Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)

Consolidated Financial Statements - December 31, 2022

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

Independent auditor's report

To the Shareholders of Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated) and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of indicators of impairment related to exploration and evaluation assets *Refer to note 2(e) – Significant accounting judgments and sources of estimation uncertainty – Exploration and evaluation assets, note 3(c) – Significant accounting policies – Exploration and evaluation assets and note 7 – Exploration and evaluation assets to the consolidated financial statements.* The carrying value of exploration and evaluation assets amounted to $46.6 million as at December 31, 2022. Management reviews the Company's exploration and evaluation assets for an indication of impairment at each consolidated statement of financial position date. If any such indicator exists, management compares the carrying values of the exploration and evaluation assets to their recoverable amounts. Factors considered by management in their assessment of impairment include, but are not limited to, (i) whether there has been a significant adverse change in the legal, regulatory, accessibility, title and environmental or political factors that could affect the assets' value; (ii) whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future; and (iii) whether the Company has the necessary funds to be able to maintain its interest in the mineral properties. No impairment indicators were identified by management as at December 31, 2022. We considered this a key audit matter due to the significance of the exploration and evaluation assets and the judgments by management in its assessment of indicators of impairment related to exploration and evaluation assets, and these have resulted in a high degree of subjectivity in	Our approach to addressing the matter included the following procedures, among others: • Assessed the judgment made by management in its assessment of indicators of impairment, which included the following: – Evaluated whether there has been a significant adverse change in the legal, regulatory, accessibility, title and environmental or political factors that could affect the assets' value by obtaining, for a sample of mining claims, by reference to government registries and other regulatory bodies, evidence to support (i) the right to explore the area and (ii) claim expiration dates. – Assessed whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future by (i) considering changes in reserve and resource estimates based on the most recent technical report; (ii) reading the board of directors' minutes, and obtaining budget approvals to evidence continued and planned substantive exploration expenditures; and (iii) evaluating the results of management's current year work programs and longer term plans. – Assessed whether the Company has the necessary funds to maintain its interest in the capitalized exploration costs assets and whether there are other factors that could be considered as indicators of impairment by considering evidence obtained in other areas of the audit.

Key audit matter	How our audit addressed the key audit matter
performing procedures related to these judgments applied by management.	

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is James Lusby.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 29, 2023

(Expressed in thousands of United States dollars)

	Note		December 31, 2022		December 31, 2021
ASSETS					
Current assets					
Cash		$	19,862	$	27,307
Receivables			70		400
Prepaid expenses and other			90		118
			20,022		27,825
Other non current assets					
Exploration and evaluation assets	7		46,596		24,493
Marketable securities			164		-
Property and equipment	6		2,686		1,957
Right of use asset	8		110		149
Total assets		$	69,578	$	54,424
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	9	$	3,481	$	2,506
Current portion of lease liability	8		48		34
Debentures	5b		-		6,729
			3,529		9,269
Other Liabilities- long term					
Lease liability	8		67		115
Other long-term liabilities	5c		-		962
			67		1,077
Total liabilities			3,596		10,346
SHAREHOLDERS' EQUITY					
Share capital	11		86,016		58,675
Contributed surplus	11		7,053		5,369
Deficit			(27,087)		(19,966)
Total shareholders' equity			65,982		44,078
Total liabilities and shareholders' equity		$	69,578	$	54,424

Commitments and contingencies (see Note 13)
Events after the reporting period (see Note 19)

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

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in thousands of United States dollars)

	December 31, 2022	**December 31, 2021**
Salaries and wages	3,234	2,817
Share based compensation	1,371	2,094
Professional fees	712	1,014
Directors fees	548	466
Marketing and administration	1,098	2,009
Loss from operations	6,963	8,400
Other (income) expenses		
Accretion	193	2,771
Finance expenses	182	1,216
Depreciation, depletion and amortization	84	75
(Gain)/loss on extinguishment and modification of debt	(39)	704
Loss on marketable securities	60	-
Interest income	(316)	(11)
Other expense/(income)	(6)	(5)
Government loan forgiveness	-	(91)
Loss and comprehensive loss for the year	7,121	13,059
Loss per share		
Basic and diluted	0.09	0.29
Weighted average number of common shares outstanding		
Basic and dilulted	82,276,370	46,985,594

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

Arizona Sonoran Copper Company Inc. (formerly Elim Mining Incorporated)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of United States dollars)

	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	15,736,785	11,732	-	-	11,732
Shares issued for IPO	18,367,347	35,855	-	-	35,855
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
Vested RSUs	1,053,012	1,200	(1,200)	-	-
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)	-	-
Fair valuation of shares issued for cash	-	144	-	-	144
Transaction costs	-	(2,426)	-	-	(2,426)
Warrant reserve	-	-	148	-	148
Stock options reserve	-	-	483	-	483
RSUs reserve	-	-	1,179	-	1,179
DSUs reserve	-	-	244	-	244
Long-term incentive plan	-	-	843	-	843
Loss for the period	-	-	-	(13,059)	(13,059)
Balance at December 31, 2021	70,819,430	58,675	5,369	(19,966)	44,078
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	362,448	222	(67)	-	155
Stock options reserve	-	-	1,132	-	1,132
RSUs reserve	30,466	31	205	-	236
DSU reserve	-	-	453	-	453
Loss for the period	-	-	-	(7,121)	(7,121)
Balance at December 31, 2022	88,832,714	86,016	7,053	(27,087)	65,982

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

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

	December 31, 2022	December 31, 2021
Cash provided by (used in):		
Operating activities		
Loss for the year	($7,121)	($13,059)
Effect of non-cash items:		
Share-based compensation	1,821	2,937
Accretion	233	2,771
Depreciation, depletion and amortization	83	75
Interest and finance expense, net	35	154
Unrealized loss/(gain) on foreign exchange	180	(121)
Gain on extinguishment and modification of debt	52	704
Changes in working capital items		
Receivables	166	(324)
Prepaid expenses and other	28	1,934
Accounts payable and accrued liabilities	969	(1,485)
Net cash used in operating activities	(3,554)	(6,414)
Investing activities		
Expenditures on exploration and evaluation assets	(29,025)	(17,231)
Expenditures on equipment	(133)	(22)
Property payments	(641)	(1,348)
Net cash used in investing activities	(29,799)	(18,601)
Financing activities		
Proceeds from IPO	-	30,857
Repayment of loans	-	(88)
Proceeds from loans	-	6,000
Proceeds from private placement, net	25,926	2,431
Debt financing and transaction costs	-	(2,423)
Proceeds from stock options exercise	28	58
Proceeds from warrants exercise	182	5,067
Proceeds from Tembo/RCF pre-emptive rights	-	4,169
Interest paid on various loans	-	(1,068)
Lease payments	(48)	(50)
Net cash provided by financing activities	26,088	44,953
Change in cash	(7,265)	19,938
Effect of exchange rate changes on cash and cash	(180)	121
Cash at beginning of the year	27,307	7,248
Cash at the end of the year	19,862	$27,307

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

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. In November 2021 the Company completed an initial public offering ("IPO") and its shares began trading on the Toronto Stock Exchange ("TSX") under the symbol "ASCU". 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 USA at the Cactus and Parks/Salyer properties. Cactus 110, LLC, a Delaware company, was incorporated in May 2019 and holds titles to the Cactus and Parks/Salyer 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 strategic exploration and development plans, administrative overhead, maintenance of its mineral interests, and its commitments, which includes fulfilling its option payments for purchase of land from LKY/Copper Mountain Investments Limited Partnership LLP ("LKY") (Note 6), its commitments related to the agreement with Bronco Creek Exploration Inc (Note 7) and payments related to the purchase of the Mainspring Property (Note 19). The Company will need to obtain financing in the form of debt, equity, or a combination thereof to continue with its development and operational 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.

2. Basis of Preparation

a) Statement of compliance

These consolidated financial statements of the Company as at and for the year ended December 31, 2022 with comparative information as at and for the year ended December 31, 2021, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian

Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting.

b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value as determined at each reporting date. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving judgment or complexity, or areas where assumptions and estimates are significant and could affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year, are discussed in note 2 (e) below.

These consolidated financial statements were authorized for issuance on March 29, 2023 by the Board of Directors.

c) Consolidation

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

The principal subsidiaries of the Company, their activities, and their geographic locations as at December 31, 2022 were as follows:

Name of Subsidiary	Place of Operation	Ownership Interest	Principal Activity
Arizona Sonoran Copper Company (USA) Inc.	Delaware, United States	100%	Mineral exploration
Cactus 110 LLC	Delaware, United States	100%	Mineral exploration

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

d) Foreign currency translation

The functional and reporting currency of the Company and its subsidiaries is the US dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign currency translation differences are recognized in profit or loss.

e) Significant accounting judgments and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts and the valuation of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period reported. Management uses its best estimates for these purposes, based on assumptions that it believes reflect the most probable set of economic conditions and planned courses of action. However, actual results could differ materially from these estimates. The significant areas of estimation and uncertainty considered by management in preparing the consolidated financial statements for the years ended December 31, 2022 and 2021 are noted below.

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

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

Exploration and evaluation assets

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

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

Management has performed an impairment indicator assessment on the Company's exploration and evaluation assets and has concluded that no impairment indicators existed as at December 31, 2022.

Share-Based Payments

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

Tembo Financing

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

Liquidity Management

The company has $19,862 of cash as at December 31, 2022. Included in subsequent events (note 19) and commitments (note 13) are receipts from the issuance of common shares subsequent to the period end and committed future payments both contractually required based on events in 2023 or potentially required based on future events, if they arise. Such payments would have an impact on the future cash requirements of the company to meet its obligations as they arise based on the operating plans currently in place. These plans include payments that are discretionary and so the Company can ensure it will have cash to continue its operations for the foreseeable future, absent any future financing activities the Company may undertake.

3. Significant Accounting Policies

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

a) Cash

The Company's cash includes amounts held in banks in deposit accounts and high-interest savings accounts with maturities of 90 days or less. As of December 31, 2022 and 2021, the Company did not have any cash equivalents.

b) Property and equipment

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

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

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

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

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

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

Depreciation is charged over the estimated useful lives as follows:

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

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

Subsequent costs

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

Impairment

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

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

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

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of Impairment

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

c) Exploration and evaluation assets

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

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

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

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

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

d) Provisions

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

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

As of December 31, 2022 and 2021, the Company has determined that it does not have any significant decommissioning and restoration obligations.

e) Income taxes

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

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

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

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

f) Financial instruments

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

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

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

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

g) Share-based payments

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

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

h) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants, and convertible debentures, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

4. Accounting standard recently adopted or effective

IAS 16, Property, Plant and Equipment

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

No other standards and amendments to standards and interpretations that have been issued, but are not yet effective, are expected to significantly affect these consolidated financial statements.

5. Financing

a) Non-brokered private placement

On May 13, 2022, the Company closed a non-brokered private placement for total gross proceeds of C$35,000 ($27,000), ("the Offering").

Under the Offering, 17,500,000 Common Shares were issued at a subscription price of C$2.00 ($1.56) per share. Rio Tinto, as assigned to Nuton LLC ("Nuton") 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.

As part of the Offering the Tembo standby loan was converted into equity (Note 5c). The Company incurred share issuance costs of $51.

b) Tembo/RCF financing

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

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

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

<u>Debenture loan</u>

As part of the Financing, the Company received $8,786 by issuing debenture notes payable (the "Debenture Loan") bearing interest at a 12% annual rate, fully secured by the Company and its subsidiaries. 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. A gain on extinguishment of $91 was recognized in the statement of loss and comprehensive loss.

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

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

On December 30, 2021, RCF exercised its portion of the NSR Purchase Option for $1,886, their portion of the Debenture Loan 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. 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 5a). 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) Initial Public Offering

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

e) Other equity transactions

During the year ended December 31, 2022, the Company received proceeds totaling $164 (2021: Nil) from exercises of warrants and options (Note 11).

6. 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

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 Project. The total purchase price of $6,000 was paid during the year ended

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

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 Project (the "LKY Purchase"). The agreement stipulates that, at the Company's option, the total purchase price of $20,000 be paid in three separate disbursements: $8,114 was paid as at the closing date of February 10, 2022, $7,950 was paid on the first anniversary of the closing date on February 10, 2023, and the final $5,000 on the fifth anniversary of the closing date. As of December 31, 2022, the Company had paid a total of $8,114 in non-refundable deposits in connection with the Copper Mountain agreement which was applied toward the first of these disbursements due on the closing date. From the $8,114 paid, $641 was allocated to surface rights and the balance was allocated to mineral rights.

Following are the details of the property and equipment including surface rights from exploration and evaluation assets:

	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	133	-	774
Balance at 12/31/22	2,467	302	11	2,780
Accumulated depreciation, amortization and impairment				
Additions	-	(43)	(2)	(45)
Balance at 12/31/22	-	(83)	(11)	(94)
Net book value at 12/31/22	2,467	219	-	2,686

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

7. Exploration and Evaluation Assets

Bronco Creek agreement

On February 9, 2022 (the "Registration Date"), 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 comprised of the cash payment of $5 made upon execution of the Agreement, $195 of cash paid 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	29,003
Royalty option exercised	(6,900)
Balance at 12/31/22	46,596

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.

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

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

8. 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 year	(39)
Balance, December 31, 2022	**110**

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

	($)
Initial Recognition	192
Payments	(50)
Accretion	7
Balance, December 31, 2021	149
Payments	(47)
Accretion	13
Balance, December 31, 2022	**115**
Current portion	48
Non-current portion	67

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

		December 31, 2022		December 31, 2021
Trade payables	$	995	$	776
Accrued liabilities		2,474		1,613
Other payables		12		117
	$	3,481	$	2,506

10. Asset Retirement Obligations

The purchase of the Cactus Project 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 $3,900 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.

11. Equity

a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31 2022, there were 88,832,714 common shares outstanding (December 31, 2021 – 70,819,420 common shares outstanding).

The Company completed a 3:1 share consolidation on July 22, 2021. Shareholders held 1 post-consolidation share for every 3 pre-consolidation shares previously held. The aggregate number of common shares that such shareholders were entitled to receive under the consolidation was rounded down to the next closest whole number of common shares, post-consolidation.

b) Issued Shares

The Company had the following share transactions during the year ended December 31, 2021:

- During January 2021, the Company issued 124,444 common shares for directors' fees outstanding as of December 31, 2020 of $56. The fair value of the shares issued was $0.90 per share, or $112, resulting in a loss on debt extinguishment of $56. Also, during January, the Company issued 3,333 common shares to an employee for proceeds of $3.
- During February 2021, the Company settled financing interest of $269 by issuing 596,851 shares. The fair value of the shares issued was $0.90 per share, or $537, resulting in a loss on extinguishment of debt of $269.
- During March 2021, the Company completed a private placement by issuing 2,119,454 common shares for gross proceeds of $1,907. Transaction costs associated with these issuances were $16.
- During March 2021, the Company issued 4,632,621 common shares for gross proceeds of $4,169 as a result of Tembo and RCF exercising their pre-emptive rights.
- During May 2021, the Company issued 48,125 common shares with a value of $72 pursuant to an employment agreement.
- During June 2021, the Company issued 114,573 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.

- During July 2021, the Company issued 238,095 common shares to an employee for gross proceeds of $500. Also, during July 2021, the Company issued 6,666,667 common shares with a value of $4,000 through a warrants exercise.
- The Company also issued 184,255 common shares in July 2021 to an employee as part of an options and restricted stock unit exercise for proceeds of $58.
- During September 2021, the Company issued 1,777,777 common shares for proceeds of $1,067 through a warrant exercise. Also, during September 2021, the Company issued 485,711 common shares with a value of $1,020 as part of the consideration of a loan from Tembo (Note 5b).
- During November 2021, the Company issued 1,053,012 common shares with a value of $1,200 as part of an employee restricted stock unit exercise.
- During November 2021, the Company issued 18,367,347 common shares with a value of $35,855 as part of an IPO. Included in the IPO shares issued were shares with a value of $5,000 that were part of a debt-to-equity conversion of the Tembo standby loan (Note 5c).

The Company had the following share transactions during the year ended December 31, 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$35,000 ($27,000). 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.
- During December 2022 the Company also issued 119,433 common shares through a warrants exercise for proceeds of $46.

c) Stock Options

On July 7, 2020 (amended July 21, 2021), the Board of Directors implemented equity incentive 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 year ended December 31, 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 December 31, 2022, the Company has the following stock options outstanding:

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

	Number of options outstanding		Weighted average exercise price
Balance, December 31, 2020	1,320,799	$	0.45
Granted	530,481		1.66
Exercised	(128,979)		0.45
Balance, December 31, 2021	1,722,301	$	0.77
Granted	1,543,483		1.58
Expired	(15,047)		0.45
Exercised	(120,380)		0.33
Balance, December 31, 2022	3,130,357	$	1.21

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

Date of grant	Expiry date	Exercise price	Outstanding December 31, 2022	Exercisable December 31, 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	85,986
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	1,955,703

As at December 31, 2022, outstanding stock options had a weighted average remaining life of 3.45 years (December 31, 2021 – 3.8 years).

The following Black Scholes assumptions were used in the valuation of stock options granted during the years ended December 31, 2022 and 2021:

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

	December 31, 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 year ended December 31, 2022 was $1,132 (year ended December 31, 2021 - $405).

d) Restricted Share Units ("RSUs")

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

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

Total stock-based compensation recognized related to RSUs during the year ended December 31, 2022 was $250 (year ended December 31, 2021 - $1,061).

e) Warrants

During the year ended December 31, 2022, warrant holders exercised 362,448 warrants with a fair value of $67 for proceeds of $222 (December 31, 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 December 31, 2022, the Company has the following warrants outstanding:

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

	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	(362,448)		0.43
Balance, December 31, 2022	6,355,178	$	1.03

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

Expiry Date	Exercise Price	December 31, 2022	December 31, 2021
May 8, 2023	$ 0.45	992,870	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
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
		6,355,178	6,717,626

As of December 31, 2022, outstanding warrants had a weighted average remaining life of 0.87 years (December 31, 2021 – 2.0 years).

f) Deferred Share Units ("DSUs")

During the year ended December 31, 2022, the Company granted 281,305 DSUs to the directors of the Company as part of their compensation for the year. The DSUs granted to the holders are to be held in a deferred share unit account until they become payable to the DSU holder on their termination date as a director. The fair value of each DSU was estimated using $1.61 which was based on the value of the director's compensation on the date of the grant. The Company recognized a total of $353 as share-based payments expense for the award of the DSUs during the year ended December 31, 2022 (2021 – $Nil).

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

12. Related Party Transactions

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

Total director fees for the year ended December 31, 2022 were $524 (Year ended December 31, 2021: $466).

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

As at December 31, 2022, no amounts were owed to the Company by key management personnel (December 31, 2021 – $100).

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

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

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

13. Commitments and Contingencies

Based on the achievement of certain development milestones, the Company is obligated to make future payments to TAGC Ventures LLC of up to $1.1 million in connection with the purchase of Trust lands. (See Note 6).

The Company has future exploration and evaluation expenditure obligations which are at the option of the Company with respect to its land agreements (see Note 6):

Bronco Creek

- The Bronco Creek agreement with Bronco Creek Exploration Inc, in connection with the acquisition of a mineral rights permit. A total of $3,200 was capitalized to Exploration and Evaluation Assets related to this agreement which consists of a cash payment of $200 paid to Bronco Creek upon execution of the agreement and upon registration of the Permit, and $3,000 made following declaration of the Parks/Salyer mineral resource on September 28, 2022.

- 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.

LKY

- The final $5,000 due for the LKY Purchase on the fifth anniversary of the closing date of February 10, 2022.

See also Note 19 (e) for the purchase of the Mainspring Property purchase subsequent to year-end on February 28, 2023.

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

14. Operating Segments

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

15. Supplemental Cash Flow Information

Non-Cash Investing and Financing Activities	December 31, 2022 ($)	December 31, 2021 ($)
Sale of NSRs	6,900	-
NSR setoff against RCF loan	-	1,886
Common shares issued for Tembo loan	-	5,000
Common shares issued for interest	-	537
Common shares issued for financing arrangement	1,068	1,020
Common shares issued for services	-	391

16. Financial Instruments and Risk Management

Currency risk

The Company is exposed to financial risk due to changes in foreign exchange rates. The Company operates in the United States and Canada, and a portion of its expenses are incurred in Canadian dollars. A significant change in the exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. At December 31, 2022, the Company is exposed to currency risk through its cash denominated in Canadian dollars totaling $2,828.

Based on the exposure as at December 31, 2022, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately $283 in the Company's loss for the year.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit risk the Company is exposed to is 100% of cash and cash equivalents and receivables.
The Company's cash is held in large Canadian or US financial institutions. As a result, the Company concludes that there are negligible expected losses because it is cash.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The

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

Company ensures that there are sufficient funds to meet its short-term business requirements by taking into account anticipated cash expenditures for its exploration and operational activities.

The Company will pursue additional equity or debt financing as required to meet its long-term commitments. There is no assurance that such financing will be available or that it will be available on favorable terms.

As at December 31, 2022, the contractual undiscounted future cash flows of the Company's significant financial liabilities are as follows:

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

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

17. Capital Management

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

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

To maintain its objectives, the Company may issue new shares, adjust capital spending, acquire, or dispose of assets. There is no assurance that these initiatives will be successful. The Company is currently not exposed to any externally imposed capital requirements.

18. Income Taxes

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

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

	December 31, 2022	December 31, 2021
Loss before income taxes	$ (7,121)	$ (13,059)
Canadian federal and provincial income tax rates	27.00%	27.00%
Income tax expense (recovery) computed at statutory tax rate	(1,923)	(3,526)
Items note deductible for income tax purposes	370	565
Difference in tax rates in other jurisdictions	23	163
FX and other	500	(257)
Financing cost	(13)	(655)
Change in unrecognized tax benefit of deferred income tax assets	1,044	3,710
Total income taxes	$ -	$ -

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

	December 31, 2022	December 31, 2021
Unrecognized deferred income tax assets (liabilities):		
Non-capital losses carried forward	$ 11,239	$ 7,452
Loans	-	852
Financing cost	556	752
Mineral properties	(2,798)	(3,787)
Total unrecognized deferred income tax assets	$ 8,997	$ 5,269

The Company has non-capital losses available of $43,356 that may be carried forward to reduce future taxable income. These losses are with respect to Canadian and US operations, and if not utilized, will expire as follows:

Expiry	USA	Canada
2039	2,298	5
2040	6,938	1,537
2041	10,572	4,773
2042	12,520	4,781
	32,328	11,096

19. Events after the reporting period

(a) Brokered private placement

On January 25, 2023, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters agreed to purchase 15,000,000 common shares ("Shares") of the Company at a price of C$2.00 per Share for aggregate gross proceeds of C$30,000 $(22,000) (the "Offering"). The Offering included an over-allotment option for an additional 3,600,000 Shares granted to the Underwriters.

The Offering closed on February 16, 2023 pursuant to which the Company issued 15,000,000 Shares of the Company at a price of C$2.00 per Share for gross proceeds of C$30,000 ($22,000) and net proceeds of C$28,000 ($21,000).

Nuton, which owned 7.2% of the outstanding common shares of the Company prior to the Offering, has the right to exercise its pre-emptive right to maintain its pro rata ownership on a non-brokered private placement basis.

(b) Stock Option Issuance

On February 28, 2023, the Company granted 2,617,751 stock options with an exercise price of $2.00 per share and a term of five years. One third of the options vest immediately with the remaining two tranches vesting on the first and second year anniversaries of the grant date, respectively. The fair value of $1,900,507 was estimated using the Black-Scholes option pricing model assuming an expected life of 5 years, share price of $1.80, a risk-free interest rate of 3.19%, dividend yield of $0 and an expected volatility of 65% based on comparable companies.

(c) DSU Issuance

On February 28, 2023, the Company granted 167,677 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 $2.00 which was based on the value of the director's compensation on the date of the grant.

(d) LKY Payment

A payment was made on February 10, 2023 of $7,950 on the first anniversary of the closing date of the LKY Purchase.

(e) Mainspring Land Acquisition

On February 28, 2023, the Company announced ASCU's wholly owned subsidiary, Cactus 110 LLC had entered into a purchase and sale agreement ("PSA") for 523 acres of private land, contiguous to the Company's Parks/Salyer project (the "Mainspring Property") for total consideration of $14,000 to be paid as below:

- Payment of a $1,000 non-refundable deposit into an escrow account which was paid at the time of signing of the agreement (the "Effective Date");
- Payment of $2,000 on or prior to the expiry of the PSA due diligence date (such date being 5 months, subject to one month's extension at the option of ASCU) from the Effective Date;
- Payment of $5,000 one year from the Effective Date. Title is then transferred to Cactus 110 LLC;
- Payment of $6,000 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 (date to be agreed) with no penalties following which the deed of trust will be released.