# ARIZONA SONORAN COPPER COMPANY INC.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE QUARTER ENDED SEPTEMBER 30, 2023

## INTRODUCTION

The following Arizona Sonoran Copper Company Inc. ("ASCU" or the "Company") Management Discussion and Analysis ("MD&A") was prepared as of November 9, 2023 and should be read in conjunction with the unaudited interim condensed consolidated financial statements ("Financial Statements") of the Company as at and for the three and nine months ended September 30, 2023 and 2022, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") including International Standard 34, "Interim Financial Reporting". 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.sedarplus.ca). 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 November 9, 2023 and annual financial statements dated March 29, 2023 and the Annual Information Form ("AIF") dated March 30, 2023 filed with the Canadian Securities Administrators ("CSA") under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedarplus.ca and also available on its website at www.arizonasonoran.com.

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 comprised of private land and a state land lease which is referred to as Cactus East and Cactus West (the "Cactus Project") and the Parks/Salyer Property (collectively with Cactus Project and Stockpile Project, the "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.

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 summarized in "Risks and Uncertainties" below.

## 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 Parks/Salyer Property is located 1.3 mi (2 km) SW from the Cactus open pit along the mine trend and demonstrates the same geological characteristics.

"**Mainspring Property"** herein means the mineral rights representing the land immediately south of the Parks/Salyer Property and sometimes referred to by the Company as "Parks/Salyer South".

"**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 – YEAR-TO-DATE 2023

### Corporate Updates

- 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$30.0 million ($22.3 million) (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.
  - While Tembo acquired 2,833,717 Common Shares, its total share of the company decreased 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, by not participating pro rata.

- On April 4, 2023, the Company announced the closing of its private placement with Nuton LLC ("Nuton"). In connection with the February 2023 Offering, Nuton had 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%. Nuton subscribed for 1,229,140 common shares of the Company at a price of C$2.00 per Common share for aggregate gross proceeds to the Company of C$2.5 million ($1.8 million). The participation by Nuton is in addition to the C$30.0 million from the February 2023 Offering.

- On June 7, 2023, the Company announced that it continued to build the development and production team onsite at the Cactus Project. The Company appointed Harold (Bernie) Loyer as Senior VP Projects, replacing Ian McMullan as Chief Operating Officer and Christopher White as Chief Mine Geologist to support Doug Bowden, VP Exploration.

- On June 22, 2023, the Company announced that Shareholders voted in favour of the business of the annual general meeting ("AGM"), including appointment of a new Board member, Isabella Bertani who replaced Thomas Boehlert.

### Exploration Updates

- On January 17, 2023, the Company announced 60% completion of its 105,000 ft (32,000 m) infill to indicated drilling program at the Parks/Salyer Property, 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; 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 Property 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 Property (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 Pre-Feasibility Study ("PFS") due in early 2024. The total land position of the combined Cactus and Parks/Salyer Property 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 million non-refundable deposit put into an escrow account at the time of signing of the agreement (the "Effective Date") (complete);
  - Payment of $2 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 (complete);
  - Payment of $5 million one year from the Effective Date (being the signing date of the PSA) ("Closing Date"). Title is then transferred to Cactus 110 LLC; and
  - Payment of $6 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.

- On March 6, 2023, the Company announced it has engaged Ausenco to lead the Project's Pre-feasibility Study and appointed Victor Moraila as Chief Mine Engineer
  - The PFS will examine the potential of adding significant scale to the heap leach and SXEW flowsheet as envisioned in the 2021 Cactus Project Preliminary Economic Assessment ("PEA").

  - The PFS sourcing and procurement practices will focus on an "Arizona-First" approach, favouring procurement from within the state.

- On March 15, 2023, the Company announced potential mineralization 3,000 ft (915 m) north-east of Cactus East, at the North-east Extension ("NE Extension") drill target. Management believes NE Extension exploration drill hole to confirm a potential 990 ft (302 m) of continuous mineralization and a tenor of primary copper grades that, with appropriate enrichment processes, could support copper grades suitable for underground mineral resources (consistent with the Parks/Salyer Property and Cactus East). In addition, ionic leach sampling identified potential large target in the Gap Zone. Cactus East infill drilling to measured confidence levels shows potential high-grade copper similar to the Parks/Salyer Property. Highlights of the drilling are as follows:

  - **ECE-076 (CE):** 491.0 ft (149.7 m) @ 1.51% CuT, 1.34% Cu TSol, 0.023% Mo
    - Incl 211.7 ft (64.5 m) @ 1.75% CuT, 1.65% Cu Tsol, 0.012% Mo (oxide)
    - And 279.3 ft (85.1 m) @ 1.38% CuT, 1.11% Cu Tsol, 0.031% Mo (enriched)
    - Incl 79.3 ft (24.2 m) @ 2.87% CuT, 2.61% Cu Tsol, 0.028% Mo
  - **ECE-078 (CE):** 377 ft (114.9 m) @ 1.25% CuT, 1.15% Cu Tsol, 0.035% Mo (enriched)
    - Incl. 20 ft (6.1 m) @ 2.10% CuT, 1.98% Cu Tsol, 0.035% Mo
  - **ECN-128:** continuous mineralization of 990.7 ft (302.0 m) @ 0.42% CuT
    - 118.1 ft (36.0 m) @ 0.97% CuT, 0.94% Cu Tsol, 0.004% Mo (oxide)
    - 653.4 ft (199.2 m) @ 0.40% CuT, 0.008% Mo (primary)

- On March 27, 2023, the Company announced an update to the infill drilling with 9 additional holes at the Parks/Salyer Property demonstrating estimated grades and thicknesses supportive of an underground operation within the planned PFS. Highlights include:
  - **ECP-122:** 546.5 ft (166.6 m) @ 1.14% CuT, 1.00% Cu Tsol, 0.007% Mo (enriched)
    - Incl 176.5 ft (53.8 m) @ 2.03% CuT, 1.88% Cu Tsol, 0.005% Mo
  - **ECP-125:** 545.2 ft (166.2 m) @ 1.09% CuT, 0.99% Cu Tsol, 0.020% Mo (enriched)
    - Incl. 217.0 ft (66.1 m) @ 1.75% CuT, 1.66% Cu Tsol, 0.009% Mo
    - 635.5 ft (193.7 m) @ 0.46% CuT, 0.018% Mo (primary)
  - **ECP-114: 463.5 ft (141.3 m) @ 1.14% CuT, 0.98% Cu Tsol, 0.028% Mo (enriched)**
  - **ECP-116: 570.0 ft (173.7 m) @ 0.86% CuT, 0.64% Cu Tsol, 0.015% Mo (enriched)**
  - **ECP-124:** 361.8 ft (110.3 m) @ 1.14% CuT, 1.06% Cu Tsol, 0.007% Mo (enriched)
    - Incl. 179.8 ft (54.8 m) @ 1.87% CuT, 1.79% Cu Tsol, 0.010% Mo
  - **ECP-119:** 89.9 ft (27.4 m) @ 2.31% CuT, 2.21% Cu Tsol, 0.011% Mo (enriched)
    - 66.2 ft (20.2 m) @ 2.07% CuT, 2.02% Cu Tsol, 0.012% Mo (oxide)
    - Incl. 14.1 ft (4.3 m) @ 4.07% CuT, 4.05% Cu Tsol, 0.017% Mo

- On April 3, 2023, the Company announced the receipt of the Mined Land Reclamation Permit ("MLRP") from the Arizona State Mine Inspector's Office for the Cactus Project following the Company's application in December of 2022. The MLRP is the primary financial assurance document requiring the operator to bond for the full reclamation of the property after mining operations have concluded. The MLRP is a state-level permitting process that governs mine sites and ensures measures will be taken to achieve stability and safety, consistent with post-mining land use objectives specified in the reclamation plan. Changes to site operations plans, such as those defined in the operation's Prefeasibility Study may require an amendment to the MLRP. A surety bond for $5.0 million was posted with the Arizona State Mine Inspector on June 1, 2023.

- On May 2, 2023, the Company announced that it continues to improve metallurgical recoveries through ongoing column testing onsite and provided an update on its TruStone facility as follows:
  - The 90-day Stockpile oxide cycle is now complete with 90% recoveries of each column's head grade.

- Preliminary results from the Parks/Salyer Property enriched columns after 160 days are tracking to a recovery of approximately 80%.
- Samples for each of the TruStone columns were sent to HydroGeoSense Inc. (“HGS”) and Skyline Lab for sequential copper and total copper analysis.
- The TruStone Facility now hosts a sample prep lab, 12 metallurgical columns and a core storage facility.

- On May 15, 2023, the Company announced that Pinal County Air Quality Department approved and issued the Company its Industrial Air Permit for the Project. The issuance of this permit is a key milestone in the re-development of the Project, as it is the final major permit needed, ahead of developing and mining the Project. Pinal County’s Air Quality Department is in charge of the Clean Air Act, and delegated authority to regulate stationary industrial developments within the County. The Industrial Air Permit issued to Cactus governs air quality compliance in accordance with federal, state, and county standards.

- On June 5, 2023, the Company provided positive preliminary Nuton technology extraction rates on the Cactus Project primary sulphides summarized as follows:

  - Initial testing with Nuton demonstrating optionality to continue scaling the asset beyond the base case Pre-feasibility Study (“PFS”) parameters:
    - Primary sulphides, currently excluded from the PEA and pending PFS, comprise 25% of total mineral resource (as of September 28, 2022: 4.9 billion lbs. of inferred and 1.6 billion lbs. of indicated copper resources, has since updated as announced October 16, 2023 – see below)
  - After 75 and 150 days, preliminary copper extraction for columns range from 61% to 82% on primary sulphides with an optimized targeted copper extraction for a life of asset blend of 80%
    - Extraction rates improve when blending both primary and secondary sulphides
  - Excellent results from unoptimized preliminary leach conditions with further optimization planned in a potential second phase of the test work program
  - The next phase of the metallurgical test work program will commence in conjunction with a draft commercial framework agreement with Nuton. Phase 2 will further define potential value impact for ASCU shareholders.

- On June 14, 2023, the Company announced that it released the final 8 infill holes at Parks/Salyer Property, completing the infill to indicated drill program on the inferred resource of 2.9B lbs. of copper @ 1.015% TCu*. Infill drilling has now begun to tighten spacing suitable for the measured category
  - Drilling better defines the east and west margins of the inferred mineral resource area at the Parks/Salyer Property.
  - A total of 48 infill drill holes are now drilled and assayed to generate an updated resource model for use in the PFS.
  - In 2023, after nine months, the Company has completed 100,000 ft (30,480 m) of drilling at the Cactus and the Parks/Salyer Property deposits.

- On July 28, 2023, the Company made a payment of $2.0 million on completion of the PSA due diligence period of the Mainspring purchase process and commitment. Remaining payments under the Mainspring agreement are now contractually obligated. See *“Commitments and Contingencies”.*

- On September 12, 2023, the Company announced 13 infill holes from the high-grade core of the Parks/Salyer Property deposit demonstrating continuity of grade and mineralized widths at 125 ft (38 m) drill spacing. A total of 29,036 ft (8,850.2 m) has now been drilled within the overall 105,000 ft (32,000 m) infill to measured drilling program over the Cactus Project deposits. This program is being undertaken to upgrade parts of the current mineral resources to the measured category for a definitive feasibility study ("DFS") in late 2024. Drilling highlights include:

- **ECP-145: 937 ft (285.8 m) @ 1.41% CuT of continuous mineralization**
  - 639 ft (194.8 m) @ 1.78% CuT, 1.37% Cu TSol, 0.016% Mo (enriched)
  - Incl 78 ft (23.8 m) @ 4.10% CuT, 2.96% Cu TSol, 0.013% Mo
- **ECP-147: 1,023 ft (312 m) @ 1.05% CuT of continuous mineralization**
  - 935 ft (285.2 m) @ 1.02% CuT, 0.63% Cu TSol, 0.014% Mo (enriched)
  - Incl 202 ft (61.6 m) @ 2.03% CuT, 1.28% Cu TSol, 0.016% Mo
- **ECP-162: 1,132 ft (344.9 m) @ 1.23% CuT of continuous mineralization**
  - 597 ft (181.8 m) @ 1.49% CuT, 1.44% Cu TSol, 0.019% Mo (enriched)
  - And 170 ft (51.8 m) @ 1.92% CuT, 1.88% Cu TSol, 0.023% Mo
- **ECP-169: 880.2 ft (268.3 m) @ 1.13% CuT of continuous mineralization**
  - 519 ft (158.2 m) @ 1.49% CuT, 1.09% Cu TSol, 0.011% Mo (enriched)
  - Incl 158ft (48.2m) @ 2.16% CuT, 2.10% Cu TSol, 0.004% Mo
- **ECP-152: 1,011 ft (308.2 m) @ 0.78% CuT of continuous mineralization**
  - 674 ft (205.6 m) @ 1.0% CuT, 0.94% Cu TSol, 0.020% Mo (enriched)
  - Incl 125 ft (38.3 m) @ 2.18% CuT, 2.13% Cu TSol, 0.017% Mo

- On October 3, 2023, the Company announced that the City of Casa Grande has approved the rezoning for the northern parcel of the Mainspring Property to Industrial use. Rezoning the northern parcel allows ASCU to begin drilling and an exploration plan is being prepared. The southern parcel of the Mainspring Property is still in process with the City of Casa Grande for rezoning and a General Plan Amendment. Additionally, the Company has acquired a 2.5 acre Mineral Exploration Permit ("MEP") within the Parks/Salyer Property deposit. By acquiring the MEP and the Mainspring Property, ASCU gains a low-risk, high impact exploration target and operational flexibility for future operations.

- On October 16, 2023, the Company released its Mineral Resource Update ("MRE") for the Project. The upgraded MRE is expected to form the basis for the ASCU Pre-Feasibility Study ("PFS"), targeting a 45-50 ktpa copper cathode heap leach and SXEW operation, and is on track for release in Q1 2024. Highlights of the MRE are as follows:
  - 445,700 ktons at a Grade of 0.58% CuT for 5.17 Billion Pounds of Copper (M&I), a 221% conversion of pounds from the Inferred category
  - 357,600 ktons leachable at a Grade of 0.62% Cu TSol for 4.43 Billion Pounds of Copper (M&I), a 316% conversion of pounds from the inferred category

- On October 30, 2023, the Company announced drill assays from 5 holes at Cactus East and 4 from the Parks/Salyer Property totaling 18,467 ft (5,629 m) drilling at 125 ft (38 m) drill spacings.

- Additionally, the Company has begun exploratory drilling at the Mainspring Property, with five holes now complete. The program consists of up to 10 drill holes, targeting shallow mineralization 1,500 ft (~450 m) south of the Parks/Salyer Property. The Parks/Salyer Property contains 143.9 Mtons @ 1.009% Cu M&I and 48.4 Mtons @ 0.967% Cu Inferred (PR October 16, 2023) and is estimated to remain open to the south onto the Mainspring Property. Historic ASARCO drilling supports the continuity of gradually shallower mineralization towards the south, which the Company is testing via the current drill program.

## OUTLOOK

As of November 9, 2023 the Company had cash of approximately $9.6 million. The Company will require further financing to achieve all of its planned operational and strategic activities in the form of debt, equity, or a combination thereof. See *“Liquidity and Capital Resources”* below.

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

- The PFS is ongoing with expected completion in Q1/2024 following the completion of metallurgical, hydrological and geotechnical drilling as well as engineering, trade-off and gap analyses. See *“The Project – Pre-feasibility Study”* for updates.

- Drilling Programs targeting oxide and enriched copper mineralization (see *“Company Highlights – Year-to-date 2023 – Exploration Updates”* for details):
  - Infill drilling program for the pending PFS was completed on the Parks/Salyer Property in Q2/2023 with the goal of upgrading mineral resources to the indicated category from the inferred category. The Company began its 90,000 ft (27,000 m) infill drilling program at the Cactus East and the Parks/Salyer Property projects Q3/2023, which is to be part of the Definitive Feasibility Study (“DFS”) in 2024 following release of the PFS.

  - The Company began drilling initial targets at Mainspring in October, following completion of the due diligence period and its milestone payments based on the PSA. The planned drill program will consist of up to 10-hole program drilled as deep as the basement fault.

- Metallurgy:
  - Column testing is ongoing at the Cactus Project. The program is collecting critical leaching information for both oxidized and secondary enriched mineralized material with different rock types, ore grades, and mineralogy from both the Cactus Project and Parks/Salyer Property deposits (see *“Company Highlights – Year-to-date 2023 – Exploration Updates”* for details).

- Permitting:
  - Permitting work based on PFS data to-date has begun and the Company is reviewing final mine plans recommended by the PFS Consultants. See *“Company Highlights – Year- to-date 2023 - Exploration Updates”* for details on completed permits related to Cactus, the MLRP and Industrial Air permits received.

- Primary Sulphide Potential:
  - The full impact of success using Rio Tinto’s Nuton Technologies in relation to Cactus Project and Parks/Salyer Property, and/or its integration within a technical study remains under consideration and will be determined by the output of the technical work and commercial framework to be reached. Currently, all portions of the metallurgical program are funded through Rio Tinto’s Nuton division.

## THE PROJECT

The 100%-owned 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 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 1974-1984. 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 Multi-State Environmental Custodial Trust and the Arizona Department of Environmental Quality. The reclamation program remediated the property, excluding the Stockpile.

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. Work is steadily progressing through project permitting.

Immediately southwest of the Cactus Project on contiguous private land in Arizona, USA is the Parks/Salyer Property located 1.3 mi (2 km) SW from the Cactus West open pit along the mine trend and demonstrates the same geological characteristics.

**Expenditures at the Project for the nine months ended September 30, 2023 and 2022+**

The following table sets forth a breakdown of material components of expenditures incurred at the Project for the nine months ended September 30, 2023 and 2022.

| | 9-Months | |
|---|---|---|
| | **September 30, 2023** | **September 30, 2022** |
| Exploration | $ 12,487 | $ 14,876 |
| Mainspring Property | 13,541 | - |
| Drilling | 8,939 | 7,874 |
| Salaries and wages | 2,363 | 1,100 |
| Operational | 837 | 573 |
| Sample and assay | - | 16 |
| | $ 38,167 | $ 24,439 |

In the nine months ended September 30, 2023, total expenditures at the Project increased to $38 million, compared to $24.4 million during the same period in 2022. The year-to-date expenditures were $13.7 million higher due to the Mainspring Property acquisition, increases in exploration costs and salary and wage costs. This is due to strategic land purchases and personnel hires the Company has made to support the PFS and further Project development.

**Cactus East, Cactus West and Stockpile Project**

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. The scientific and technical information in this section relating to the Project is partially derived from, and in some instances is a direct extract from, and is 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 SEDAR profile.

The Company is currently advancing the Project with a PFS and will subsequently complete a DFS, subject to a positive outcome from the PFS.

As at September 30, 2023, the Company completed its infill drilling program at the Project in April and began the infill to measured program targeting upgrading resources to the measured program for future technical studies. The PFS infill drilling program tightened the drill spacing with the intent of upgrading the Inferred mineral resources to an Indicated category within the Parks/Salyer Property and the deposits comprising integrated PEA mine plan, including Cactus East, Cactus West and the Stockpile Project. 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 and some infill drilling was undertaken.

### Parks/Salyer Property

The Parks/Salyer Property is an exploration stage asset with a MRE as noted below. In total, 31 drill holes over 66,507 ft (20,271 m) were used to define the Parks/Salyer Property target for its maiden inferred MRE. The Company released its maiden inferred MRE on the Project on September 28, 2022 and released an updated MRE on October 16, 2023, see Table 1 below.

Due to the upgrade of the Parks/Salyer Property within the updated Company-wide MRE, the oxide and enriched material at Parks/Salyer Property will be considered for inclusion in the planned PFS. The PFS will integrate both the Cactus Project and Parks/Salyer Property MRE, based on the expanded leachable inventory, using a heap leaching and SX/EW process methodology of the oxides and enriched material.

At this time the primary sulphides are not being included into the integrated study. The leachability of the primary sulphides is currently being tested (based on the Nuton technology) and may form the basis of further project upside.

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

The October MRE update, including geological modelling, statistical analysis, and resource estimation were prepared by the ASCU resource team and by Allan Schappert – CPG #11758, who is a qualified person as defined by National Instrument 43-101– Standards of Disclosure for Mineral Projects. The Initial 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").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"). A new technical report with updated economics covering the Cactus Project and the Parks/Salyer Property, will be filed within Q1 2024 upon completion of the PFS.

### Pre-Feasibility Study

Ausenco has been appointed as lead engineering firm for the Project's Integrated PFS. In addition to its own technical staff, Ausenco is leading a technical consultant team comprised of Samuel Engineering, AGP Mining Consultants, Stantec, MineFill Services, Clear Creek Associates and Call & Nicholas Inc. (collectively the "PFS Consultants").

The PFS Consultants are reviewing a Cactus draft PFS, which began prior to the declaration of the Parks/Salyer Property's maiden resource and will be integrating the two projects into a new re-scoped and step-up PFS. The study will explore a simple heap leach operation, targeting a potential of 45,000 to 50,000 tons per annum of LME Grade A Copper Cathode from an onsite Solvent Extraction/Electrowinning (SX/EW) plant. Mineralized material will be sourced from four deposits initially, including the Stockpile, Cactus East, the Parks/Salyer Property and Cactus West.

The Company released its updated Mineral Resource Update ("MRE") for the Project on October 16, 2023, and is as follows:

Table 1: The Project Mineral Resource Estimate, as of August 31, 2023.

| | **PREVIOUS MINERAL RESOURCE** (As of September 28, 2022) | | | **UPDATED MINERAL RESOURCE** (As of August 31, 2023) | | | **VARIANCE** |
|---|---|---|---|---|---|---|---|
| | Tons kt | Grade Cu%¹ | Pounds Cu Mlbs | Tons kt | Grade Cu%¹ | Pounds Cu Mlbs | Cu Content % |
| **Total Measured** | | | | **10,400** | **0.241** | **49.8** | New |
| Leachable | | N/A | | 9,100 | 0.230¹ | 41.9 | New |
| Primary | | | | 1,300 | 0.315 | 8.0 | New |
| **Total Indicated** | **151,800** | **0.531** | **1,610.7** | **435,300** | **0.589** | **5,124.2** | **+218%** |
| Leachable | 73,900 | 0.723 | 1,065.2 | 348,500 | 0.629¹ | 4,387.2 | +312% |
| Primary | 77,900 | 0.350 | 545.5 | 86,800 | 0.425 | 737.0 | +35% |
| **Total M&I** | **151,800** | **0.531** | **1,610.7** | **445,700** | **0.580** | **5,174.0** | **+221%** |
| Leachable | 73,900 | 0.723 | 1,065.2 | 357,600 | 0.619¹ | 4,429.0 | +316% |
| Primary | 77,900 | 0.350 | 545.5 | 88,000 | 0.423 | 745.0 | +37% |
| **Total Inferred** | **449,900** | **0.544** | **4,894.2** | **233,800** | **0.472** | **2,207.9** | **-55%** |
| Leachable | 310,400 | 0.590 | 3,663.7 | 107,700 | 0.607¹ | 1,307.9 | -64% |
| Primary | 139,500 | 0.441 | 1,230.5 | 126,200 | 0.357 | 900.0 | -27% |

*NOTES:*

*1. Leachable copper grades are reported using sequential assaying to calculate the soluble copper grade. Primary copper grades are reported as total copper, Total category grades reported as weighted average copper grades of soluble copper grades for leachable material and total copper grades for primary material. Tons are reported as short tons.*

*2. Stockpile resource estimates have an effective date of 1st March, 2022, Cactus Project resource estimates have an effective date of 29th April, 2022, Parks/Salyer Property resource estimates have an effective date of 19th May, 2023. All resources use a copper price of US$3.75/lb.*

*3. Technical and economic parameters defining resource pit shell: mining cost US$2.43/t; G&A US$0.55/t, 10% dilution, and 44°-46° pit slope angle.*

*4. Technical and economic parameters defining underground resource: mining cost US$27.62/t, G&A US$0.55/t, and 5% dilution,*

*5. Technical and economic parameters defining processing: Oxide heap leach (HL) processing cost of US$2.24/t assuming 86.3% recoveries, enriched HL processing cost of US$2.13/t assuming 90.5% recoveries, Primary mill processing cost of US$8.50/t assuming 92% recoveries. HL selling cost of US$0.27/lb.; Mill selling cost of US$0.62/lb.*

*6. Royalties of 3.18% and 2.5% apply to the ASCU properties and state land respectively. No royalties apply to the Mainspring Property.*

*7. For the Cactus Project: Variable cutoff grades were reported depending on material type, potential mining method, and potential processing method. Oxide material within resource pit shell = 0.099% TSol; enriched material within resource pit shell = 0.092% TSol; primary material within resource pit shell = 0.226% CuT; oxide underground material outside resource pit shell = 0.549% TSol; enriched underground material outside resource pit shell = 0.522% TSol; primary underground material outside resource pit shell = 0.691% CuT.*

*8. For the Parks/Salyer Property: Variable cut-off grades were reported depending on material type, associated potential processing method, and applicable royalties. For ASCU properties - Oxide underground material = 0.549% TSol; enriched underground material = 0.522% TSol; primary underground material = 0.691% CuT. For state land property - Oxide underground material = 0.545% TSol; enriched underground material = 0.518% TSol; primary underground material = 0.686% CuT. For*

*Mainspring Property - Oxide underground material = 0.532% TSol; enriched underground material = 0.505% TSol; primary underground material = 0.669% CuT.*
*9. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, sociopolitical, marketing, or other relevant factors.*
*10. The quantity and grade of reported inferred mineral resources in this estimation are uncertain in nature and there is insufficient exploration to define these inferred mineral resources as an indicated or measured mineral resource; it is uncertain if further exploration will result in upgrading them to an indicated or measured classification.*
*11. Totals may not add up due to rounding.*

Critical technical work ahead of detailed mine planning continued in Q3/2023. The PFS Consultants continued reviewing past process studies to confirm those inputs remain valid, and also reviewed the previous mining trade-offs to determine expansion, as needed. Mining method studies were completed for the different options for Cactus East and the Parks/Salyer Property. The results of these technical works are being reviewed internally with anticipated mine plan and costing. The PFS remains on schedule to be completed in Q1/2024.

## 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 extends for 50 years, which is beyond the life of the Project.

2. The ADEQ's 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 PEA mine plan in 2021, an amendment for full Project coverage including expanded leach facilities, waste dumps and both open pit and underground infrastructure was obtained on March 28, 2022. Upon completion of the PFS in Q1/2024, the Company will require a second amendment based on the re-scoped operations.

3. Pinal County's 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. ADEQ's 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 TruStone facility which is situated on Company property.

5. Pinal County's Industrial Air Quality Control 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 was received in May 2023, based on the Cactus Project PEA mine plan. Pending the PFS mine plan, an amendment will be required. See "Company Highlights – Year to date 2023 – Exploration Updates" and press release dated May 15, 2023, for details on the permit received.
6. Arizona State Mine Inspector, Mined Lands Reclamation Permit: This permit relates to all metalliferous mining units and exploration operations with surface disturbances on private lands

greater than five acres and has been received by the Company. Based on the pending PFS mine plan, an amendment may be required. The Company received this permit in March 2023. See “Company Highlights – Year to date 2023 – Exploration Updates” and press release dated April 3, 2023, for details on the MLRP permit received.

In addition, the United State Army Corp. Of Engineers (“USACE”) Jurisdictional Determination 404 was 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 Cactus 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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2023** | **September 30, 2022** | **September 30, 2023** | **September 30, 2022** |
| Salaries and wages | $ 276 | 637 | $ 746 | 2,625 |
| Share based compensation | 380 | 224 | 1,608 | 1,156 |
| Professional fees | 102 | (19) | 295 | 555 |
| Directors fees | 155 | 135 | 487 | 406 |
| Marketing and administration | 157 | 170 | 657 | 864 |
| Loss from operations | 1,070 | 1,147 | 3,793 | 5,606 |
| | | | | |
| Other (income) expenses | | | | |
| Accretion | 212 | - | 212 | 193 |
| Finance expenses and FX | 326 | 162 | 28 | 221 |
| Depreciation, depletion and amortization | 16 | 23 | 47 | 67 |
| (Gain)/loss on extinguishment and modification of debt | - | - | - | (39) |
| Loss on marketable securities | 12 | 29 | 30 | 81 |
| Interest income | (243) | (109) | (722) | (147) |
| Other expense/(income) | - | 4 | - | 14 |
| Loss on transaction | 35 | - | 2,361 | - |
| (Gain)/loss on incentive plan | - | - | (1,143) | - |
| **Loss and comprehensive loss for the period** | $ 1,428 | 1,256 | 4,606 | 5,996 |

***For the three and nine-months ended September 30, 2023, as compared to the three and nine-months ended September 30, 2022***

During the three months ended September 30, 2023, the Company had a loss of $1.4 million compared to a loss of $1.3 million for the three months ended September 30, 2022, decreasing slightly due to higher share-based compensation from options granted in 2023 and higher professional fees offset by lower salary and wage costs, lower professional and directors' fees and lower marketing and administration fees. The Company had a loss of $4.6 million in the nine-month period ended September 30, 2023, compared to $6.0 million for the same period in 2022. The decrease in loss is due to lower salaries and wage costs in 2023 from gains on reversal of incentive plan accruals, lower professional fees, higher interest income on surplus cash and unrealized foreign exchange gains, offset by higher share-based compensation costs and a loss on transaction due to a cyber security incident.

The Company's operational costs totaled $1.1 million and $1.2 million during the three-month periods ended September 30, 2023 and 2022, respectively, a decrease of $0.1 million. This compares to $3.8 million and $5.6 million during the nine-months ended September 30, 2022, respectively, a decrease of $1.8 million in the nine-month period in 2023. A significant portion of the decrease is due to a decrease of $1.8 million salaries and wage costs due to reversal of short-term incentive plan accruals in Q1/2023, offset by higher share-based compensation costs from higher priced options in 2023.

During the three and nine-months ended September 30, 2023, the total other loss was $0.3 million and $0.8 million, respectively, compared to losses in the same periods of $0.1 million and $0.4 million, respectively in 2022. The increase in the quarter and nine-month period of $0.2 million and $0.4 million, respectively, is due to a transaction loss accrued due to a cyber security incident in Q2/2023, movements in foreign exchange on converting Canadian dollars to US dollars and accretion on the Mainspring PSA provisions, offset by a reversal of incentive plan accruals upon issuance of stock options to personnel in Q1/2023 and higher interest income in 2023.

**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) $ |
|---|---|---|---|
| 3rd Quarter 2023 | Nil | 1,428 | 0.01 |
| 2nd Quarter 2023 | Nil | 2,778 | 0.03 |
| 1st Quarter 2023 | Nil | 400 | 0.00 |
| 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 |

The Company is at an early stage of restarting the Cactus Project and advancing exploration at its Parks/Salyer Property with the upcoming PFS on the Project as a whole, 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. Factors generally causing significant variations in results between quarters include share-based compensation, accounting gains 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 September 30, 2023, as compared to the same period in 2022.

## 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 Project as the principal operation of the Company; climate change; impact of obtaining access to water; obtaining further financing to fund anticipated exploration and development work; international conflict in the Ukraine and the Middle East and their 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 Project 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 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. They do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was deemed inappropriate. These adjustments could be material.

The Company has incurred significant operating losses and negative cash flows from operations and has limited working capital due to its commitments falling due within the next twelve months. The Company can adjust its discretionary expenditures to ensure it will continue as a going concern while pursuing additional financing alternatives.

The Company will need to obtain financing in the form of debt, equity, or a combination thereof to continue with its planned non-discretionary and discretionary operational activities. While the Company currently expects to raise additional funds to fund ongoing operations and its Commitments, the outcome remains unknown, and these material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. While management believes that the Company will be able to meet its funding requirements in the ordinary course, there can be no assurance of that outcome.

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 investment 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.

### Operating Activities

As at September 30, 2023, the Company's cash balance was $12.0 million (December 31, 2022 - $19.9 million). During the nine months ended September 30, 2023, the cash used in operating activities was a total of $9.6 million (September 30, 2022 - $0.3 million).

### Investing Activities

The Company's cash used in investing activities for the nine months ended September 30, 2023 was $23.1 million (September 30, 2022 - $25.2 million) primarily spent in connection with exploration and evaluation expenditures on mineral properties and property option and land payments.

### Financing Activities

In the nine months ended September 30, 2023, the Company's cash provided by financing activities was $24.9 million (September 30, 2022 - $26.0 million) primarily consisting of the February 2023 Offering detailed below.

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 30.7% of the total issued and outstanding common shares of the Company as at August 2, 2023.

In addition to the February 2023 Offering detailed above, the Company closed a private placement with Nuton on March 31, 2023. In connection with the February 2023 Offering, Nuton LLC had 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%. Nuton subscribed for 1,229,140 common shares of the Company at a price of C$2.00 per Common share for aggregate gross proceeds to the Company of C$2.5 million ($1.8 million).

As at September 30, 2023, the Company issued 3,856,757 common shares related to warrant exercises with expiries ranging from May 8, 2023 to July 10, 2023 for proceeds of $1.9 million and a weighted average exercise price of $0.48 per unit.

## RELATED PARTY TRANSACTIONS

As at September 30, 2023, no amounts were owed to or from the Company by key management personnel (December 31, 2022 – Nil).

The remuneration of the key executive management and directors was as follows for the respective nine month periods:

| | September 30, 2023 ($) | September 30, 2022 ($) |
|---|---|---|
| Salaries and wages | $ 1,019 | $ 2,039 |
| Severance | - | 495 |
| Salaries and wages capitalized as exploration | 528 | 447 |
| Share-based compensation* | 1,146 | 1,155 |
| Directors' fees | 487 | 406 |
| | $ 3,180 | $ 4,542 |

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

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated 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, 2022.

## FINANCIAL INSTRUMENTS

### Fair Value

The Company's financial instruments as at September 30, 2023 consist of cash, marketable securities, accounts payable, accruals, other short and long term liabilities. The carrying values of all other financial assets and financial liabilities approximate their fair value with the exception of the Mainspring PSA provisions at amortized cost.

### 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 September 30, 2023, the Company is exposed to currency risk through its cash and cash equivalents denominated in Canadian dollars totaling $15.7 million.

Based on the exposure as at September 30, 2023, 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 $1.2 million in the Company's loss for the three-month period.

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.

| | Less than 6 months | 6 – 12 Months | Between 1 – 2 years | Total contractual cash flows September 30, 2023 |
|---|---|---|---|---|
| Financial liabilities at amortized cost: | | | | |
| Accounts payable | 2,394 | - | - | 2,394 |
| Accruals | 5,272 | - | 5,532 | 10,804 |
| Lease liabilities | 32 | 32 | 16 | 80 |
| Other current liabilities | 9 | - | - | 9 |
| | 7,707 | 32 | 5,548 | 13,287 |

The Company's cash is held in large Canadian and U.S. financial institutions. The Company does not deem that it has 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 September 30, 2023, the contractual undiscounted future cash flows of the Company's significant financial liabilities are as follows:

As at September 30, 2023, the carrying values of all financial assets and financial liabilities approximate their fair value with the exception of the Mainspring PSA provisions which are valued at amortized cost.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

***Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction***

This amendment clarifies how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

This amendment is effective for reporting periods beginning on or after January 1, 2023 and the Company has determined there to be no material impact to the Financial Statements.

## COMMITMENTS AND CONTINGENCIES

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

Trust Lands

- Based on the achievement of certain development milestones, the Company is obligated to make future payments to TAGC Ventures LLC of up to $1.05 million in connection with the purchase from ASARCO Trust.

Bronco Creek

- 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 on February 9, 2024. A total of $4,319 has been spent as at September 30, 2023 on the Bronco Creek property satisfying this commitment.

LKY

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

Mainspring

- Future payments include:
  - Payment of $5.0 million one year from Effective Date net of any pre-payments made for drilling, of which the Company has made $0.6 million to date. Title is then transferred to Cactus 110 LLC; and
  - 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 November 9, 2023, the Company had 109,067,336 outstanding common shares. The Company also had 6,283,494 share purchase options, 203,111 restricted share units, 467,315 deferred share units and 2,498,421 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.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

On July 26, 2023, the Company learned of a liability resulting from a cyber security incident which led to the diversion of payments in June and July 2023 for costs incurred in May and June 2023 to an unintended recipient in the aggregate amount of $2.3 million. A material weakness in the Company's internal controls may have contributed to the security incident in question. The Company has taken immediate action to address the issue and is reviewing the matter to determine if all or a portion of such payments can be recovered.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company determined that fraud prevention protocols were not adhered to by an employee. The Company's fraud prevention protocols are designed to effectively mitigate the risk of fraud events (known as business email compromise) from occurring or not being detected in a timely manner to an acceptable level.

As a result of this operating control deficiency, management concluded that internal controls over financial reporting was not effective as of September 30, 2023. In particular, for the period ended September 30, 2023, the Company identified a material weakness in the Company's anti-fraud protocols, and action has been taken to rectify the deficiency. The Company has taken immediate action to address the issue as noted below and continues to determine if all or a portion of such payments can be recovered.

### Status of Remediation Plan

The Company believes that immediate improvements made to date have effectively addressed the issue that led to the payments. However, the Company continues to conduct a full review of internal controls over financial reporting with the assistance of external parties to address any material weaknesses as at November 9, 2023. Management is committed to implementing changes to our internal control over financial reporting to ensure that any control deficiencies that may have contributed to the material weakness are remediated. The following remedial activities have been introduced or are in progress:

- The Company has adjusted its anti-fraud program as it relates to cyber security including enhancements to multi-factor authentication, stricter authentication protocols and conditional access.
- In addition to a review of the Company’s endpoint security, the Company has added additional oversight and approvals over vendor information changes.
- Cyber security training and communication programs for management and personnel have been implemented to reinforce the Company’s standard of conduct, enhance understanding of assessed

risks, and clarify individual responsibility for control activities at various levels within the Company.
- The Company's control environment is being reviewed by external specialists to assist management on additional remediation efforts.

While the Company believes these actions have remediated the actions that led to the material weakness, it has not completed all of the corrective processes, procedures and related evaluation or remediation that are believed to be necessary. Until the remediation steps set forth above, including the efforts to implement any additional control activities identified through our remediation processes, are fully implemented and concluded to be operating effectively, the material weaknesses described above will not be considered fully remediated.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Other than as noted above, there have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Also refer to disclosure above under heading above" 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; the Company's plans to remediate the material weakness in its internal control over financial reporting; 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; availability of equipment; and the ability of the Company to remediate material weaknesses in its internal control over financial reporting. 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 Audit Committee on behalf of the Board of Directors of Arizona Sonoran Copper Company Inc has approved the disclosure contained in this MD&A.