

**AUXICO RESOURCES CANADA INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS**  
**FOR THE THREE AND SIX-MONTH PERIOD ENDED MARCH 31, 2021**

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**OVERVIEW**

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This following management’s discussion and analysis (quarterly highlights) of the financial condition and results of operations (“MD&A”) covers the operations of Auxico Resources Canada Inc. (“Auxico” or the “Company”) for the three and six-month period ended March 31, 2021. All currency amounts referred to herein are in Canadian dollars unless otherwise stated. The MD&A has been prepared in accordance with Regulation 51-102 and should be read in conjunction with: the Company’s unaudited condensed interim consolidated financial statements for the three and six-month period ended March 31, 2021; the Company’s audited consolidated financial statements for the year ended September 30, 2020; and the Company’s MD&A for the year ended September 30, 2020. The accompanying audited and unaudited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements and this MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of the Company.

Additional information related to the Company is available for viewing on the Company’s website at [www.auxicoresources.com](http://www.auxicoresources.com) and on SEDAR ([www.sedar.com](http://www.sedar.com)) under “Auxico Resources Canada Inc.”

This MD&A is dated May 31, 2021.

**INCIDENCE OF COVID-19**

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In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread in Canada and around the world. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services for some period have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility. There have been business closures and a substantial reduction in economic activity in a large number of countries. Management is closely monitoring the situation and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance. Beside the fact that longer delays are to be expected for upcoming sales and purchases transactions, there was no other material impact on the Company’s operations at the date of the Company’s unaudited consolidated financial statements.

**COMPANY DESCRIPTION**

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The Company was incorporated under the Canada Business Corporations Act on April 16, 2014. The Company has two subsidiaries, Auxico Resources S.A. de C.V. (“Auxico Mexico”), which was incorporated under the laws of Mexico on June 16, 2011, and C.I. Auxico de Colombia S.A., which was incorporated under the laws of Colombia on April 9, 2019. The Company has an office at 201 Notre-Dame Street West, 5<sup>th</sup> Floor, Montreal, Quebec, H2Y 1T4, Canada.

Auxico is a mineral exploration company with silver-gold properties in the state of Sinaloa, Mexico; the Company owns 100% of the Zamora silver-gold property in Mexico (“Zamora Property”). The Company is also actively engaged in exploration mining opportunities in Colombia, Brazil, the Democratic Republic of the Congo (“DRC”) and elsewhere.

**OVERVIEW OF THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

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On January 5, 2021, the Company announced that it had recently signed an agreement with a customer in India to sell an initial amount of 10,000 metric tonnes of high-grade manganese ore, with the option to increase this to 60,000 MT per month over a 12-month period.

The grade of the ore is between 46% and 48% manganese and conforms to all of the customer's specifications. A letter of credit outlining payment terms to Auxico has already been provided by the customer. The value of the initial 10,000 MT of manganese sold by Auxico is over \$2,000,000 (Canadian dollars).

As per the agreement between the Company and its customer, the contract is for this initial 10,000 MT of manganese ore, with the option to extend the contract up to 12 months, for up to 60,000 MT of manganese ore per month.

Pierre Gauthier, Chairman and CEO of Auxico commented, "I am very pleased that we will soon be shipping this 10,000 MT of manganese ore to our first customer. This represents a significant milestone in our corporate development. Auxico will now be a revenue-generating company focused on delivering returns to our investors. Our team at Auxico has been putting in place a network of suppliers and customers of manganese and other minerals over the past two years. Now, our efforts are coming to fruition. This is a very exciting moment for us."

On January 25, 2021, the board of directors of Auxico approved the signing of a memorandum of understanding ("MOU") with Central America Nickel Inc. ("CAN"). CAN is a registered bidder for the assets of North America Lithium, which is presently in bankruptcy protection in the province of Quebec. As per the MOU, Auxico contributed 50% of the deposit of \$4,300,000 (or \$2,150,000) required to be placed in trust with the bankruptcy monitor. This deposit is refundable in full in the event CAN does not win this competitive bidding process.

On February 3, 2021, Auxico announced that it had closed its non-brokered private placement (the "Private Placement"), issuing a total of 9,744,000 units (the "Units") at a price of \$0.50 per Unit raising gross proceeds of \$4,872,000.

Each Unit consists of one common share (the "Shares") of the Company and one-half of one common share purchase warrant (the "Warrants"). Each full Warrant is exercisable at \$1.00 for a period of 3 years from the date of issuance (the "Closing Date").

The Company paid finder's fees of \$276,100 in connection with the Private Placement.

All securities issued are subject to a statutory four month hold period from the Closing Date.

The net proceeds of the private placement will be used to increase the trading of manganese ore from Brazil, as well as for general working capital.

On March 30, 2021, Auxico announced that it had made its first sales of manganese ore from Brazil to three customers in India, China, and the United Arab Emirates. Auxico had purchased and sold a total of 15,000 metric tonnes of manganese ore, with a minimum grade of 46% Mn. The Company expects to generate a 15% net profit margin on these sales. Two of the contracts between Auxico and its customers provide for shipments of manganese ore of up to 60,000 MT per month each, subject to material availability and re-confirmation by Auxico.

The average price of manganese ore has increased significantly in the past months, with prices going from US\$400 per dry metric tonne to over US\$500.

Pierre Gauthier, Chairman and CEO of Auxico, commented, "These first shipments of high-grade manganese ore from Brazil mark a significant milestone for Auxico and its commodity trading business. The markets for manganese and other commodities have picked up recently due to increased interest in global commodities. Our goal is to increase the volume of monthly shipments of manganese ore and to begin shortly the shipments of other products, including tantalum and niobium, all of which will generate returns for Auxico's investors."

Auxico also announced on March 30, 2021 that it had granted 900,000 options to three consultants and a director of the Company. These options have a strike price of \$0.45, no vesting period and an expiry date of March 16, 2026.

## SUBSEQUENT EVENTS

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On April 19, 2021, the Company announced that it had entered into a memorandum of understanding (“MOU”) with the companies Minceracao Tantaline Im. & Exp. E Beneficiamento Ltda (“Minceracao Tantaline”) and Fantasia Mineracao R&M – Import Export (“Fantasia Mineracao”), and the Bolivian mining cooperative Cooperativa Minera Aurifera “El Cerrito la Codiciada” Ltda (the “Cooperative”), with regard to the exploitation and commercialization of tantalum, niobium, and tin from industrial sands originating from a 2,500-hectare property located in the municipality of La Concepción, Santa Cruz Department, province of Ñuflo de Chavez, Bolivia.

The Cooperative has mining claims for a 2,500-hectare property in the Santa Cruz Department and has obtained the necessary license for the export of industrial sands. Mineracao Tantaline has signed a partnership agreement with the Cooperative for the exclusive mandate to explore and commercialize the ore from the properties claimed by the Cooperative.

Samples from the property were recently analyzed by Coalia Research Institute in Thetford Mines, Quebec. The results of the first sample are presented in the table below:

Ta2O5	Nb2O5	Fe2O3	MnO	SiO2	TiO2	Al2O3	MgO	WO3	CaO	ZrO2	Ir *	SnO2	HfO2	UO2	K2O	PbO	ZnO	SrO
%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
59.79	17.31	7.72	6.46	4.00	1.09	0.91	0.80	0.49	0.30	0.26	0.268	0.20	0.16	0.15	0.06	0.05	0.03	0.01

\* With the exception of iridium (Ir), the above sample results were provided with the use of XRF (X-ray fluorescence) by Coalia, which subsequently retested the sample with the use of inductively coupled plasma, or ICP.

The ICP sample results of the coltan ore received by Auxico yielded a grade of 2.68 kg of iridium (Ir) per metric tonne (0.268%), or approximately 86 ounces of Ir per MT.

Iridium is a silver-white transition metal of the platinum group and is considered to be the second densest metal after osmium. It is the most corrosion-resistant metal, even at temperatures of 2000 °C. Given these properties, iridium is used as a hardening agent for platinum alloys. It is also employed in high-performance spark plugs, crucibles for recrystallization of semiconductors at high temperatures, and electrodes for the production of chlorine in the chloralkali process. Tantalum belongs to a class of metals known as refractory metals, which are defined by their strong resistance to heat and wear. Tantalum is used in the electronics industry for capacitors and high-power resistors. When combined with other metals, it can produce alloys with enhanced strength, ductility and corrosion resistance.

The current market price of iridium is approximately US\$6,400 per ounce; the price of iridium has increased significantly over the past year due to supply deficits. The Company is currently undertaking metallurgical testing of the samples with Central America Nickel Inc. in order to extract iridium from the coltan ore.

Under the terms of the MOU, Auxico has 60-days to conduct due diligence, after which the parties agree to enter into a joint venture (“JV”) for the property in Bolivia. Auxico will have a 60% share of the net profits of the JV for committing 100% of the capital required for the technical operations, exploration, exploitation, concentration, transport and commercialization of industrial sands (tantalum) from the property in Bolivia. Minceracao Tantaline, Fantasia Mineracao and the Cooperative will jointly retain 40% of the net profits of the JV, and Auxico will have the option to purchase another 20% interest in the JV (for a total of 80%). Auxico will have the exclusive marketing rights for all metals emanating from the property.

On April 20, 2021, Auxico announced that it had signed a letter of intent (“LOI”) to finance the production and export of high-grade tantalum and iridium ore from an 800-hectare property located 400 metres from a deep seaport, in the sub-prefecture of Bouandougou, department of Mankono, Ivory Coast.

Samples from the property were recently analyzed by Coalia Research Institute in Thetford Mines, Quebec. Test results yielded a grade of 59.58% tantalum (Ta) per metric tonne, along with 1.7 kg of iridium (Ir) per metric tonne, or approximately 53 ounces of iridium per metric tonne. The price of tantalum is US\$150,000 per tonne, and the price of iridium is US\$6,400 per ounce.

The results of the first sample are presented in the table below:

<b>Ta2O5</b>	<b>Nb2O5</b>	<b>Fe2O3</b>	<b>MnO</b>	<b>TiO2</b>	<b>SiO2</b>	<b>Al2O3</b>	<b>MgO</b>	<b>CaO</b>	<b>ZrO2</b>	<b>Ir*</b>	<b>HfO2</b>	<b>UO2</b>	<b>SnO2</b>	<b>ZnO</b>	<b>PbO</b>
<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>59.58</b>	<b>20.41</b>	<b>10.87</b>	<b>5.21</b>	<b>1.00</b>	<b>0.94</b>	<b>0.74</b>	<b>0.28</b>	<b>0.21</b>	<b>0.18</b>	<b>0.17</b>	<b>0.15</b>	<b>0.07</b>	<b>0.07</b>	<b>0.04</b>	<b>0.03</b>

\* With the exception of iridium, the above sample results were provided with the use of XRF (X-ray fluorescence) by Coalia, which subsequently retested the sample with the use of inductively coupled plasma, or ICP. The Company is currently undertaking metallurgical testing of the samples with Central America Nickel Inc. in order to extract iridium from the coltan ore.

The LOI was signed between Auxico and the companies La Société Minière pour la Côte d’Ivoire SA (“Somci”) and Clean-T. Under the terms of the LOI, Auxico has 60 days to conduct due diligence, after which the parties agree to enter into a joint venture (“JV”). The parties agreed that under the terms of the JC, Auxico will have a 63% share of the net profits of the JV for committing 100% of the capital required for the initial satellite interpretation study which will be conducted in order to target potential areas of interest in the property, as well as for the equipment required for the concentration of ore and transportation of concentrates from the property. Somci and Clean-T will retain 27% of the net profits of the JV, while the 10% will be allocated for fees defined by the *state mining code*. Auxico will have the exclusive marketing rights for all metals emanating from the property.

On May 11, 2021, Auxico announced that it had become a member of the Tantalum-Niobium International Study Center (TIC). TIC is an international, non-profit association that was established in 1973 to support, develop and promote the global tantalum and niobium industries.

Last year, Auxico signed a joint venture for the concentration and export of tantalum and niobium ores from the Democratic Republic of the Congo, as well as an agreement to purchase mineral rights of a tantalum property in Colombia. The Company is preparing the first trade of tantalum ore with its Congolese partner. Auxico recently signed an MOU for the exploitation and trading of high-grade tantalum and iridium ore in Bolivia. The Company also signed a letter of intent for the purpose of entering into a joint venture for the exploitation and trading of high-grade tantalum and iridium ore from Ivory Coast.

Pierre Gauthier, Chairman and CEO of Auxico, commented, “Auxico’s objective was to diversify the sources of tantalum and niobium ore in order to meet the needs of its clients and ensure a stable supply, and the Company is now in a unique position to source the material from four countries. The membership in TIC, the world’s largest association focused on the tantalum and niobium industries, gives Auxico the opportunity to connect with a network of industry experts and gain valuable information from all levels in the industry: miners, traders, processors and producers. As a public mining company, we are committed to purchasing the material from legitimate and ethical sources and we fully support the ongoing efforts of TIC to break the link between mineral trade and conflict finance.”

Today the TIC has around 80 member companies from 30 countries involved with all aspects of the tantalum and niobium industry supply chain, including mining, processing, recycling, metal fabrication, capacitor manufacturing, medical and aerospace applications. Central to the TIC's mission is to increase awareness and promote the remarkable properties of tantalum and niobium in all their forms and disseminate relevant information to stakeholders. One of the TIC objectives is to address major issues and challenges facing the industry such as conflict minerals' legislation, artisanal and small-scale mining, and transport of radioactive materials. For more information, visit the website <https://www.tanb.org/index>.

On May 25, 2021, Auxico announced that it had signed a joint venture agreement ("JV" or "Agreement") with Impact Global Solutions Inc. ("IGS") for the processing of tantalum ores that may also contain niobium, iridium and other minerals.

Under the terms of the Agreement, Auxico will provide ores to IGS and bear all of the transportation costs for delivery to the IGS facility located in Delson, Quebec, just south of Montreal. Auxico will also provide the working capital necessary to launch this joint venture, including the financing of equipment and infrastructure, all of which will be located at the Delson facility. In return, IGS will provide the location for the JV operations in Delson, as well as the metallurgical and processing expertise.

Auxico had previously signed a technology and licensing agreement with Central America Nickel ("CAN") for the use of CAN's proprietary technology for the extraction of metals, call the Ultrasound Assisted Extraction ("UAEx") process. Through Auxico, IGS will have access to UAEx for the processing of ores.

As per the Agreement, Auxico will retain 80% of the net profits of the JV, and IGS will retain the remaining 20%. Net profits are defined as total earnings from the JV less all expenses (including depreciation and taxes), as well as a 2% royalty payable to CAN for the use of the UAEx process.

On April 19 and 20, 2021, the Company issued news releases concerning agreements that it had signed with parties in Bolivia and Ivory Coast, respectively, for the export of high-grade tantalum ores. These samples also had significant grades of niobium and iridium. (Please consult these news releases on SEDAR or on the Company's website.)

Auxico will send ore from Bolivia and Ivory Coast to IGS for metallurgical analysis.

On May 28, 2021, Auxico announced the significant discovery of high-value rare earth ore in Colombia, with a total rare earth content of 56.87%. Subsequent to a sampling program on 23 pits, samples from the Company-controlled property were sent to Canada and analyzed by Coalia Research Institute in Thetford Mines. The results from sample number 18 are presented in the table below. A chart below provides information on other rare earth projects.

Rare Earth Element	Symbol	Grade (%)
Cerium	CeO <sub>2</sub>	31.09
Neodymium	Nd <sub>2</sub> O <sub>3</sub>	9.49
Lanthanum	La <sub>2</sub> O <sub>3</sub>	9.40
Praseodymium	Pr <sub>6</sub> O <sub>11</sub>	2.44
Samarium	Sm <sub>2</sub> O <sub>3</sub>	1.81
Gadolinium	Gd <sub>2</sub> O <sub>3</sub>	0.75
Dysprosium	Dy <sub>2</sub> O <sub>3</sub>	0.72
Yttrium	Y <sub>2</sub> O <sub>3</sub>	0.50
Ytterbium	Yb <sub>2</sub> O <sub>3</sub>	0.40
Erbium	Er <sub>2</sub> O <sub>3</sub>	0.21
Hafnium	HfO <sub>2</sub>	0.06
<b>Total Rare Earth Oxide Content</b>		<b>56.87</b>

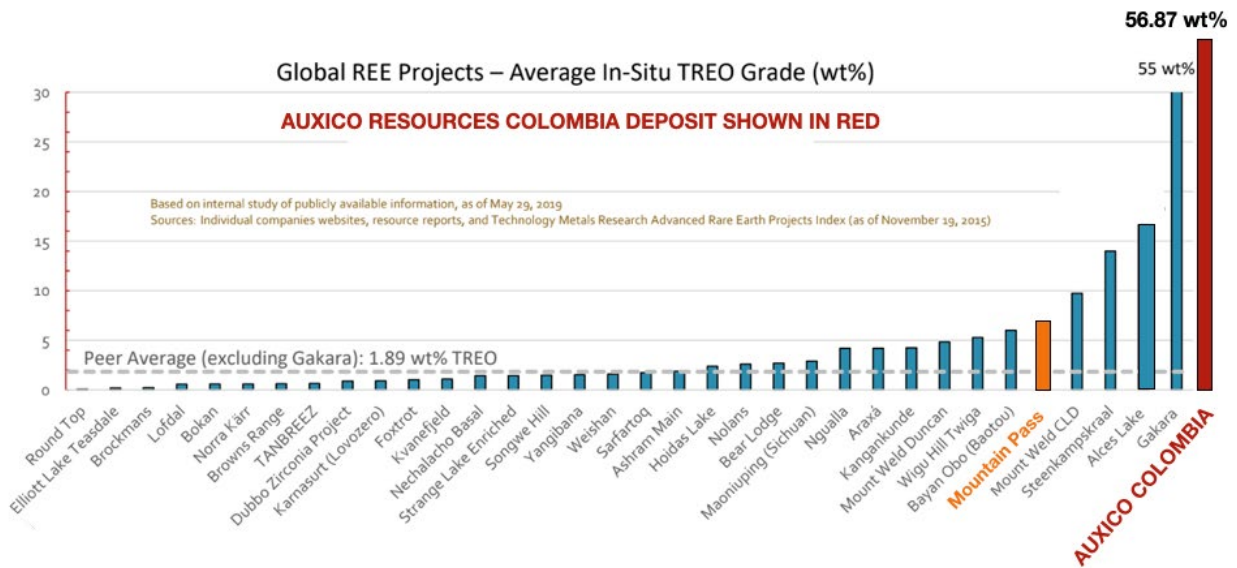
The Company also reported the discovery of tantalum, niobium, scandium and selected rare earths from another pit on the property. For reference, please see the results below (Sample number 2).

Tantalum (Ta <sub>2</sub> O <sub>5</sub> ) %	Niobium (Nb <sub>2</sub> O <sub>5</sub> ) %	Scandium (Sc <sub>2</sub> O <sub>3</sub> ) %	Ytterbium (Yb <sub>2</sub> O <sub>3</sub> ) %	Hafnium (HfO <sub>2</sub> ) %
<b>30.41</b>	<b>23.3</b>	<b>0.44</b>	<b>0.13</b>	<b>0.12</b>

Furthermore, test results on a sample from a different pit on the property resulted with 47% of tin content, along with tantalum, niobium, scandium and rare earth credits. For reference, please see the results below (Sample number 23).

Tin (SnO <sub>2</sub> ) %	Tantalum (Ta <sub>2</sub> O <sub>5</sub> ) %	Niobium (Nb <sub>2</sub> O <sub>5</sub> ) %	Cerium (CeO <sub>2</sub> ) %	Scandium (Sc <sub>2</sub> O <sub>3</sub> ) %	Hafnium (HfO <sub>2</sub> ) %	Yttrium (Y <sub>2</sub> O <sub>3</sub> ) %
<b>47.2</b>	<b>9.29</b>	<b>3.24</b>	<b>0.14</b>	<b>0.13</b>	<b>0.06</b>	<b>0.02</b>

The pitting program was conducted on the property subsequent to a satellite imagery interpretation study which identified in excess of 20 priority exploration targets that are in the process of being sampled.



### Share Information

As at the date of this MD&A, there are 58,674,000 common shares issued and outstanding of Auxico. Between March 31, 2021 and the date of this MD&A, a total of 1,500,000 common shares were issued, as follows:

- 800,000 common shares were issued as a result of conversion of \$80,000 principal amount of debentures at a conversion price of \$0.10 per common share; and
- 500,000 common shares were issued as a result of an exercise of 500,000 warrants at a strike price of \$0.20 per common share; and
- 200,000 common shares were issued as a result of an exercise of 200,000 options at a strike price of \$0.25 per common share and an exercise of 50,000 options at a strike price of \$0.105 per common share.

### Additional Information

Additional information on Auxico, the Zamora Property and the Company's opportunities in Colombia and Brazil can be accessed on the Company's website ([www.auxicoresources.com](http://www.auxicoresources.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

### Qualified Person

The technical content for the Zamora Property in this MD&A has been reviewed and approved by Joel Scodnick, P.Geol., a Qualified Person as defined by Canadian Securities Administration National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). Mr. Scodnick cannot independently approve any of the technical data for the following properties: Bafwasende Deposit, DRC; the properties in Vichada, Colombia held by Minampro; the property in Puerto Carreno, Vichada, Colombia; the manganese ore in Brazil; the tantalite samples from Bolivia; and the tantalite samples from Ivory Coast. Mr. Scodnick did not supervise or visit any of these properties described hereto, other than the Zamora Property.

## FINANCIAL POSITION

The Company prepared its condensed consolidated financial statements in accordance with the IFRS. The Company's condensed interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company. For more detailed information, please refer to the Company's condensed interim consolidated financial statements for the periods then ended. The consolidated financial position of Auxico at March 31, 2021 (unaudited) and at September 30, 2020 (audited) is presented below:

### Condensed Interim Consolidated Statements of Financial Position

As at	March 31, 2021 (unaudited)	September 30, 2020 (audited)
	\$	\$
<b>Assets</b>		
<i>Current assets</i>		
Cash & cash equivalents	1,844,354	288,780
Accounts receivable	184,813	-
Subscription receivable	75,000	-
Sales tax receivable	247,112	103,733
Prepaid expenses	93,648	156,469
Deposit on acquisition	56,068	-
Inventory	2,145,409	47,171
Advance to directors	-	3,098
Advance to companies controlled by a director	2,210,726	8,646
Advance to a joint operation	414,420	288,360
<b>Total assets</b>	<b>7,271,550</b>	<b>896,257</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accruals	527,088	578,628
Income tax payable	-	4,314
Due to companies controlled by a director	-	34,000
Due to directors	-	36,530
Convertible debentures	398,176	215,433
	<b>925,264</b>	<b>868,905</b>
<i>Non-current liabilities</i>		
Deferred income tax liabilities	70,972	70,972
Convertible debentures	10,820,456	3,609,300
	<b>10,891,428</b>	<b>3,680,272</b>
<b>Total liabilities</b>	<b>11,816,692</b>	<b>4,549,177</b>
<b>Deficiency</b>		
Deficiency attributable to shareholders	(4,546,873)	(3,654,952)
Equity attributable to non-controlling interest	1,731	2,032
<b>Total deficiency</b>	<b>(4,545,142)</b>	<b>(3,652,920)</b>
<b>Total liabilities &amp; deficiency</b>	<b>7,271,550</b>	<b>896,257</b>

Cash and cash equivalents at March 31, 2021 were \$1,844,354, compared to \$288,780 at September 30, 2020, an increase of \$1,555,574. The private placements of Debentures and units that were closed in October 2020 and February 2021, respectively, as described in this MD&A, provided the Company with financial liquidity.

At March 31, 2021, Auxico had prepaid expenses of \$93,648, which was a decrease of \$62,821, compared to prepaid expenses of \$156,469 at September 30, 2020.



At March 31, 2021, the company had a deposit on acquisition of \$56,068 (September 30, 2020 – \$Nil). On December 15, 2020, the Company announced that it had been granted an exclusive option to acquire the silver-gold La Franca mine, located in the state of Sinaloa, Mexico. The Company has a right to purchase 100% of the La Franca mine for US\$500,000 payable over a 5-year period and is subject to a 2% Net Smelter Return Royalty (NSRR) which can be repurchased at any time from the owners for US\$500,000 for each percentage point. A payment deposit of \$56,068 was made in December 2020.

At March 31, 2021, the Company recorded inventory of \$2,145,409, compared to inventory of \$47,171 at September 30, 2020, an increase of \$2,098,238; this relates to ore purchased by Auxico in Brazil for its commodities trading business.

At March 31, 2021, the advance to companies controlled by a director was \$2,210,726, compared to \$8,646 at September 30, 2020, an increase of \$2,202,080. On January 25, 2021, the board of directors of the Company approved the signing of a memorandum of understanding (“MOU”) with Central America Nickel Inc. (“CAN”). CAN is a registered bidder for the assets of North America Lithium, which is presently in bankruptcy protection in the province of Quebec. As per the MOU, the Company contributed 50% of the deposit of \$4,300,000 (or \$2,150,000) required to be placed in trust with the bankruptcy monitor. This deposit is refundable in full in the event CAN does not win this competitive bidding process.

At March 31, 2021, Auxico had an advance to a joint operation of \$414,420, compared to \$288,360 at September 30, 2020, representing an increase of \$126,060. In June 2020, the Company entered into a joint venture with Kibara Minerals (“Kibara”), based in the DRC, for the export of tantalum and niobium-bearing ores. The joint operation between the two entities will only become effective at the commencement of trading operations of tantalum and niobium ores. Since such activities were not started as of March 31, 2021, the amount advanced by the Company remained an advance to a joint operation without interest.

Auxico had accounts payable and accruals of \$527,088 as at March 31, 2021, compared to \$578,628 at September 30, 2020, an decrease of \$51,540. These are trade payables in the normal course of the Company’s operations.

As of March 31, 2021, Auxico had working capital of \$6,246,286, compared to working capital of \$27,352 at September 30, 2020, representing an increase of \$6,218,934.

#### *Participating Convertible Debentures*

At March 31, 2021, the Company recorded an amount of \$398,176 of convertible debentures under current liabilities (September 30, 2020 – \$215,433) and \$10,820,456 under non-current liabilities (September 30, 2020 - \$3,609,300).

On October 26, 2020, the Company announced that it had completed a non-brokered private placement, raising aggregate gross proceeds of \$2,788,000 in participating convertible debentures (“Debentures”). Each Debenture consists of \$1 principal amount of participating, secured, non-redeemable convertible debenture maturing on October 23, 2023 (“Maturity Date”) and convertible at the option of the Debenture holder into:

- units (“Units”) of the Company that are equal to the principal amount of each Debenture being converted at a deemed price of \$0.20 per Unit. Each Unit is comprised of one common share (“Share”) in the capital of the Company and one warrant (“Warrant”). Each Warrant is exercisable into one Share at a price of \$0.25 for a period of three years from the date of issuance; or
- the number of common shares of Central America Nickel Inc. (“CAN”) (a private company based in Montreal, Canada) at a conversion price of \$1.00 per CAN share; and
- a cash payment equal to the principal amount that such holder would receive if the holder held the Debenture from the date of conversion until the Maturity Date.

The Debenture holders will receive a total of 13.94% of the net profits generated by Auxico, to be paid quarterly in arrears; this represents 1% of the profits for every \$200,000 principal amount of Debentures (“Participating Feature”). The Participating Feature will apply to any profits generated for Auxico from the sale of tantalum, niobium and other minerals from Brazil, Colombia, the Democratic Republic of the Congo, and other jurisdictions. This

Participating Feature will expire on the earlier of the conversion of the Debentures into Shares of the Company, and the Maturity Date.

The Company paid finder's fees of \$266,800 in cash and Debentures in connection with the private placement and issued a total of 500,000 finders' warrants ("Finders' Warrants"). Each Finder's Warrant is exercisable into one Share at a strike price of \$0.20 for a period of three years from closing. The Debentures issued pursuant to the private placement are subject to a four-month hold period in Canada.

The fair value of those Debentures was evaluated following the same evaluation technique as those issued during the year ended September 30, 2020. The fair value was estimated at \$3,539,672. The following assumptions were used to determine the fair value: estimated life: 3 years, stock price: \$0.54, volatility: 99.1%, risk free rate: 3.55% and dividend yield: Nil.

For the three-month period ended March 31, 2021, the change in fair value of derivatives resulted in a gain for the Company of \$300,992 (March 31, 2020 – \$Nil); this was recorded in the consolidated statements of loss and comprehensive loss. For the six-month period ended March 31, 2021, the change in fair value of derivatives resulted in an increase of expense of \$3,586,132 (March 31, 2020 – \$Nil).

Accretion and accrued interest payable on the Debentures are included in financing expense in the consolidated statements of loss and comprehensive loss. At inception, the Company recognized an unrealized loss on Debentures in the amount of \$1,314,801, which was the difference between the fair value of the combined liabilities and the proceeds received.

Information on the assumptions used by the Company in this regard can be found in Note 10 of the condensed interim consolidated financial statements of the Company for the period ended March 31, 2021.

## RESULTS OF OPERATIONS

For the three-month period ended March 31, 2021, the Company recorded a net loss and comprehensive loss of \$1,008,253, compared to a net loss and comprehensive loss of \$157,089 for the three-month period ended March 31, 2020. Details for the three-month periods ended March 31, 2021 and 2020 are presented below:

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

<b>For the three-month periods ended March 31 (unaudited)</b>	<b>2021 \$</b>	<b>2020 \$</b>	<b>Variance</b>
<b>Revenues</b>	187,767	-	187,767
<b>Costs and Expenses</b>			
Cost of sales	131,046	-	131,046
Commissions	15,688	-	15,688
Professional fees	221,136	64,877	156,259
Management fees	60,000	10,000	50,000
Legal fees	21,654	12,740	8,914
Exploration and evaluation expenditures	238,041	-	238,041
Insurance	10,121	-	10,121
Rent	9,000	2,177	6,823
Loss (Gain) on foreign exchange	(9,814)	1,577	(11,391)
Interest and bank fees	4,029	528	3,501
Interest on convertible debentures	202,518	-	202,518
Share-based compensation	343,620	-	343,620
Accreted interest on convertible debentures	113,896	-	113,896
Unrealized loss on derivative financial instrument	42,063	-	42,063
Fair value adjustment of the conversion option	(300,992)	-	(300,992)
Other expenses	94,014	65,190	28,824
	<b>1,196,020</b>	<b>157,089</b>	<b>1,038,931</b>
<b>Net loss and comprehensive loss</b>	(1,008,253)	(157,089)	(851,164)
<b>Net loss and comprehensive loss attributable to:</b>			
Shareholders	(1,008,209)	(150,805)	(857,404)
Non-controlling interest	(44)	(6,284)	6,240
	(1,008,253)	(157,089)	(851,164)
Loss per share – basic and diluted	(0.019)	(0.003)	
Weighted average number of shares outstanding	52,734,756	44,885,000	

For the three-month period ended March 31, 2021, the Company recorded revenues of \$187,767 (March 31, 2020 – \$Nil), which was earned as a result from the sale of manganese ore from Brazil. This is the first quarter in which Auxico has earned revenue.

For the three-month period ended March 31, 2021, the Company recorded a net loss and comprehensive loss of \$1,008,253, compared to net loss and comprehensive loss of \$157,089 for the three-month period ended March 31, 2020, an increase of \$851,164.

Total costs and expenses for the quarter ended March 31, 2021 were \$1,196,020, compared to total costs and expenses of \$157,089 for the quarter ended March 31, 2020, an increase of \$1,038,931.

In October 2020, the Company issued Debentures, as described above; Auxico has also issued debentures in June and July 2020 with similar terms. In the quarter ended March 31, 2021, the Company recorded interest and accreted interest on convertible debentures of \$202,518 and \$113,896, respectively, for a total of \$316,414 (March 31, 2020

– \$Nil). In addition, as explained above, in the three-month period ended March 31, 2021, Auxico recognized an unrealized loss on derivative financial instrument, which is associated with the Debentures, of \$42,063 (March 31, 2020 – \$Nil) and a fair value adjustment of the conversion option, also associated with the Debentures, which resulted in a gain of \$300,992 (March 31, 2020 – \$Nil).

Aside from the expenses associated with the Debentures, other expenses incurred by the Company in the quarter ended March 31, 2021 were higher than those in the previous year. In the quarter ended March 31, 2021, the first quarter in which the Company recognized revenues, the Company also recognized cost of sales, commissions and insurance expense, which were all associated with the commodities trading business.

As indicated in the table above, professional expenses increased by \$156,259 and legal fees increased by \$8,914. These increases can be attributed to additional costs incurred in connection with the private placements of Debentures and units in October 2020 and February 2021, respectively.

Exploration and evaluation expenditures increased by \$238,041 as the Company did some exploration work in Colombia during the three-month period ended March 31, 2021.

In the three-month period ended March 31, 2021, Auxico issued stock options and recognized a share-based compensation expense of \$343,620 (March 31, 2020 – \$Nil). The stock-based compensation expense is a non-cash charge associated with the granting of options.

For the six-month period ended March 31, 2021, the Company recorded a net loss and comprehensive loss of \$6,865,909, compared to a net loss and comprehensive loss of \$313,286 for the six-month period ended March 31, 2020. Details for the six-month periods ended March 31, 2021 and 2020 are presented below:

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

<b>For the six-month periods ended March 31 (unaudited)</b>	<b>2021 \$</b>	<b>2020 \$</b>	<b>Variance</b>
<b>Revenues</b>	<b>187,767</b>	<b>-</b>	<b>187,767</b>
<b>Costs and Expenses</b>			
Cost of sales	131,046	-	131,046
Commissions	15,688	-	15,688
Professional fees	410,275	139,742	270,533
Management fees	120,000	70,000	50,000
Legal fees	30,214	12,740	17,474
Exploration and evaluation expenditures	459,152	475	458,677
Insurance	10,121	-	10,121
Rent	18,000	12,000	6,000
Loss (Gain) on foreign exchange	(8,053)	2,674	(10,727)
Financing fees	123,907	-	123,907
Interest and bank fees	5,018	1,894	3,124
Interest on convertible debentures	349,880	-	349,880
Share-based compensation	343,620	-	343,620
Accreted interest on convertible debentures	353,551	-	353,551
Unrealized loss on derivative financial instrument	977,261	-	977,261
Fair value adjustment of the conversion option	3,586,132	-	3,586,132
Other expenses	127,864	73,761	54,103
	<b>7,053,676</b>	<b>313,286</b>	<b>6,740,390</b>
<b>Net loss and comprehensive loss</b>	<b>(6,865,909)</b>	<b>(313,286)</b>	<b>(6,552,623)</b>
<b>Net loss and comprehensive loss attributable to:</b>			
Shareholders	(6,865,608)	(300,755)	(6,564,853)
Non-controlling interest	(301)	(12,531)	12,230
	<b>(6,865,909)</b>	<b>(313,286)</b>	<b>(6,552,623)</b>
Loss per share – basic and diluted	(0.141)	(0.007)	
Weighted average number of shares outstanding	48,816,473	44,885,000	

For the six-month period ended March 31, 2021, the Company recorded a net loss and comprehensive loss of \$6,865,909, compared to net loss and comprehensive loss of \$313,286 for the six-month period ended March 31, 2020, an increase of \$6,552,623.

As described above, this increase in costs and expenses is due primarily to the accounting treatment of the Debentures.

In the three and six-month period ended March 31, 2021, the Company (as well as other companies and the economy in general) was impacted by the COVID-19 pandemic. In response, Auxico reduced costs where possible.

Auxico is a mining exploration company. The Company will have to rely on private placements of equity and/or debt in order to cover its operating expenses and geological work at the Zamora Property in Mexico.

## CASH FLOWS AND LIQUIDITY

The following table outlines the Company's cash flows for the six-month periods ended March 31, 2021 and 2020:

### Condensed Interim Consolidated Statements of Cash Flows

<b>For the six-month periods ended March 31 (unaudited)</b>	<b>2021 \$</b>	<b>2020 \$</b>
<b>Operating activities</b>		
Net loss and comprehensive loss	(6,865,909)	(313,286)
Share-based compensation	343,620	-
Unrealized loss on derivative financial instrument	977,261	-
Fair value adjustment of the conversion option	3,586,132	-
Accreted interest	353,551	-
Amortization of issuance costs	10,833	-
<i>Net changes in non-cash working capital items</i>		
Accounts receivable	(184,813)	-
Subscription receivable	(75,000)	-
Sales tax receivable	(143,379)	1,324
Income tax payable	(4,314)	(2,740)
Prepaid expenses	62,821	46,814
Inventory	(2,098,238)	-
Accounts payable and accruals	(51,540)	254,285
	<b>(4,088,975)</b>	<b>(13,603)</b>
<b>Investing activities</b>		
Deposit on acquisition	(56,068)	-
Advance to a joint operation	(126,060)	-
Advance to a company controlled by a director	(2,202,080)	-
	<b>(2,384,208)</b>	-
<b>Financing activities</b>		
Advance to directors	3,098	3,098
Advance to companies controlled by a director	(34,000)	31,248
Due to directors	(36,530)	(21,606)
Proceeds from the issue of equity	5,630,067	-
Proceeds from issuance of debentures	2,466,122	-
	<b>8,028,757</b>	<b>12,740</b>
Increase (Decrease) in cash and cash equivalents	1,555,574	(863)
Cash and cash equivalents, beginning of the period	288,780	9,139
<b>Cash and cash equivalents, end of the period</b>	<b>1,844,354</b>	<b>8,276</b>

For the six-month period ended March 31, 2021, Auxico generated an increase of cash of \$1,555,574, compared to a decrease of cash of \$863 for the six-month period ended March 31, 2020.

Cash used in operating activities amounted to \$4,088,975 in the six-month period ended March 31, 2021, compared to cash used in operating activities of \$13,603 for the six-month period ended March 31, 2020. In both periods, cash was used for operating expenses. In addition, in the six-month period ended March 31, 2021, the Company increased significantly its inventory of ore in Brazil.

Cash used in investing activities amounted to \$2,384,208 in the six-month period ended March 31, 2021 (March 31, 2020 – \$Nil). Most of this related to advance to a company controlled by a director and payments for the acquisition of the La Franca property in Mexico, as previously explained.

In the six-month period ended March 31, 2021, Auxico generated cash of \$5,630,067 through the issuance of equity and \$2,466,122 through the issuance of Debentures, as described above (March 31, 2020 – \$Nil).

At March 31, 2021, the working capital position of the Company was positive. As a mining exploration company, Auxico relies on access to equity and debt financings to cover operational expenses and geological work at the Zamora Property.

## CAPITAL STRUCTURE

### Shares issued

At March 31, 2021, there were 57,174,000 issued and fully paid common shares (March 31, 2020 – 44,885,000).

### Warrants

At March 31, 2021, the Company had 5,688,600 warrants issued and outstanding, as presented below:

Warrants Issued	Date of Issue	Expiry Date	Strike Price
16,600	August 29, 2017	August 28, 2022	\$0.25
500,000	October 23, 2020	October 23, 2023	\$0.20
300,000	December 3, 2020	December 2, 2023	\$0.15
<u>4,872,000</u>	February 3, 2021	February 2, 2024	\$1.00
<b>5,688,600</b>			

### Stock options

At March 31, 2021, there were 4,855,000 stock options issued and outstanding to consultants, officers and directors of the Company, with no vesting period, as described below:

Options Issued	Date of Issue	Expiry Date	Strike Price	Options Exercised	Options Expired	Balance
2,475,000	Feb. 10, 2017	Feb. 9, 2022	\$0.25	(295,000)	(325,000)	1,855,000
1,100,000	Oct. 23, 2017	Oct. 22, 2022	\$0.40	-	(650,000)	450,000
200,000	Mar. 13, 2018	Mar. 12, 2023	\$0.40	-	-	200,000
600,000	Aug. 22, 2018	Aug. 21, 2023	\$0.25	-	(200,000)	400,000
500,000	Mar. 28, 2019	Mar. 27, 2024	\$0.25	-	-	500,000
600,000	Sep. 16, 2020	Sep. 15, 2025	\$0.105	(50,000)	-	550,000
<u>900,000</u>	Mar. 17, 2021	Mar. 16, 2026	\$0.45	-	-	<u>900,000</u>
<b>6,375,000</b>				<b>(345 000)</b>	<b>(1 175 000)</b>	<b>4,855,000</b>

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information from the quarterly interim unaudited consolidated financial statements for the eight quarters ending March 31, 2021.

Quarter ending	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020	June 30, 2020
	\$	\$	\$	\$
Revenue	187,767	-	-	-
Net loss and comprehensive loss	(1,008,253)	(5,857,656)	(1,326,441)	(1,551,087)
Net loss per share	(0.019)	(0.130)	(0.030)	(0.035)

Quarter ending	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	June 30, 2019
	\$	\$	\$	\$
Revenue	-	-	-	-
Net loss and comprehensive loss	(157,089)	(156,197)	(125,340)	(421,922)
Net loss per share	(0.003)	(0.003)	(0.003)	(0.009)

## RELATED PARTY TRANSACTIONS AND BALANCES

The Company's related parties include an entity with significant influence, companies controlled by a director, as well as key management personnel and a director. Unless otherwise stated, none of the transactions incorporates special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash. All balances of advances receivable and advances payable are measured at fair value and occurred in the normal course of business. Transactions with related parties for the period ended March 31, 2021 were as follows:

<b>For the three-month period ended March 31 (unaudited)</b>	<b>2021</b>	<b>2020</b>
	\$	\$
<b><u>Management fees</u></b>		
Companies controlled by a director	60,000	2,177
Key management personnel and directors	30,000	10,000
<b><u>Share-based compensation</u></b>		
Key management personnel and director	114,540	-
<b><u>Rent</u></b>		
Company controlled by a director	9,000	-
<b><u>Consulting fees</u></b>		
Company controlled by a director	30,000	-
<b>For the six-month period ended March 31 (unaudited)</b>	<b>2021</b>	<b>2020</b>
	\$	\$
<b><u>Management fees</u></b>		
Companies controlled by a director	120,000	70,000
Key management personnel and directors	60,000	12,000
<b><u>Share-based compensation</u></b>		
Key management personnel and director	114,540	-
<b><u>Rent</u></b>		
Company controlled by a director	18,000	-
<b><u>Consulting fees</u></b>		
Company controlled by a director	60,000	-

Amounts payable to related parties included in the non-current liabilities and in the accounts payable and accrued liabilities were as follows:

	<b>As at</b>	<b>Amounts owed by related parties \$</b>	<b>Amounts owed to related parties \$</b>
Key management personnel and directors	Mar. 31, 2021	-	-
	Sep. 30, 2020	3,098	36,350
Companies controlled by a director	Mar. 31, 2021	2,210,726	-
	Sep. 30, 2020	8,646	34,000
Joint operation	Mar. 31, 2021	414,420	-
	Sep. 30, 2020	288,360	-



## COMMITMENTS AND CONTINGENCIES

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### **Net Smelter Return Royalty (“NSRR”)**

The Company has a 100% undivided interest in the Zamora Property, pursuant to an assignment agreement signed on July 17, 2013 involving two vendors and Auxico Mexico. As per the terms of this agreement, the Zamora Property is subject to a 2% NSRR from proceeds of first-hand sale of product proceeds from the mining concessions on commencement of commercial production. Half of this NSRR can be purchased by the Company at any time for US\$500,000.

### **Farm-out Agreement**

Pursuant to the Farm-out Agreement signed on June 13, 2013, the consideration received of US\$300,000 is repayable on a quarterly basis starting 60 days after the start of production of gold from the Zamora Property. The quarterly payments shall be equal to 7.5% of the net profits (after taxes) for each tranche of US\$100,000 lent by the lender (75% for a consideration of US\$1,000,000) until full repayment of the consideration.

After the consideration is fully repaid, the Lender will be entitled to receive, on a quarterly basis, an amount equal to 5% of the net profits (after taxes) for each tranche of US\$100,000 lent by the Lender (50% for a consideration of US\$1,000,000) until an amount equal to three times the amount of the consideration is received by the Lender. After, the Lender will be entitled to receive, on a quarterly basis, an amount equal to 2.5% of the net profits (after taxes) for each tranche of US\$100,000 lent (25% for a consideration of US\$1,000,000) thereafter for the life of the mine.

On October 17, 2016, the Company signed a Memorandum of Understanding (“MOU”) with the Lender involved in the Farm-out Agreement mentioned above. Under the terms of the MOU, the Company has the option, but not the obligation, to cancel the Farm-out Agreement by paying to the Lender a total of US\$400,000 in cash and by issuing a total of 1,000,000 common shares of the Company, upon or after the Company’s listing on a registered Canadian stock exchange. The Company could initially exercise this option within 12 months of the signing of the MOU. The extension of this option, currently expired, was first prolonged to December 31, 2017, subsequently to June 30, 2018 and finally to August 31, 2019.

### **Net royalty – Central America Nickel**

On May 25, 2018, the Company agreed to pay Central America Nickel Inc. (“CAN”) a 2% net royalty on the production of gold on any deposit in the world where CAN’s non-mercury, non-cyanide gold and silver extraction process is used by Auxico. The Company has the option to buy back 50% of this royalty (or 1% of the 2% royalty) at any time through the issuance of 2,000,000 common shares of the Company.

### **Purchase agreements - Columbite**

On August 18, 2020, the Company signed two purchase contracts for columbite. According to those contracts, as of September 30, 2020, there is still a quantity to be purchased by the Company. The Company estimated this commitment to approximate \$322,000.

## RISKS AND UNCERTAINTIES

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For a detailed list of risks and uncertainties related to the business of Auxico, please consult the Company’s MD&A for the year ended September 30, 2020.

Dated this 31<sup>st</sup> day of May, 2021.

“signed”

Mark Billings  
President