

Tonopah Divide Mining Company
(A Nevada Corporation)

Financial Statements

December 31, 2020 and 2019

Tonopah Divide Mining Company

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**Cupit, Milligan,
Ogden & Williams**
Certified Public Accountants

Shareholders
Edward R. Cupit, CPA (1943-2010)
Ronald A. Milligan, CPA
Thomas M. Ogden, CPA
Melvin L. Williams, CPA

Accountants' Compilation Report

**To the Board of Directors,
Tonopah Divide Mining Company
Reno, Nevada**

Management is responsible for the accompanying financial statements of Tonopah Divide Mining Company (a Nevada corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of comprehensive (loss) income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Cupit, Milligan, Ogden & Williams

Reno, Nevada
August 7, 2021

Tonopah Divide Mining Company
Balance Sheets
December 31, 2020 and 2019
(See Accountants' Compilation Report)

	<u>2020</u>	<u>2019</u>
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 180,960	\$ 200,254
Prepaid expenses	1,100	1,000
Royalty receivable	40	117
Income tax refund receivable	-	9,300
<i>Total Current Assets</i>	<u>182,100</u>	<u>210,671</u>
<i>Property and Equipment</i>		
Lode mining claims	151,781	151,781
Equipment	533	533
Less accumulated depreciation	(533)	(533)
<i>Property and Equipment, net</i>	<u>151,781</u>	<u>151,781</u>
<i>Other Assets</i>		
Investment securities	234,460	373,210
Deferred income tax asset	6,818	-
<i>Total Other Assets</i>	<u>241,278</u>	<u>373,210</u>
Total Assets	<u><u>\$ 575,159</u></u>	<u><u>\$ 735,662</u></u>
Liabilities and Stockholders' Equity		
<i>Current Liabilities</i>		
Accrued liabilities	\$ 250	\$ 250
<i>Total Current Liabilities</i>	<u>250</u>	<u>250</u>
<i>Other Liabilities</i>		
Deferred income tax liability	-	28,319
<i>Total Liabilities</i>	<u>250</u>	<u>28,569</u>
<i>Stockholders' Equity</i>		
Common stock - \$1.00 par value:		
2,500,000 shares authorized and issued; 2,253,327 shares		
outstanding in 2020 and 2019	2,500,000	2,500,000
Stock discount	(1,926,047)	(1,926,047)
Treasury stock at cost: 246,673 shares in 2020 and 2019	(4,189)	(4,189)
Retained earnings	5,145	137,329
<i>Total Stockholders' Equity</i>	<u>574,909</u>	<u>707,093</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 575,159</u></u>	<u><u>\$ 735,662</u></u>

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

Tonopah Divide Mining Company
 Statements of Comprehensive (Loss) Income
 For the Years Ended December 31, 2020, 2019 and 2018
 (See Accountants' Compilation Report)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenue			
Oil and gas royalty	\$ 24,353	\$ 35,470	\$ 31,555
Dividend income	463	2,939	1,306
Advance royalty payment	-	-	76,553
<i>Total Revenue</i>	<u>24,816</u>	<u>38,409</u>	<u>109,414</u>
Operating and General Expenses			
Claim and advance royalty payments	29,255	-	-
Professional services	10,232	9,608	18,724
Rent	7,000	-	500
Taxes and fees	3,423	1,175	1,338
Insurance	1,444	1,455	1,337
Stock maintenance fee	1,000	-	1,000
Office	895	1,986	3,058
Water well	138	-	-
Travel	-	19	104
Miscellaneous	-	-	534
<i>Total Operating and General Expenses</i>	<u>53,387</u>	<u>14,243</u>	<u>26,595</u>
(Loss) Income from Operations	<u>(28,571)</u>	<u>24,166</u>	<u>82,819</u>
Other Income (Expense)			
Unrealized (losses) gains on equity investments	(138,750)	79,390	-
<i>Total Other Income (Expense)</i>	<u>(138,750)</u>	<u>79,390</u>	<u>-</u>
(Loss) Income Before Taxes	(167,321)	103,556	82,819
Income Tax Benefit (Expense)	<u>35,137</u>	<u>(21,747)</u>	<u>(17,066)</u>
Net (Loss) Income	<u>(132,184)</u>	<u>81,809</u>	<u>65,753</u>
Other Comprehensive (Loss) Income, Net of Deferred Tax			
Unrealized holding losses arising during the period	-	-	(18,565)
Reclassification adjustment for losses included in net income	-	-	-
Total Comprehensive (Loss) Income	<u>\$ (132,184)</u>	<u>\$ 81,809</u>	<u>\$ 47,188</u>

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

Tonopah Divide Mining Company
 Statements of Stockholders' Equity
 For the Years Ended December 31, 2020, 2019 and 2018
 (See Accountants' Compilation Report)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Common Stock			
\$1.00 par value: 2,500,000 shares authorized and issued; 2,253,327 shares outstanding in 2020 and 2019, 2,252,327 shares outstanding in 2018	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Stock Discount			
Balance at beginning of year	(1,926,047)	(1,926,047)	(1,927,778)
Treasury stock re-issued for professional services	-	-	1,731
Balance at end of year	<u>(1,926,047)</u>	<u>(1,926,047)</u>	<u>(1,926,047)</u>
Treasury Stock			
Balance at beginning of year	(4,189)	(4,189)	(979)
Purchase of treasury stock	-	-	(3,379)
Treasury stock re-issued for professional services	-	-	169
Balance at end of year	<u>(4,189)</u>	<u>(4,189)</u>	<u>(4,189)</u>
Accumulated Other Comprehensive Loss			
Balance at beginning of year	-	(161,617)	(143,052)
Unrealized holding losses, net of deferred tax	-	-	(18,565)
Reclassification under ASU 2016-01	-	161,617	-
Balance at end of year	<u>-</u>	<u>-</u>	<u>(161,617)</u>
Retained Earnings			
Balance at beginning of year	137,329	217,137	151,384
Net (loss) income	(132,184)	81,809	65,753
Reclassification under ASU 2016-01	-	(161,617)	-
Balance at end of year	<u>5,145</u>	<u>137,329</u>	<u>217,137</u>
Total Stockholders' Equity	<u>\$ 574,909</u>	<u>\$ 707,093</u>	<u>\$ 625,284</u>

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

Tonopah Divide Mining Company
Statements of Cash Flows
For the Years Ended December 31, 2020, 2019 and 2018
(See Accountants' Compilation Report)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities			
Net (Loss) Income	\$ (132,184)	\$ 81,809	\$ 65,753
<i>Adjustments to reconcile net (loss) income to net cash provided by operating activities</i>			
Deferred income taxes	(35,137)	21,747	14,300
Unrealized losses (gains) on equity investments	138,750	(79,390)	-
Treasury stock re-issued for professional services	-	-	1,900
Changes in operating assets and liabilities			
Prepaid expenses	(100)	(500)	500
Income tax refund receivable	9,300	(9,300)	-
Accounts receivable	-	-	250
Royalty receivable	77	41	37
Accrued liabilities	-	250	-
Federal income tax payable	-	(2,870)	2,870
Net Cash (Used) Provided by Operating Activities	<u>(19,294)</u>	<u>11,787</u>	<u>85,610</u>
Cash Flows from Financing Activities			
Purchase of treasury shares	-	-	(3,379)
Net Cash Used by Financing Activities	<u>-</u>	<u>-</u>	<u>(3,379)</u>
Net Change in Cash and Cash Equivalents	(19,294)	11,787	82,231
Cash and Cash Equivalents, Beginning of Year	<u>200,254</u>	<u>188,467</u>	<u>106,236</u>
Cash and Cash Equivalents, End of Year	<u>\$ 180,960</u>	<u>\$ 200,254</u>	<u>\$ 188,467</u>
Supplemental Disclosure of Cash Flow Information			
<i>Cash paid during the year for</i>			
Income taxes	<u>\$ -</u>	<u>\$ 12,170</u>	<u>\$ -</u>
Supplemental Disclosure of Noncash Investing Activities			
Unrealized holding (losses) gains arising during period	<u>\$ (138,750)</u>	<u>\$ 79,390</u>	<u>\$ (23,500)</u>
Deferred income tax benefit charged to other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,935</u>

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

Tonopah Divide Mining Company

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Tonopah Divide Mining Company (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activity

The Company was incorporated in the State of Nevada on June 3, 1912, with an authorized capital of 1,000,000 shares having a par value of \$1.00 per share. The authorized capital was increased to 1,250,000 shares (\$1.00 par value) in 1918, and in 1927, the authorized capital was increased to 2,500,000 shares (\$1.00 par value). There are 2,500,000 shares issued. A total of 246,673 shares are held as treasury stock and 2,253,327 shares are outstanding at December 31, 2020. The Company's principal line of business is the leasing of its mining properties. The principal revenue sources currently consist of oil and gas royalties, and dividends. The Company's properties are located in Nevada.

Treasury Stock

Treasury stock is carried on the books using the cost method.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 7, 2021, the date the financial statements were available to be issued.

Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The Company's books are maintained on the accrual method of accounting in accordance with US GAAP.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a purchased maturity of three months or less to be cash equivalents.

In addition to its bank account, the Company maintains its excess cash in a money market investment account, which is not insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2020, the Company had \$168,777 in its money market investment account. The Company has not experienced any losses in such account.

Property and Equipment

Lode mining claims and equipment in excess of \$500 are recorded at cost.

Tonopah Divide Mining Company

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

Investments

The Company's investment securities portfolio is comprised of items classified as equity securities at December 31, 2020 and 2019. In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 321, equity securities are reported as an asset at their fair market value with the unrealized gains and losses included in earnings. Realized gains and losses are recognized in the statement of operations and are determined by specific identification.

Fair Value of Financial Instruments

Fair value accounting establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1* *Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;*
- Level 2* *Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and*
- Level 3* *Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).*

The Company holds equity securities in publicly traded securities. Those securities are classified within Level 1 of the fair value hierarchy as their fair value is determined using quoted prices in active markets.

Income Taxes

The Company accounts for income taxes under the provisions of FASB ASC 740, *Income Taxes*. ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse.

Comprehensive Income

Pursuant to FASB ASC 220, Comprehensive Income, the Company reports any material components of comprehensive income in its financial statements. Prior to the adoption of ASU 2016-01, comprehensive income consisted of unrealized gains and losses on equity securities.

Unrealized Gains (Losses) on Investments in Equity Securities

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*" ("ASU 2016-01"). Under ASU 2016-01, investments in equity securities with readily determinable fair values are all measured at fair value with changes reported in net income. An alternative to fair value measurement is provided for investments in equity securities that do not have readily determinable fair values. Those investments may be recorded at cost, adjusted through earnings for observable price changes and any subsequent impairment. The Company has adopted ASU 2016-01 and reclassified its unrealized losses on equity investments of \$161,616 from accumulated other comprehensive loss to retained earnings at December 31, 2019.

Tonopah Divide Mining Company

Notes to Financial Statements

December 31, 2020

2. Mining Claims Owned and Leased

At December 31, 2020, Tonopah Divide Mining Company was the owner of 64 patented lode mining claims and 97 unpatented lode mining claims. The Company leases 20 patented lode mining claims. In addition, the Company owns the Divide water well. All patented and unpatented lode mining claims and the water well are in the Divide Mining District, Esmeralda County, Nevada.

Pursuant to the provisions of Section 314 of Public Law 94-579 of the Federal Land Policy of 1976, all unpatented mining claims comprising the New Little Zoe Group, Gap Group, and TD Group, DIV Group, DSE Group and DNW Group, Divide Mining District, Esmeralda County, Nevada have been recorded with the Bureau of Land Management.

The 2020 maintenance fee was paid to the Bureau of Land Management for unpatented mining claims on July 20, 2020 by the Company.

3. Mining Lease Agreement

On December 15, 2017, the Company entered into a Mining Lease agreement on its Tonopah Divide Mine property with WK Mining (USA) Ltd., a Delaware corporation, and wholly owned subsidiary of West Kirkland Mining Inc., Vancouver, Canada. The term of the lease is 10 years with an extension of 10 years and an annual \$75,000 advance royalty payment along with required exploration expenditures of \$100,000 per year for five years increasing to \$200,000 per year thereafter. The production royalty is three percent (3%) of net smelter returns with certain buy down of production royalties to two percent (2%) of net smelter returns. The Lease can be terminated by the Lessee at any time upon 30 days written notice subject to any outstanding obligations. Effective December 15, 2019, WK Mining (USA) Ltd., a wholly owned subsidiary of West Kirkland Mining Inc., Vancouver, Canada terminated its Mining Lease on the Company's Tonopah Divide Mine property.

4. Reserved Royalty Agreements on Purchased Claims and Quiet Title Action

On the purchase of the Gold Zone Divide patented mining claims on October 25, 1996, a 1% perpetual net smelter return royalty is payable on any production from said claims; on the purchase of the Ruby Hill patented mining claim on February 22, 2010, a 1.5% net smelter return royalty to \$200,000 is payable on any production from said claim; on the purchase of the Tiger patented claim on April 12, 2010, a 1.5% net smelter return royalty to \$200,000 is payable on any production from said claim and on the purchase of the Belcher Divide patented mining claims on October 12, 2012, a 0.375% net smelter return royalty to \$100,000 is payable on any production from said claims.

During the year ended December 31, 2017, the Company commenced a Quiet Title Action on all of its property in the Divide Mining District. The "Findings of Fact, Conclusions of Law and Judgement Quieting Title to Unpatented and Patented Lode Mining Claims" was issued by the Fifth Judicial District Court of the State of Nevada on September 19, 2017 and recorded in Esmeralda County on September 20, 2017 as Document No. 0209232.

5. Contingent Liabilities

The Company is not a defendant in any legal proceeding nor is there any litigation in progress, pending or threatened against the Company.

6. Related Party Transactions

The Company utilizes bookkeeping and other administrative services provided by an employee of an entity that shares common management with the Company. The expenses incurred for such services, included in the professional services expense in the accompanying financial statements, amounted to \$6,000 for each of the years ended December 31, 2020, 2019 and 2018.

Tonopah Divide Mining Company

Notes to Financial Statements

December 31, 2020

6. Related Party Transactions (Continued)

From time to time, the Company pays stock maintenance fees to another entity that shares common management with the Company. The expenses incurred for such services, amounted to \$1,000 for each of the years ended December 31, 2020 and 2018.

7. Investment Securities

The following table reflects the portion of unrealized gains and losses that relates to equity securities held at the reporting date for the years ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Unrealized gains and (losses) recognized during the year on equity securities	\$ (138,750)	\$ 79,390	\$ (23,500)
Less: Net gains and (losses) recognized during the year on equity securities sold during the year	<u>-</u>	<u>-</u>	<u>-</u>
Unrealized gains and (losses) recognized during the year on equity securities held at the reporting date	<u>\$ (138,750)</u>	<u>\$ 79,390</u>	<u>\$ (23,500)</u>

There were no sales of investment securities during the years ended December 31, 2020, 2019 and 2018.

8. (Loss) Earnings per Share

The (loss) earnings per share for the years ended December 31 were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net (Loss) Income - Numerator	\$ (132,184)	\$ 81,809	\$ 65,753
Shares - Denominator	<u>2,253,327</u>	<u>2,253,327</u>	<u>2,252,327</u>
(Loss) Earnings per Share	<u>\$ (0.059)</u>	<u>\$ 0.036</u>	<u>\$ 0.029</u>

9. Income Taxes

The Company's income tax (benefit) provision consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal income tax - current	\$ -	\$ -	\$ 2,766
Federal income tax - deferred	<u>(35,138)</u>	<u>21,747</u>	<u>14,300</u>
Total income tax (benefit) provision	<u>\$ (35,138)</u>	<u>\$ 21,747</u>	<u>\$ 17,066</u>

Tonopah Divide Mining Company

Notes to Financial Statements

December 31, 2020

9. Income Taxes (Continued)

Deferred income taxes consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Deferred tax (liabilities) assets		
Unrealized loss on securities	\$ 55,427	\$ 26,289
Basis in pass-through entities	(63,409)	(59,182)
Net operating loss carryforward	10,280	113
Capital loss carryforward	<u>4,520</u>	<u>4,461</u>
 Total deferred tax assets (liabilities)	 <u>\$ 6,818</u>	 <u>\$ (28,319)</u>

At December 31, 2020, the Company had a net operating loss carryforward of \$48,953 and a capital loss carryforward of \$21,524, both of which may be carried forward indefinitely until the losses are fully recovered.

The Company files income tax returns in the United States. These tax returns are subject to examination by taxation authorities provided the years remain open under the relevant statutes of limitations, which may result in the payment of income taxes and/or a decrease in the net operating losses available for carryforwards. While the Company believes that its tax filings do not include uncertain tax positions, the results of potential examinations or the effect of changes in tax law cannot be ascertained at this time. The Company currently has no tax years under examination.