



Arizona Sonoran Copper Company Inc.

Interim Condensed Consolidated Financial Statements

September 30, 2022

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

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

	Note	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		\$ 27,952	\$ 27,307
Receivables		72	400
Prepaid expenses and other		184	118
		28,208	27,825
Other non current assets			
Exploration and evaluation assets	5	42,032	24,493
Marketable securities		143	-
Property and equipment	4	2,616	1,957
Right of use asset	6	114	149
Total assets		\$ 73,113	\$ 54,424
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 5,154	\$ 2,506
Current portion of lease liability	6	39	34
Debentures	3b	-	6,729
		5,193	9,269
Other Liabilities- long term			
Lease liability	6	80	115
Other long-term liabilities	3c	-	962
		80	1,077
Total liabilities		5,273	10,346
SHAREHOLDERS' EQUITY			
Share capital	9	85,969	58,675
Contributed surplus	9	7,833	5,369
Deficit		(25,962)	(19,966)
Total shareholders' equity		67,840	44,078
Total liabilities and shareholders' equity		\$ 73,113	\$ 54,424

Commitments and contingencies (see Note 11)

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

Arizona Sonoran Copper Company Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in thousands of United States dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2022	2021	2022	2021
Salaries and wages	\$ 637	544	\$ 2,625	2,280
Share based compensation	224	560	1,156	1,913
Professional fees	(19)	250	555	714
Directors fees	135	118	406	351
Marketing and administration	170	541	864	1,325
Loss from operations	1,147	2,013	5,606	6,583
Other (income) expenses				
Accretion	-	652	193	1,680
Finance expenses	162	283	221	804
Depreciation, depletion and amortization	23	18	67	54
(Gain)/loss on extinguishment and modification of debt	-	-	(39)	325
Loss on marketable securities	29	-	81	-
Interest income	(109)	(1)	(147)	(5)
Other expense/(income)	4	-	14	-
Government loan forgiveness	-	(1)	-	(91)
Loss and comprehensive loss for the period	\$ 1,256	2,964	5,996	9,350
Loss per share				
Basic and diluted	\$ 0.01	0.06	\$ 0.07	0.22
Weighted average number of common shares outstanding				
Basic and diluted	88,703,015	49,058,258	80,095,495	42,297,106

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

	Number of common shares	Share capital	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$
Balance at December 31, 2020	34,308,395	11,617	2,277	(6,907)	6,987
Shares issued for cash	15,736,775	11,732	-	-	11,732
Shares issued for financing	485,711	1,020	-	-	1,020
Shares issued for interest	596,861	537	-	-	537
Shares issued for service	271,319	391	-	-	391
Fair valuation of shares issued for cash	-	144	-	-	144
Fair valuation of incentive warrants issued	-	(2,537)	2,537	-	-
Fair valuation of incentive warrants exercised	-	1,100	(1,100)	-	-
Fair valuation of incentive options exercised	-	42	(42)	-	-
Transaction costs	-	(30)	-	-	(30)
Warrant reserve	-	-	148	-	148
Stock options reserve	-	-	405	-	405
RSUs reserve	-	-	1,193	-	1,193
Long-term incentive plan	-	-	587	-	587
Loss for the period	-	-	-	(9,350)	(9,350)
Balance at September 30, 2021	51,399,061	24,016	6,005	(16,257)	13,764
Balance at December 31, 2021	70,819,420	58,675	5,369	(19,966)	44,078
Issue shares for cash	16,788,084	25,977	-	-	25,977
Shares issued to settle debt	711,916	1,068	-	-	1,068
Transaction costs	-	(51)	-	-	(51)
Options issued for cash	120,380	94	(40)	-	54
Warrants issued for cash	243,015	175	(66)	-	109
Stock options reserve	-	-	953	-	953
RSUs reserve	30,466	31	170	-	201
Long-term incentive plan	-	-	994	-	994
DSU reserve	-	-	453	-	453
Loss for the period	-	-	-	(5,996)	(5,996)
Balance at September 30, 2022	88,713,281	85,969	7,833	(25,962)	67,840

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

Arizona Sonoran Copper Company Inc.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in thousands of United States dollars except for per share amounts)
(Unaudited)

	Nine months ended	
	September 30,	September 30,
	2022	2021
Cash provided by (used in):		
Operating activities		
Loss for the period	\$ (5,996)	\$ (9,350)
Effect of non-cash items:		
Share-based compensation	1,606	2,500
Accretion	232	1,680
Depreciation, depletion and amortization	67	54
Long term incentive	991	-
Interest and finance expense, net	35	10
Gain on extinguishment and modification of debt	52	-
Changes in working capital items		
Receivables	185	(30)
Prepaid expenses and other	(66)	(66)
Accounts payable and accrued liabilities	2,648	989
Net cash used in operating activities	(246)	(4,213)
Investing activities		
Expenditures on mineral properties and capitalized mine development	(24,461)	(6,751)
Expenditures on equipment	(49)	-
Property payments	(641)	(8,613)
Net cash used in investing activities	(25,151)	(15,364)
Financing activities		
Repayment of loans	-	(88)
Proceeds from loans	-	6,000
Proceeds from private placement , net of fees and expenses	25,926	2,435
Debt financing and transaction costs	-	(30)
Proceeds from stock options exercise	29	58
Proceeds from warrants exercise	135	5,067
Proceeds from Tembo/RCF pre-emptive rights	-	4,169
Interest paid on various loans	-	(799)
Lease payments	(48)	(35)
Net cash provided by financing activities	26,042	16,777
Change in cash	645	(2,800)
Cash at beginning of the period	27,307	7,248
Cash at the end of the period	\$ 27,952	\$ 4,448

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

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

Note 1 – Description of Business

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated) (“ASCU” or the “Company”) is a company focused on the assessment, consolidation, exploration, development, and eventual mining in the Santa Cruz Copper Mining District in southern Arizona. The Company’s equity securities are traded on the Toronto Stock Exchange (“TSX”) under the symbol “ASCU”. On March 29, 2022, the Company began trading on the Over-the-Counter Markets (“OTCQX”) under the symbol “ASCUF”.

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

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration and development projects will result in profitable mining operations. The recoverability of amounts shown for resource properties is dependent on several factors. These factors include the discovery of economically recoverable reserves, the ability to complete development of these properties, and future profitable production or proceeds from disposition of mineral properties.

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

The Company has no source of revenue and has significant cash requirements to meet its exploration and development plans, administrative overhead, maintenance of its mineral interests, and its commitments, which includes fulfilling its option payments for purchase of land from LKY/Copper Mountain Investments Limited Partnership LLP (“LKY”) (Note 4) and its commitments related to the agreement with Bronco Creek Exploration Inc (Note 5). The Company will need to obtain financing in the form of debt, equity, or a combination thereof to continue with its development and operation plans. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms.

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

These unaudited interim condensed consolidated financial statements (the “interim financial statements”) have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to interim financial reports, including International Accounting Standard 34, “Interim Financial Reporting”. The interim financial statements do not include all the notes normally included in the annual financial statements. These interim financial statements should be read in conjunction with the audited annual financial statements for the period ended December 31, 2021, which have been prepared in accordance with IFRS.

These interim financial statements have been authorized for issue by the Audit Committee on behalf of the Board of Directors of the Company on November 10, 2022.

Critical Accounting Estimates and Judgments

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

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

Changes in accounting policies including initial adoption

IAS 16, Property, Plant and Equipment

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

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

Note 3 – Financing

a) Non-brokered private placement

On May 13, 2022, the Company closed a non-brokered private placement for total gross proceeds of C\$35.0 million (approximately US\$27 million), ("the Offering").

- Under the Offering, 17,500,000 Common Shares were issued at a subscription price of C\$2.00 (US\$1.56) per share. Rio Tinto and Tembo Capital Elim Co-Investment LP ("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.
- Upon completion of the Offering, Rio Tinto now holds 7.2% of the outstanding share capital of the Company, and Tembo's holdings have been reduced from 37.6% to 34.6%.

As part of the Offering the Tembo standby loan was converted into equity (Note 3c). The Company also incurred share issuance costs of \$51.

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

b) Tembo/RCF financing

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

- \$5,093 equity investment (units comprising one share and one warrant);
- \$8,786 debenture loan bearing interest at a 12% annual rate (with a bonus 0.64% net smelter royalty “NSR”*);
- \$5,094 purchase by Tembo and RCF of a 1.27% NSR; and
- \$127 purchase by Tembo and RCF of a 1.27% NSR purchase option with a \$8,786 exercise price;

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

Debenture loan

As part of the Financing, the Company received \$8,786 by issuing debenture notes payable (the “Debenture Loan”) bearing interest at a 12% annual rate, fully secured by the Company and its subsidiaries. The Company had the option to pay the quarterly interest in cash or in shares, whereby the shares would be issued by converting the interest owed at \$0.15 per share.

As part of the consideration for the Debenture Loan, a subsidiary of the Company provided a 0.64% NSR (the “Bonus NSR”) to the lenders, which was determined to have a fair value of \$2,547 based on the purchase price for the 1.27% NSR. The Bonus NSR fair value amount was recorded as a transaction cost directly against the Debenture Loan with the offset credited to Mineral Properties on the Statement of Financial Position. In addition, \$779 of transaction costs were recorded against the debt.

1.27% NSR Purchase Option

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

On December 30, 2021, RCF exercised its portion of the NSR Purchase Option for \$1,886, their portion of the Debenture Loan and acquired NSRs to set off the debenture balance. Tembo also exercised its portion of the NSR Purchase Option on January 15, 2022, for \$6,900, their portion of the Debenture Loan. In both instances the NSRs were obtained through a contractual arrangement in which the debenture loans owed to Tembo and RCF were set off against the purchase price of the NSR.

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

c) Tembo standby loan

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

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

During November 2021, \$5,000 of the short-term loan was converted into equity as part of the Company's initial public offering. This conversion resulted in the extinguishment of the loan balance and the recognition of the remaining loan balance at a fair value of \$944. The remaining loan balance was discounted at the rate of 15% and set up to accrue interest at 8% until the maturity date.

On May 13, 2022, the remaining balance of the loan was also converted into 711,916 common shares as part of the non-brokered private placement (Note 3a). This conversion resulted in the extinguishment of the loan balance and the recognition of a loss from the extinguishment of \$52 in the consolidated statements of loss and comprehensive loss, as the fair value of the common shares issued was \$1,068.

d) Other equity transactions

During the nine months ended September 30, 2022, the Company received proceeds totaling \$164 (2021: Nil) from exercises of warrants and options (Note 9).

Note 4 – Property and Equipment

Properties known as AR Sacaton LLC, under the management of the ASARCO Multi-state Environmental Custodial Trust (the "Trust"), were purchased for \$6,000 on July 13, 2020.

Additional properties have been purchased that were once part of the Sacaton Unit and are contiguous with the Trust properties. These properties consist of the following:

- From the Merrill Property Division on July 10, 2020, land parcels to the south of the property, known as "Parks/Salyer", was purchased for \$1,600.
- From Copper Mountain on February 10, 2022, land made up of 5 parcels was purchased for \$2,600.

The Trust properties were brought to the Company's attention by the consulting group, TAGC Ventures LLC ("TAGC"). An initial amount of \$200 was paid on July 10, 2020. In addition, three incremental payments totaling \$1,100 are due to TAGC if the following performance achievements are met, as follows:

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

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

The founder's fee amounts are capitalized as part of the land acquisition costs above. The balance of payments will be recorded if and when the Company undertakes and completes the milestones stipulated in the agreement.

On February 2, 2021, and subsequently amended on May 17, 2021, the Company executed an agreement with Arcus Copper Mountain Holdings LLC and several other owners to purchase land adjacent to the Cactus Mine. The total purchase price of \$6,000 was paid during the year ended December 31, 2021. The consideration paid includes an amount of \$1,826 allocated to surface rights and the balance was allocated to mineral rights.

On May 20, 2021, the Company's wholly owned subsidiary, Cactus 110 LLC, entered into an agreement with LKY for an option to purchase land adjacent to the Cactus Mine. The agreement stipulates that, at the Company's option, the total purchase price of \$20,000 be paid in three separate disbursements: \$8,114 was paid as at the closing date of February 10, 2022, \$7,950 is to be paid on the first anniversary of the closing date, and the final \$5,000 on the fifth anniversary of the closing date. As of September 30, 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.

Following are the details of the mineral property and equipment:

	Surface rights (Land) (\$)	Mine Fleet Light Vehicles and Equipment (\$)	Office Furniture and Equipment (\$)	Total (\$)
Cost				
Balance at 12/31/21	1,826	169	11	2,006
Accumulated depreciation, amortization and impairment				
Balance at 12/31/21	-	(40)	(9)	(49)
Net book value at 12/31/21	1,826	129	2	1,957
Cost				
Additions	641	49	-	690
Balance at 09/30/22	2,467	218	11	2,696
Accumulated depreciation, amortization and impairment				
Additions	-	(31)	-	(31)
Balance at 09/30/22	-	(71)	(9)	(80)
Net book value at 09/30/22	2,467	147	2	2,616

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

Note 5 – Exploration and Evaluation Assets**Bronco Creek agreement**

In February 2022, the Company entered into an assumption and assignment agreement ("the Agreement") with Bronco Creek Exploration Inc ("Bronco Creek") under which Bronco Creek assigned an exploration permit ("the Permit") to the Company. The Permit relates to a portion of the Parks Salyer copper target, located southwest of the Sacaton open pit copper mine. The terms of the Agreement are as follows:

- The Company is to make a payment of \$5 upon execution of the Agreement.
- The Company is to pay \$195 upon transfer and registration of the Permit to Cactus 110 LLC.
- Bronco Creek will retain a 1.5% NSR royalty interest on the Permit and the Company can buy back one percent (1%) of the royalty for a payment of \$500.
- Bronco Creek will receive annual advance royalty ("AAR") payments of \$50. The AAR payments cease upon commencement of commercial production and can be bought out at any time for a payment of \$1,000.
- The Company will make milestone payments of \$1,500 upon declaration of a mineral resource containing 100 million pounds or more of copper and another payment of \$1,500 upon further declaration of an additional 100 million pounds of copper contained in a resource.
- In the two years following the Registration Date, the Company will make yearly exploration expenditures totaling \$2,000 prior to the first anniversary and a cumulative total of \$4,000 prior to the second anniversary.

A total of \$3,200 was capitalized to Exploration and Evaluation Assets related to this Agreement which is the cash payment of \$5 made upon execution of the Agreement, \$195 being the cash paid to Bronco creek after registration of the Permit and \$3,000 made following declaration of the Parks/Salyer mineral resource on September 28, 2022.

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

	Capitalized Exploration Costs Assets (\$)
Balance at 12/31/21	24,493
Additions	24,439
Royalty option exercised	(6,900)
Balance at 9/30/22	42,032

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

Arizona Sonoran Copper Company Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of United States dollars except for per share amounts)

(Unaudited)

	9-Months September 30, 2022	12-Months December 31, 2021
Exploration	\$ 14,876	\$ 12,171
Drilling	7,874	4,800
Salaries and wages	1,100	876
Operational	573	394
Sample and assay	16	144
	\$ 24,439	\$ 18,385

Note 6 – Leases

The Company has lease obligations and right-of-use assets in connection with office leases in Arizona. Total future lease payments over 12 months were discounted using a rate of 15%, which is considered to be the Company's incremental borrowing rate.

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

	(\$)
Balance, December 31, 2021	149
Amortization for the period	(35)
Balance, September 30, 2022	114

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

	(\$)
Initial Recognition	192
Payments	(50)
Accretion	7
Balance, December 31, 2021	149
Payments	(43)
Accretion	13
Balance, September 30, 2022	119
Current portion	39
Non-current portion	80

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

Note 7 – Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2022		December 31, 2021	
Trade payables	\$	845	\$	776
Accrued liabilities		4,298		1,613
Other payables		11		117
	\$	5,154	\$	2,506

Note 8 – Asset Retirement Obligations

The purchase of the Cactus property land parcel was finalized with the ASARCO Multi-state Environmental Custodial Trust (the “Trust”) on July 13, 2020. The property clean-up has been completed and closure approvals are underway with the Arizona Department of Environmental Quality and the Environmental Protection Agency on behalf of the Department of Justice. An agreement with the Arizona Department of Environmental Quality was reached and executed on January 8, 2020, whereby ASCU will not be held liable for past environmental issues.

Once future construction plans are finalized and initiated, ASCU USA will be required to post a reclamation bond with Arizona Department of Environmental Quality estimated at \$3,300 and with the State of Arizona State Mine Inspector estimated at \$5,000 for future work. To date, the Company does not have any reclamation liabilities.

Note 9 – Equity**a) Authorized share capital**

The Company is authorized to issue an unlimited number of common shares without par value. As at September 30 2022, there were 88,713,281 common shares outstanding (December 31, 2021 – 70,819,420 common shares outstanding).

b) Issued Shares

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

- During January 2021, the Company issued 124,444 common shares for directors’ fees outstanding as of December 31, 2020 of \$56. The fair value of the shares issued was \$0.90 per share, or \$112, resulting in a loss on debt extinguishment of \$56. Also, during January, the Company issued 3,333 common shares to an employee for proceeds of \$3.
- During February 2021, the Company settled financing interest of \$269 by issuing 596,851 shares. The fair value of the shares issued was \$0.90 per share, or \$537, resulting in a loss on extinguishment of debt of \$269.
- During March 2021, the Company completed a private placement by issuing 2,119,454 common shares for gross proceeds of \$1,907. Transaction costs associated with these issuances were \$16.
- During March 2021, the Company issued 4,632,621 common shares for gross proceeds of \$4,169 as a result of Tembo and RCF exercising their pre-emptive rights.

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

- During May 2021, the Company issued 48,125 common shares with a value of \$72 pursuant to an employment agreement.
- During June 2021, the Company issued 114,573 common shares to an employee for gross proceeds of \$28. These shares were issued below fair value, resulting in an additional \$144 being recorded as share-based compensation. Also, during June 2021, the Company issued 98,750 common shares with a value of \$207 pursuant to an employment agreement.

The Company had the following share transactions during the nine months ended September 30, 2022:

- During January 2022, the Company issued 60,190 common shares as part of an option exercise for proceeds of \$27.
- During February 2022, the Company issued 60,190 common shares as part of an option exercise for proceeds of \$27. Also, during February 2022 the Company also issued 138,866 common shares through a warrants exercise for proceeds of \$62.
- In March 2022 the Company issued 69,433 common shares in a warrant exercise for proceeds of \$31.
- During April 2022, the Company issued 34,716 common shares in a warrant exercise for proceeds of \$16.
- During May 2022, the Company completed a private placement by issuing 17,500,000 common shares for gross proceeds of C\$35.0 million (approximately US\$27 million). Transaction costs associated with these issuances were \$56 (Note 3a).
- During July 2022, the Company issued 30,466 common shares as part of a RSU vesting.

c) Stock Options

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

During the nine months ended September 30, 2022 a total of 1,543,483 options were granted (2021 – 530,481).

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

As at September 30, 2022, the Company has the following stock options outstanding:

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

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(Expressed in thousands of United States dollars except for per share amounts)
(Unaudited)

Granted	1,543,483	1.58
Expired	(15,047)	0.45
Exercised	(120,380)	0.33
Balance, September 30, 2022	3,130,357	\$ 1.21

Details of stock options outstanding as at September 30, 2022 are as follows:

Date of grant	Expiry date	Exercise price	Outstanding September 30, 2022	Exercisable September 30, 2022
July 20, 2020	July 20, 2025	\$0.45	810,748	810,748
October 2, 2020	October 2, 2025	\$0.45	116,666	116,666
November 12, 2020	November 12, 2025	\$0.45	85,986	68,789
December 14, 2020	December 14, 2025	\$0.45	42,993	42,993
January 4, 2021	January 4, 2026	\$0.90	107,649	107,649
May 27, 2021	January 4, 2026	\$1.50	172,832	153,499
July 6, 2021	July 6, 2026	\$2.10	250,000	166,667
January 10, 2022	January 10, 2027	\$1.58	475,000	158,000
January 28, 2022	January 28, 2027	\$1.61	860,483	286,828
May 13, 2022	May 13, 2027	\$1.91	80,000	26,667
June 24, 2022	June 24, 2027	\$1.80	128,000	-
			3,130,357	1,938,506

As at September 30, 2022, outstanding stock options had a weighted average remaining life of 3.70 years (December 31, 2021 – 3.8 years).

The following Black Scholes assumptions were used in the valuation of stock options granted during the period ended September 30, 2022:

	September 30, 2022	December 31, 2021
Volatility	65%	75%
Expected life in years	5 years	5 years
Weighted average grant date share price	\$1.37	\$2.10
Weighted average exercise price	\$1.58	\$2.10
Dividend rate	0%	0%
Risk-free rate	1.51% to 3.19%	0.39% to 0.95%
Forfeiture rate	0%	0%

Total stock-based compensation recognized related to stock options during the nine months ended September 30, 2022 was \$953 (nine months ended September 30, 2021 - \$405).

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

d) Restricted Share Units ("RSUs")

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

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

As at September 30, 2022, the Company had 203,111 RSUs outstanding (December 31, 2021 – 141,577).

Total stock-based compensation recognized related to RSUs during the nine months ended September 30, 2022 was \$203 (nine months ended September 30, 2021 - \$1,061).

e) Warrants

During the nine months ended September 30, 2022, warrant holders exercised 243,015 warrants with a fair value of \$66 for proceeds of \$109 (September 30, 2021- Nil). The value of the common shares of the Company at the time of the exercise of these warrants was \$2.06 and the weighted average fair value of these warrants was \$0.45.

As at September 30, 2022, the Company has the following warrants outstanding:

	Number of warrants outstanding	Weighted average exercise price
Balance, December 31, 2020	12,663,648	\$ 0.56
Issued	2,498,421	1.88
Exercised	(8,444,443)	0.60
Balance, December 31, 2021	6,717,626	\$ 1.00
Exercised	(243,015)	0.45
Balance, September 30, 2022	6,474,611	\$ 1.02

As at September 30, 2022 the Company had warrants outstanding to acquire common shares of the Company as follows:

Expiry Date	Exercise Price	Number of warrants September 30, 2022	Number of warrants December 31, 2021
May 8, 2023	\$ 0.45	1,062,303	1,305,318
June 15, 2023	\$ 0.30	916,664	916,664
June 26, 2023	\$ 0.30	125,000	125,000
July 8, 2023	\$ 0.30	50,000	50,000
July 10, 2023	\$ 0.60	1,822,223	1,822,223
June 8, 2024	\$ 0.30	114,583	114,583
July 6, 2024	\$1.95	2,222,222	2,222,222
September 8, 2024	\$2.10	161,616	161,616
		6,474,611	6,717,626

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

As of September 30, 2022, outstanding warrants had a weighted average remaining life of 1.12 years (December 31, 2021 – 2.0 years).

f) Deferred Share Units (“DSUs”)

During the nine months ended September 30, 2022, the Company granted 281,305 DSUs to the directors of the Company as part of their compensation for the year. The DSUs granted to the holders are to be held in a deferred share unit account until they become payable to the DSU holder on their termination date as a director. The fair value of each DSU was estimated using \$1.61 which was based on the value of the director’s compensation on the date of the grant. The Company recognized a total of \$88 as share-based payments expense for the award of the DSUs during the nine-month period ended September 30, 2022 (2021-\$Nil).

As at September 30, 2022, the Company had 355,055 DSUs outstanding (December 31, 2021 – 73,750) of which Nil were vested and unissued (December 31, 2021 – Nil).

Note 10 - Related Party Transactions

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

		Nine months ended September 30, 2022	Nine months ended September 30, 2021
		(\$)	(\$)
Salaries and wages	\$	2,039	\$ 557
Severance		495	-
Salaries and wages capitalized as exploration		447	379
Share-based compensation*		1,155	1,536
Directors’ fees		406	351
	\$	4,542	\$ 2,823

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

Note 11 – Commitments and Contingencies

If the Company achieves certain development milestones, the Company is obligated to make future payments to TAGC of up to \$1,100 as discussed in Note 4.

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

Note 12 – Operating Segments

As of September 30, 2022, and December 31, 2021, the Company is operating its business in one reportable segment: mineral exploration and development in the United States of America. All of the Company’s non-current assets are situated in North America.

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

Note 13 – Supplemental Cash Flow Information

	Nine months ended September 30, 2022 (\$)	Nine months ended September 30, 2021 (\$)
Non-Cash Investing and Financing Activities		
Sale of NSRs	6,900	-
Common shares issued for interest	-	537
Common shares issued for financing arrangement	1,068	1,020
Common shares issued for services	-	391
