona Department of Water Resources ("ADWR")'s Withdrawal of Ground Water for Mineral Extraction & Mineral Processing Permit: This permit is required for ground water withdrawal for mining operations. This permit was obtained in April 2021 and covers the life of the Cactus Project.

2. The ADEQ Aquifer Protection Permit ("APP"): This permit is required for owners or operators of facilities that could discharge a pollutant directly to an aquifer or to a land surface or vadose zone where there is a reasonable probability that the pollutant will reach an aquifer. The permit is valid for the life of the facility. This permit was obtained by ASCU for the Stockpile Project in July 2021 and becomes effective upon demonstration of financial capability submitted along with an amendment application in respect of the full project. Following development of the PFS mine plan a major amendment for full project coverage to include expanded leach facilities, waste dumps and both open pit and underground infrastructure was obtained on March 28, 2022.

3. Dust Permit Pinal Air Quality Control Permit: This permit is required for operations that have the potential to generate fugitive dust. This permit was obtained by the Company in January 2020 and is renewed yearly based on operational need.

4. Arizona Pollutant Discharge Elimination System ("AZPDES") Permits (construction and Multi-Sector General Permit): This permit is for stormwater discharges that enter Arizona surface waters or a Municipal Separate Storm Sewer System. This permit was obtained for both the mine facility and the nearby shuttered TruStone facility which is situated on Company property.

5. Pinal Air Quality Control Industrial Permit: This permit is required for operations that have the potential to generate particulate matter PM10 and/or PM2.5 that can affect air quality. This permit is renewed yearly and will be applied for by the Company in due course.

6. Arizona State Mine Inspector Reclamation Plan: This permit relates to all metalliferous mining units and exploration operations with surface disturbances on private lands greater than five acres and will be applied by the Company in due course.

In addition, the United State Army Corp. Of Engineers ("USACE") Jurisdictional Determination 404 has been received in February 2022. This is a determination as to whether Waters of the U.S. ("WOTUS") are onsite or if the water on site contributes to a WOTUS waterway. ASCU received a determination that the project does not impact WOTUS, and therefore no Federal Permitting will be required.

The Company continues to make good progress in relation to the permitting process and will continue to advance required applications as required as per the development plans.

RESULTS OF OPERATIONS

Operating Results

	December 31, 2022	December 31, 2021
Salaries and wages	3,234	2,817
Share based compensation	1,371	2,094
Professional fees	712	1,014
Directors fees	548	466
Marketing and adminstration	1,098	2,009
Loss from operations	6,963	8,400
Other (income) expenses		
Accretion	193	2,771
Finance expenses	182	1,216
Depreciation, depletion and amortization	84	75
(Gain)/loss on extinguishment and modification of debt	(39)	704
Loss on marketable securities	60	-
Interest income	(316)	(11)
Other expense/(income)	(6)	(5)
Government loan forgiveness	-	(91)
Loss and comprehensive loss for the year	7,121	13,059

For the year ended December 31, 2022, as compared to the year ended December 31, 2021

During the year ended December 31, 2022, the Company had a loss of $7.1 million compared to a loss of $13.1 million for the year ended December 31, 2021, decreasing primarily due less interest and accretion expenses on payment of the Company's debenture and standby loans in 2022 and gains instead of losses on extinguishment of said debt. Further, lower marketing and administration costs, lower priced options driving less share-based compensation costs and decreased professional fees due to having less costs associated with the November 2021 IPO also resulted in lower loss in 2022 versus 2021.

The Company's operational costs totaled $7.0 million during the year ended December 31, 2022, compared to $8.4 million during the year ended December 31, 2021, a decrease of $1.4 million. A significant portion of the decrease is due to a decrease of $0.7 million and $0.9 million in share-based compensation expense and marketing and administration costs, respectively.

During the year ended December 31, 2022, the total other expenses incurred were $0.2 million, compared to $4.7 million during the prior year. The decrease resulted primarily due to Tembo and RCF accretion and interest expenses being higher in the prior period ($4.0 million combined). The debenture portion owed to Tembo was settled in January 2022, the RCF portion had been settled in December 2021, and the remainder of the Tembo Standby loan was settled in May 2022 resulting in loan accretion incurred of $nil for the year to December 31, 2022.

For the fourth quarter ended December 31, 2022, as compared to the fourth quarter ended December 31, 2021

During the quarter ended December 31, 2022, the Company had a loss of $1.1 million compared to a loss of $3.7 million for the quarter ended December 31, 2021, decreasing primarily due less interest and accretion expenses on payment of the Company's debenture and standby loans in the fourth quarter of 2022 of $nil and no losses on extinguishment of said debt, as well as lower marketing and administration costs of $0.5 million.

The Company's operational costs totaled $1.4 million during the quarter ended December 31, 2022, compared to $1.8 million quarter the year ended December 31, 2021, a decrease of $0.5 million. A significant portion of the decrease is due to a decrease of $0.5 million in marketing and administration costs, respectively due to no activity in Q4/2022 relating to the Company's IPO in Q4/2021.

During the fourth quarter ended December 31, 2022, the total other expenses incurred were $0.2 million, compared to $1.9 million during the same period in the prior year. The decrease resulted primarily due to Tembo and RCF accretion and interest expenses being higher in the prior period ($1.5 million combined). The debenture portion owed to Tembo was settled in January 2022, the RCF portion had been settled in December 2021, and the remainder of the Tembo Standby loan was settled in May 2022 resulting in loan accretion incurred of $nil in 2022.

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the years ended December 31, 2022, 2021 and 2020.

		December 31, 2022		December 31, 2021		December 31, 2020
Interest Income	$	(316)	$	(11)	$	(4)
Loss from operations for the year		7,121		13,059		5,104
Loss per share		0.09		0.29		0.23
Total assets		69,578		54,424		17,990
Total non-current liabilities	$	(67)	$	(1,077)	$	(6,433)

In 2022, the Company was focused on Parks/Salyer MRE drilling and a PFS of the Cactus project as a whole. As a result of the significant positive MRE at Parks/Salyer, the Technical Report at Cactus was refiled to include the MRE and the PFS rescoped with an estimate completion in H2/2023. During 2021 and 2020, the Company focused on finalizing the acquisition of the Cactus Project and the neighboring Parks/Salyer property. As described above and as reflected in the Financial Statements, on November 16, 2021, the Company completed an IPO. Upon closing the IPO, the Company issued 18.4 million shares at a price of CAD$2.45 (US$1.95) per share translating to gross proceeds of CAD$45.0 million (approximately US$35.9 million).

Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company and is derived from and should be read in conjunction with the respective unaudited interim condensed financial statements.

Period	Revenues $ (000's)	Loss for the period $ (000's)	Loss per share (basic and diluted) $
4th Quarter 2022	Nil	1,125	0.01
3rd Quarter 2022	Nil	1,256	0.01
2nd Quarter 2022	Nil	2,093	0.03
1st Quarter 2022	Nil	2,647	0.04
4th Quarter 2021	Nil	3,709	0.06
3rd Quarter 2021	Nil	2,964	0.06
2nd Quarter 2021	Nil	4,147	0.10
1st Quarter 2021	Nil	2,239	0.05

The Company is at an early stage of restarting the Cactus Project and advancing exploration at its P/S Project, and its quarterly information is expected to vary based on the overall exploration and administrative activities. The principal cause of fluctuations in the Company's quarterly results is the expenditure levels on exploration and development projects, which directly impact the Company's administrative costs. The Company's activities significantly increased after securing financing from Tembo and RCF in July 2020, with further support provided by the IPO completed in November 2021.

Factors generally causing significant variations in results between quarters include share-based compensation, exploration and evaluation expenditures, accretion and finance charges in the prior year and foreign exchange gains and losses. See operating results, above, for discussion of movement in net income (loss) and comprehensive income (loss) for the quarter ended December 31, 2022 as compared to the same period in 2021.

RISKS AND UNCERTAINTIES

Like all mineral exploration and development companies, Arizona Sonoran also continues to be subject to ongoing risks and uncertainties and other factors, which among others, include: dependence on the success of the Cactus Project as the principal operation of the Company; climate change; impact of water; obtaining further financing to fund anticipated exploration and development work; international conflict in the Ukraine and its effects on global financial markets and supply chains; and other liquidity risks (see also "Financial Accounting and *Reporting Processes)* and "*Risk Factors*" in the Company's AIF.

The following *Risks and Uncertainties* pertain to the outlook and conditions currently known to Arizona Sonoran that could have a material impact on the financial condition of the Company. A discussion of these and other factors that may affect the Company's actual results, performance, achievements, or financial position is contained under the heading "*Risk Factors*" and elsewhere in the Company's AIF. Such factors include, but are not limited to political risks, title risks, commodity prices, exchange rate risks, permitting risks, operating and environmental hazards encountered in the exploration, development and mining business and changing laws and public policies.

Current and prospective security holders of Arizona Sonoran should carefully consider these risk factors. Should the development of the Cactus Property not be possible or practicable for any reason, the business and financial position of the Company would be materially adversely affected.

LIQUIDITY AND CAPITAL RESOURCES

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations in the future. The

Company currently has no source of revenue and has significant cash requirements to fund its development project capital requirements, exploration programs, administrative overhead, and to maintain its mineral properties in good standing.

The consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months.

The Company has no source of revenue and has significant cash requirements to meet its strategic 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 ("LKY"), its commitments related to the agreement with Bronco Creek Exploration Inc and payments related to the purchase of the Mainspring Property. 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.

Operating Activities

As at December 31, 2022, the Company's cash balance was $19.9 million (December 31, 2021 - $27.3 million). During the year ended December 31, 2022, the cash used in operating activities was a total of $3.6 million (2021 - $6.4 million).

Investing Activities

The Company's cash used in investing activities was $29.8 million (2021- $18.6 million) primarily spent in connection with exploration and evaluation expenditures on mineral properties and property option and land payments.

Financing Activities

In the year ended December 31, 2022, the Company's cash provided by financing activities was $26.1 million (2021 - $45.0 million) primarily consisting of the private placement completed in May 2022 compared the completion of the Company's IPO in Q4/2021.

On May 13, 2022, the Company closed its strategic partnership announced on April 28, 2022 with Rio Tinto/Nuton upon completion of the May 2022 Offering. Under the May 2022 Offering, 17,500,000 Common Shares were issued at a subscription price of C$2.00 per share. Nuton 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. Following the May 2022 Offering, Nuton held 7.2% of the outstanding share capital of the Company, and although participating in the May 2022 Offering, Tembo reduced its holding from 37.6% to 34.6% in the Company.

On February 16, 2023, the Company closed the February 2023 Offering for 15,000,000 common shares in the capital of the Company at a price of C$2.00 per Common Share, for gross proceeds to the Company of C$30,000,000. The Offering was underwritten on a "bought deal" basis by a syndicate of underwriters. Tembo acquired 2,833,717 Common Shares increasing its holding of the Company from 30,683,633 or approximately 34.5% of the issued and outstanding Common Shares of the Company to 33,517,350 Common Shares or approximately 32.3% of the total issued and outstanding common shares of the Company.

In connection with the February 2023 Offering as at the date hereof, Nuton LLC has indicated its intention to exercise its pre-emptive rights under the Nuton Investor Rights Agreement to maintain its ownership interest percentage in ASCU of 7.2%. The transaction is expected to close in April 2023.The participation by Nuton will be in addition to the C$30,000,000 from the February 2023 Offering.

CAPITAL MANAGEMENT

The Company's capital consists of debt and equity, which includes share capital, reserves and deficit. The Company's objectives are to maximize shareholder returns and share value by ensuring sufficient financial flexibility to achieve its ongoing business objectives including funding of future growth opportunities and future potential accretive opportunities.

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 achieve its objectives, the Company may issue new shares, adjust capital and operating expenditures and acquire additional property. There is no assurance that these initiatives will be successful.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022, Nil (2021: 271,319) common shares were issued to directors and officers for services.

Total director fees for the year ended December 31, 2022 were $0.5 million (Year ended December 31, 2021: $0.5 million).

The remuneration of the key management personnel in thousands was as follows:

	December 31, 2022 ($)	December 31, 2021 ($)
Salaries and wages	$ 1,233	$ 1,070
Severance	495	-
Salaries and wages capitalized as exploration	547	428
Share-based compensation*	1,161	1,693
Directors' fees	524	466
	$ 3,960	$ 3,657

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

As at December 31, 2022, no amounts were owed to the Company by key management personnel (December 31, 2021 – $0.1 million receivable).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, 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:

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 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, 2022.

Share-Based Payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and common share purchase warrants ("warrants") granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the fair value of stock-based compensation expenses reported.

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.

Liquidity risk

The company has $19.9 million of cash as at December 31, 2022 with additional receipts from the issuance of common shares subsequent to the period end and committed future payments both contractually required based on events in 2023 or potentially required based on future events, if they arise. Such payments would have an impact on the future cash requirements of the company to meet its obligations as they arise based on the operating plans currently in place. These plans include payments that are discretionary and so the Company can ensure it will have cash to continue its operations for the foreseeable future, absent any future financing activities the Company may undertake.

FINANCIAL INSTRUMENTS

Fair Value

The Company's financial instruments as at December 31, 2022 consist of cash, marketable securities, accounts payable, accruals, other short and long term liabilities, and at December 31, 2021 its debenture with Tembo. As at December 31, 2021, the fair value of the Company's debenture loans with Tembo, using a 12% discount rate, was $6.7 million. The fair value of the Tembo standby loan was $1.0 million. The carrying values of all other financial assets and financial liabilities approximate their fair value.

Management of Financial Risk

Currency risk

The Company is exposed to 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 $2.5 million.

Based on the exposure as at December 31, 2022, 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 $0.3 million 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 is held in large Canadian and U.S. financial institutions. The Company does not deem that it has a significant credit risk exposure.

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, 2022 and 2021, the contractual undiscounted future cash flows of the Company's significant financial liabilities are as follows:

	Less than 6 months	6 – 12 Months	Between 1 – 2 years	Total contractual cash flows December 31, 2022
Financial liabilities at amortized cost				
Accounts payable	995			995
Accruals	2,474			2,474
Lease liabilities	30	30	55	115
Other current liabilities	12			12
	3,511	30	55	3,596

As at December 31, 2022, the carrying values of all financial assets and financial liabilities approximate their fair value.

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. The Company has noted that there was 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 Financial Statements.

COMMITMENTS AND CONTINGENCIES

Based on the achievement of certain development milestones, the Company is obligated to make future payments to TAGC Ventures LLC of up to $1.1 million in connection with the purchase from ASARCO Trust.

The Company has future exploration and evaluation expenditure obligations which are at the option of the Company with respect to its land agreements:

<u>Bronco Creek</u>

- The Bronco Creek agreement with Bronco Creek Exploration Inc, in connection with the acquisition of a mineral rights permit. A total of $3.2 million was capitalized to Exploration and Evaluation Assets related to this agreement which consists of a cash payment of $0.2 million paid to Bronco Creek upon execution of the agreement and upon registration of the Permit, and $3.0 million made following declaration of the Parks/Salyer mineral resource on September 28, 2022.

- In the two years following the registration date of February 9, 2022, the Company will make yearly exploration expenditures totaling $2.0 million prior to the first anniversary and a cumulative total of $4.0 million prior to the second anniversary.

<u>LKY</u>

- The final $5.0 million due for the LKY Purchase on the fifth anniversary of the closing date of February 10, 2022.

The Company has future exploration and evaluation expenditure obligations which are committed as follows subject to successful PSA Due Diligence on the Mainspring Property (*see also "Company Highlights – 2022 and Year-to-Date 2023 – Exploration Highlights*"):

- Payment of $2.0 million on or prior to the expiry of the PSA Due Diligence date (such date being 5 months from the Effective Date (subject to one month's extension at the option of ASCU) into escrow;

- Payment of $5.0 million one year from Effective Date. Title is then transferred to Cactus 110 LLC;

- Payment of $6.0 million together with accrued interest at 6% per annum, within 1 year from the Closing Date secured by way of a promissory note and deed of trust on the subject property. The promissory note may be repaid at any time prior to maturity with no penalties following which the deed of trust will be released.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

AUTHORIZED AND ISSUED SHARE CAPITAL

As at March 29, 2022, the Company had 104,485,487 outstanding common shares. The Company also had 5,640,459 share purchase options, 203,111 restricted share units, 522,732 deferred share units and 5,810,054 warrants outstanding.

NON-IFRS PERFORMANCE MEASURES

The Company uses the working capital performance measure in its analysis. This performance measure has no standardized meaning within generally accepted accounting principles under IFRS and, therefore, amounts presented may not be comparable to similar data presented by other companies. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Management believes working capital is a valuable indicator of liquidity. Working capital is calculated by deducting current liabilities from current assets. Current Liabilities and current assets are the two most directly comparable measures prepared in accordance with IFRS.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures ("DCP") have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis.

Management of the Company, under supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures and has evaluated the effectiveness of the Company's DCP and has concluded that they were effective as at December 31, 2022.

Internal control over financial reporting

The Company's internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud.

Control Framework

Management has used the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in order to assess the effectiveness of the Company's internal control over financial reporting.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

FORWARD-LOOKING INFORMATION

This document contains "forward-looking information" within the meaning of Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. This information and these statements, referred to herein as "forward-looking statements" are made as of the date of this MD&A or as of the date of the effective date of information described in this MD&A, as applicable. Forward-looking information includes statements that use forward-looking terminology such as "may", "could", "would", "will", "intend", "plan", "expect", "budget", "estimate", "forecast", "schedule", "anticipate", "believe", "continue", "potential" or the negative or grammatical variation thereof or other variations thereof or comparable terminology. Such forward-looking information includes, without limitation, statements with respect to mineral resource estimates; targeting additional mineral resources and expansion of deposits; the capital and operating cost estimates and the economic analyses (including cashflow projections) from technical studies; the Company's expectations, strategies and plans for the Cactus Project, including the Company's planned exploration and development activities; the results of future exploration and drilling and estimated completion dates for certain milestones; successfully adding or upgrading mineral resources or reserves and successfully developing new deposits; the costs and timing of future exploration and development, including the timing for completion and commencement of production; the timing and amount of future production at the Company’s projects; the timing, receipt and maintenance of approvals, licenses and permits from the federal and state government agencies and from any other applicable government, regulator or administrative body; the acquisition of the landholdings; future financial or operating performance and condition of the Company and its business, operations and properties; the intended use of the net proceeds for any Offerings; the adequacy of funds from any Offerings to support completion of initial development of the Company’s projects and commence commercial production; and any other statement that may predict, forecast, indicate or imply future plans, intentions, levels of activity, results, performance or achievements.

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management, in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, at the date of publication of the information including, without limitation, assumptions about: favorable equity and debt capital markets; the ability to raise any necessary additional capital on reasonable terms to advance the development of the Company’s projects and pursue planned exploration; future prices of copper and other metal prices; the timing and results of exploration and drilling programs; the accuracy of any mineral resource and reserve estimates; the geology of the Company’s projects being as described in relevant technical documents; the metallurgical characteristics of the Company’s projects being suitable for processing; the successful operation of the processing facility; production costs; the accuracy of budgeted exploration and development costs and expenditures, including to complete development of the infrastructure at the Company’s projects; the acquisition of land for project advancement; the price of other commodities such as fuel; future currency exchange rates and interest rates; operating conditions being favorable, including whereby the Company is able to operate in a safe, efficient and effective manner; political and regulatory stability; the receipt of governmental and third party approvals, licenses and permits on favorable terms; obtaining required renewals for existing approvals, licenses and permits and obtaining all other required approvals, licenses and permits on favorable terms; sustained labor stability; stability in financial and capital goods markets; and availability of equipment. Whilst the Company considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking information. Many assumptions are based on factors and events that are not within the control of the Company and there is no assurance they will prove to be correct.

Furthermore, such forward-looking information involves a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, activities, results, performance or achievements of the Company to be materially different from any future plans, intentions, activities, results, performance or achievements expressed or implied by such forward-looking information.

The Company cautions that the foregoing lists of important assumptions and factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained herein. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information.

When relying on forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on behalf of the Company, except as required by law.

APPROVAL

The Board of Directors of Arizona Sonoran Copper Company Inc has approved the disclosure contained in this MD&A.