

California-Engels Mining Company
(A California Corporation)

Financial Statements

December 31, 2021 and 2020

California-Engels Mining Company

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December 31, 2021

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California-Engels Mining Company

Balance Sheets

December 31, 2021 and 2020

(Unaudited)

Assets	2021	2020
<i>Current Assets</i>		
Cash and cash equivalents	\$ 161,373	\$ 131,124
Royalty receivable	49	27
Prepaid expenses	-	700
<i>Total Current Assets</i>	<u>161,422</u>	<u>131,851</u>
<i>Property and Equipment, net</i>	<u>241,950</u>	<u>244,727</u>
<i>Other Assets</i>		
Investment securities	218,670	115,998
Deferred income taxes	-	19,153
<i>Total Other Assets</i>	<u>218,670</u>	<u>135,151</u>
Total Assets	<u><u>\$ 622,042</u></u>	<u><u>\$ 511,729</u></u>
Liabilities and Stockholders' Equity		
<i>Current Liabilities</i>		
Deferred revenue	\$ 900	\$ 900
<i>Total Current Liabilities</i>	<u>900</u>	<u>900</u>
<i>Noncurrent Liabilities</i>		
Deferred income taxes	17,249	-
<i>Total Noncurrent Liabilities</i>	<u>17,249</u>	<u>-</u>
<i>Total Liabilities</i>	<u>18,149</u>	<u>900</u>
<i>Stockholders' Equity</i>		
Capital stock, par value \$0.25, 4,000,000 shares authorized, 703,696.04 and 704,846.04 shares issued and outstanding at December 31, 2021 and 2020, respectively	175,924	176,211
Reduction surplus	2,751,381	2,753,393
Accumulated deficit	<u>(2,323,412)</u>	<u>(2,418,775)</u>
<i>Total Stockholders' Equity</i>	<u>603,893</u>	<u>510,829</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 622,042</u></u>	<u><u>\$ 511,729</u></u>

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

California-Engels Mining Company

Statements of Income (Loss)

For the Years Ended December 31, 2021, 2020 and 2019

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenue			
Mining lease income	\$ 20,000	\$ 20,000	\$ 20,000
Royalty income	15,798	14,381	20,963
Rock lease income	10,534	19,191	11,901
Professional services	9,600	9,600	10,800
Interest income	10	224	1,146
	<u>55,942</u>	<u>63,396</u>	<u>64,810</u>
<i>Total Revenue</i>			
	55,942	63,396	64,810
Operating and General Expenses			
Payroll	17,593	17,593	17,593
Taxes and licenses	11,800	4,043	3,962
Office and storage rents	4,900	8,400	8,400
Professional fees	4,515	4,340	4,170
Office	3,408	1,688	2,324
Insurance	1,873	1,853	1,968
Miscellaneous	1,564	1,129	1,469
Depreciation	1,245	1,421	1,010
Stock maintenance fee	1,000	1,000	-
Repairs and maintenance	977	1,081	-
Vehicle	360	913	1,528
Donations	-	-	50
	<u>49,235</u>	<u>43,461</u>	<u>42,474</u>
<i>Total Operating and General Expenses</i>			
	49,235	43,461	42,474
Income from Operations	<u>6,707</u>	<u>19,935</u>	<u>22,336</u>
Other Income (Expense)			
Unrealized gain (loss) on equity securities	102,672	(87,302)	43,480
Gain on disposal of assets	23,186	-	-
	<u>125,858</u>	<u>(87,302)</u>	<u>43,480</u>
<i>Total Other Income (Expense)</i>			
	125,858	(87,302)	43,480
Income (Loss) Before Taxes	132,565	(67,367)	65,816
Income Tax (Expense) Benefit	<u>(37,202)</u>	<u>17,692</u>	<u>(19,050)</u>
Net Income (Loss)	<u>\$ 95,363</u>	<u>\$ (49,675)</u>	<u>\$ 46,766</u>

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

California-Engels Mining Company
 Statements of Stockholders' Equity
 For the Years Ended December 31, 2021, 2020 and 2019
 (Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Capital Stock			
\$0.25 par value: 4,000,000 shares authorized; 703,696.04, 704,846.04 and 705,046.04 shares issued and outstanding at December 31, 2021, 2020 and 2019, respectively			
Balance at beginning of year	\$ 176,211	\$ 176,261	176,263
Purchase and retirement of shares	<u>(287)</u>	<u>(50)</u>	<u>(2)</u>
Balance at end of year	<u>175,924</u>	<u>176,211</u>	<u>176,261</u>
Reduction Surplus			
Balance at beginning of year	2,753,393	2,754,143	2,754,208
Purchase and retirement of shares	<u>(2,012)</u>	<u>(750)</u>	<u>(65)</u>
Balance at end of year	<u>2,751,381</u>	<u>2,753,393</u>	<u>2,754,143</u>
Accumulated Other Comprehensive Loss			
Balance at beginning of year	-	-	(61,016)
Reclassification under ASU 2016-01	<u>-</u>	<u>-</u>	<u>61,016</u>
Balance at end of year	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated Deficit			
Balance at beginning of year	(2,418,775)	(2,369,100)	(2,354,850)
Net income (loss)	95,363	(49,675)	46,766
Reclassification under ASU 2016-01	<u>-</u>	<u>-</u>	<u>(61,016)</u>
Balance at end of year	<u>(2,323,412)</u>	<u>(2,418,775)</u>	<u>(2,369,100)</u>
Total Stockholders' Equity	<u><u>\$ 603,893</u></u>	<u><u>\$ 510,829</u></u>	<u><u>\$ 561,304</u></u>

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

California-Engels Mining Company

Statements of Cash Flows

For the Years Ended December 31, 2021, 2020 and 2019
(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 95,363	\$ (49,675)	\$ 46,766
<i>Adjustments to reconcile net income (loss) to net cash provided by operating activities</i>			
Depreciation	1,245	1,421	1,010
Unrealized (gains) losses on equity investments	(102,672)	87,302	(43,480)
Gain on disposal of assets	(23,186)	-	-
Deferred income taxes	36,402	(18,492)	18,250
Changes in operating assets and liabilities			
Royalty receivable	(22)	51	28
Prepaid expenses	700	-	-
Net Cash Provided by Operating Activities	<u>7,830</u>	<u>20,607</u>	<u>22,574</u>
Cash Flows from Investing Activities			
Proceeds from asset disposals	24,719	-	-
Payments received on note receivable	-	-	5,828
Purchase of fixed assets	-	-	(2,351)
Net Cash Provided by Investing Activities	<u>24,719</u>	<u>-</u>	<u>3,477</u>
Cash Flows from Financing Activities			
Purchase and retirement of shares	(2,300)	(800)	(67)
Net Cash Used by Financing Activities	<u>(2,300)</u>	<u>(800)</u>	<u>(67)</u>
Net Change in Cash and Cash Equivalents	30,249	19,807	25,984
Cash and Cash Equivalents, Beginning of Year	<u>131,124</u>	<u>111,317</u>	<u>85,333</u>
Cash and Cash Equivalents, End of Year	<u>\$ 161,373</u>	<u>\$ 131,124</u>	<u>\$ 111,317</u>
Supplemental Disclosure of Cash Flow Information			
<i>Cash paid during the year for</i>			
Income taxes	<u>\$ 800</u>	<u>\$ 800</u>	<u>\$ 800</u>

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

California-Engels Mining Company

Notes to Financial Statements

December 31, 2021

(Unaudited)

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of California-Engels 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's principal line of business is development of mineral and timber properties. The principal revenue sources currently consist of lease and investment income. The Company's properties are located in the western United States.

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 cash in a money market investment account, which is not insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2021, the Company had \$91,293 in such account. The Company has not experienced any losses in such account.

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.

Property and Equipment

Property and equipment are capitalized at cost. It is the Company's policy to capitalize expenditures for these items in excess of \$500 with a useful life greater than one year. Depreciation is calculated using the straight-line method over five to fifteen years.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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 adopted ASU 2016-01 and reclassified its unrealized losses on equity investments of \$61,016 from accumulated other comprehensive loss to accumulated deficit at December 31, 2019.

2. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Furniture, equipment and vehicles	\$ -	\$ 48,387
Land and land improvement	248,132	248,132
Less accumulated depreciation	<u>(6,182)</u>	<u>(51,792)</u>
Property and equipment, net	<u>\$ 241,950</u>	<u>\$ 244,727</u>

In 2021, the Dixie Fire destroyed the town of Greenville, California and all of the Company’s furniture, equipment and vehicles were destroyed. The Company received insurance proceeds of \$24,719 and recognized a gain on disposal of \$23,186. Depreciation expense was \$1,245, \$1,421, and \$1,010 for the years ended December 31, 2021, 2020 and 2019, respectively.

California-Engels Mining Company
Notes to Financial Statements
December 31, 2021
(Unaudited)

3. Mining Claims and Fee Land Owned

At December 31, 2021, the Company was the owner of 36 patented lode mining claims totaling 736 acres comprising the Engels and Superior Mines and 239.24 acres of patented land at Engelmine, Lights Creek Mining District, Plumas County, California. All of these lands are optioned to US Copper Corp. except for 77 acres on Diamond Mountain Road along Lights Creek by the Company for possible commercial development.

At December 31, 2021, the Company was the owner of 5 patented lode mining claims totaling 100 acres on Ward Creek in the Genesee Mining District, Plumas County, California.

4. Valuations of Mineral Lands - Deferred Income Taxes

The mineral lands carried on the books at a value of \$10,000 less depletion have a historical cost basis from June 19, 1901 of \$1,000,000. Beginning in 1913, different valuations were placed on these lands by the Commissioner of Internal Revenue. Under instructions of the Commissioner, the values of the land were written up on the books to a high of \$4,500,000 on February 23, 1928.

In 1934, because of depressed conditions, the mineral lands were written down to \$10,000 without any tax benefit. In the event of a sale of these lands the recognized gain for tax purposes will be substantially reduced or eliminated. Consequently, a deferred tax asset of approximately \$340,000 has been offset by a corresponding valuation allowance of approximately \$340,000 due to the unlikelihood of the sale of the property in the near future. During the year ended December 31, 2017, reflecting the federal corporate income tax rate change resulting from the Tax Cuts and Jobs Act, the deferred tax asset and corresponding valuation allowance related to the mineral lands were each re-measured to be \$210,000.

It is estimated that the current market value of the properties meets or exceeds the \$1,000,000 historical cost basis; however, due to the length of time the Company has reported the land values at the written down value of \$10,000, a change to the cost method has not been deemed appropriate for reporting purposes.

5. Investment Securities

The Company's equity securities portfolio is comprised of items with readily determinable fair values. In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 321, *Investments – Equity Securities Topic*, those equity securities are reported as an asset at their fair value. Following adoption of ASU 2016-01, unrealized gains and losses arising during the year are recorded in net income (loss). Prior to the adoption of ASU 2016-01, unrealized gains and losses on equity securities were reported within other comprehensive income (loss) until realized. The following table reflects the portion of unrealized gains and (losses) recognized during the years ended December 31 on equity securities still held at the reporting date:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net gains and (losses) recognized during the year on equity securities	\$ 102,672	\$ (87,302)	\$ 43,480
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>\$ 102,672</u>	<u>\$ (87,302)</u>	<u>\$ 43,480</u>

There were no sales of equity securities during the years ended December 31, 2021, 2020 or 2019.

California-Engels Mining Company

Notes to Financial Statements

December 31, 2021

(Unaudited)

6. 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.

7. Capital Stock

The Company acquired and subsequently retired shares from estates totaling 1,150 shares of capital stock for \$2,300 in 2021, 200 shares for \$800 in 2020, and 10 shares for \$67 in 2019.

8. Mining Lease

On April 18, 2006, the Company entered into an Exploration Permit with Option to Lease and Purchase agreement on its 36 patented lode mining claims and 162.12 acres of its fee lands at Engelmine, Lights Creek Mining District, Plumas County, California. The agreement provides for annual rental payments, issuance of shares, annual work requirement and a net smelter return of 2% when in production. Royalties to the Company are capped at \$25,000,000. The Company retained the rights to the timber on the property and to manage its Engelmine Forest, California Tree Farm #2611 pursuant to its Non-Industrial Management Plan. Upon completion of mining and reclamation, title to the property will be returned to the Company.

9. Rock Lease

Effective September 1, 2012, the Company leased the No. 10 Level dump of the Engels Mine to Turner Excavating, Inc. to screen and crush aggregate for road rock and other uses. The lessee completed a reclamation plan and financial bond to assure that performance standards of the reclamation plan are satisfied. The Company receives a 10% gross royalty on rock sold with a minimum of \$3,000 per year.

10. Related Party Transactions

The Company receives bookkeeping and office fees from three other entities that share common management with the Company. The income received from such entities amounted to \$9,600 for each of the years ended December 31, 2021, 2020 and 2019.

The Company pays rent and stock maintenance fees to an entity that shares common management with the Company. The expenses incurred for such services amounted to \$5,900, \$9,400 and \$8,400 for the years ended December 31, 2021, 2020 and 2019, respectively.

11. Earnings (Loss) per Share

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Income (Loss) - Numerator	\$ 95,363	\$ (49,675)	\$ 46,766
Weighted Shares - Denominator	<u>704,164</u>	<u>704,981</u>	<u>705,052</u>
Earnings (Loss) per Share	<u>\$ 0.135</u>	<u>\$ (0.070)</u>	<u>\$ 0.066</u>

California-Engels Mining Company
Notes to Financial Statements
December 31, 2021
(Unaudited)

12. Income Taxes

The income tax expense (benefit) consisted of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
State income tax - current	\$ 800	\$ 800	\$ 800
Deferred income taxes	<u>36,402</u>	<u>(18,492)</u>	<u>18,250</u>
Total income tax expense (benefit)	<u>\$ 37,202</u>	<u>\$ (17,692)</u>	<u>\$ 19,050</u>

Deferred income tax (liabilities) assets consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Deferred tax (liabilities) assets		
Unrealized loss on securities	\$ 7,241	\$ 35,972
Basis difference in partnership and royalty trust investments	(47,002)	(47,785)
Net operating loss carryforward - federal	9,760	16,062
Net operating loss carryforward - state	<u>12,752</u>	<u>14,904</u>
Total deferred tax (liabilities) assets	<u>\$ (17,249)</u>	<u>\$ 19,153</u>

At December 31, 2021, the Company had a federal net operating loss carryforward of \$46,476 and a California net operating loss carryforward of \$182,609. The net operating loss carryforwards generated before December 31, 2017 may be used over a twenty year period and will begin to expire in the 2030 tax year.

The Company files income tax returns in the United States and in the state of California. 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.

13. Subsequent Event

The Company plans on filing a contingency lawsuit against Pacific Gas & Electric Company for damage done to its property and Engelmine Forest tree farm from the 2021 Dixie Fire. The extent of the impact was not known on the date the financial statements were issued.