AUXICO RESOURCES CANADA INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS
FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2021

OVERVIEW

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-month period ended December 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-month period ended December 31, 2021; the Company's audited consolidated financial statements for the year ended September 30, 2021; and the Company's MD&A for the year ended September 30, 2021. 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 and on SEDAR (www.sedar.com) under "Auxico Resources Canada Inc."

This MD&A is dated March 1, 2022.

INCIDENCE OF COVID-19

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 audited consolidated financial statements.

COMPANY DESCRIPTION

The Company was incorporated under the Canada Business Corporations Act on April 16, 2014. The Company has three subsidiaries: Auxico Resources S.A. de C.V. ("Auxico Mexico"), which was incorporated under the laws of Mexico on June 16, 2011; C.I. Auxico de Colombia S.A., which was incorporated under the laws of Colombia on April 9, 2019; and Minera Auxico Bolivia S.A., which was incorporated under the laws of Bolivia on December 8, 2021. The Company has an office at 201 Notre-Dame Street West, 5th 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 Bolivia.

OVERVIEW OF THE PERIOD ENDED DECEMBER 31, 2021

On October 20, 2021, Auxico announced the discovery of platinum group metals (PGM's) in samples from the Company-controlled property in the department of Vichada, Colombia, and the optioned property in Ivory Coast. The samples from Colombia were taken within the first metre from the surface, above the rare earth occurrences that the Company previously announced, containing a total rare earth oxide content exceeding 50%. The work program on the Company-controlled property is continuing, with the goal of finalizing a NI 43-101 report.

For the latest PGM's results, please see the table below.

	Platinum (Pt) Grade (ppm)	Palladium (Pd) Grade (ppm)	Rhodium (Rh) Grade (ppm)	Ruthenium (Ru) Grade (ppm)	Iridium (Ir) Grade (ppm)
M-10155 (Sample 1) - Colombia	22.45	0.10	<DL	13.97	53.53
M-10155 (Sample 2) - Colombia	0.76	<DL	<DL	0.49	1.06
M-10255 (Sample B1) - Ivory Coast	103.61	78.69	20.70	88.89	32.62
M-10255 (Sample B2) - Ivory Coast	95.69	73.80	19.60	84.88	31.04

Sample 1 is contained in a high-grade titanium rock sample, with 42.85% titanium, 25.44% niobium, and 8.28% tantalum. Sample 2 is found in a different zone on the property, originating from a rock sample containing 30.41% tantalum, 23.30% niobium and 24.47 titanium. Both of these samples are not concentrates. For reference, please see the table below.

	Tantalum (Ta) Grade (%)	Niobium (Nb) Grade (%)	Titanium (Ti) Grade (%)	Tin (Sn) Grade (%)	Vanadium (V) Grade (%)	Scandium (Sc) Grade (%)
M-10155 (Sample 1) - Colombia	8.28	25.44	42.85	0.58	0.34	/
M-10155 (Sample 2) - Colombia	30.41	23.30	24.47	1.61	/	0.44
M-10255 (Sample B1) - Ivory Coast	/	0.16	49.71	/	/	/
M-10255 (Sample B2) - Ivory Coast	59.58	20.41	1.00	0.07	/	/

Samples were analyzed by two independent laboratories in Canada, the Coalia in Thetford Mines and Impact Global Solutions in Delson. In addition, Impact Global Solutions conducted ultrasound extraction tests on one of the samples from Ivory Coast. Auxico owns a license to a processing technology based on ultrasound, which has achieved 99%+ recoveries of the PGM's during two 1-hour long leaching stages, as presented in the table below.

	Platinum (Pt) Recovery (%)	Palladium (Pd) Recovery (%)	Rhodium (Rh) Recovery (%)	Ruthenium (Ru) Recovery (%)	Iridium (Ir) Recovery (%)
M-10255 (Sample B2) - Ivory Coast	99.95	99.89	99.83	99.99	99.68

On November 3, 2021, the Company signed an MOU with Ronaldo Chavez Serrate concerning the development of the 825-hectare Luz Angelica concession in Bolivia, which has showings of rare earth elements, tantalum, and niobium. Auxico and Mr. Chavez will form a joint venture if Auxico's due diligence on this concession is acceptable to the Company. Auxico will retain 70% of the profits generated on this concession by providing all the capital necessary to begin operations; Mr. Chavez will retain the other 30%.

On November 24, 2021, Auxico granted 450,000 stock options to consultants to the Company. These options have a strike price of $1.39, no vesting period and an expiry date of November 24, 2026.

On November 26, 2021, the Company incorporated a wholly-owned subsidiary in Bolivia, Minera Auxico Bolivia S.A. Auxico, the parent company, provided an initial capital of US$10,000 to Minera Auxico Bolivia.

On November 29, 2021, the Company announced that it plans to build a 10,000 square metre rare earth refining facility in the free-trade zone in the city of Santa Marta, Colombia, capable of processing 36,000 tonnes of ore per year. The Company signed a lease agreement with an option to purchase four lots of land within the Zona Franca Tayrona industrial park. The estimated Capex for the refinery is US$116.2 million. The rare earth refinery, the first of its kind in the western hemisphere, will incorporate standard metallurgical processes with innovative extraction technologies, resulting in lower energy consumption, significantly shorter and cost-effective processing cycles, and an overall lower environmental impact. The concentrates of rare earths will be sourced from the properties the Company is currently developing in Colombia and the Democratic Republic of the Congo. Additional concentrates will be sourced from properties in Brazil and Bolivia, for which the Company is finalizing supply agreements.

Over the last 12 months, Auxico has completed a series of metallurgical tests using the ultrasound assisted extraction process ("UAEx") for mineral extraction, for which the Company signed a technology license agreement earlier this year. The tests showed that the UAEx process is very efficient on high-value rare earth samples, achieving 80%+ recoveries of selected rare earth elements over a two-hour long leaching time.

Element	Symbol	Brazil Grade (%)	DR Congo Grade (%)	Colombia Grade (%)	Bolivia Grade (%)	Average Recovery (%)
Cerium	CeO_2	35.90	31.61	31.09	20.86	85.72
Dysprosium	Dy_2O_3	0.28	0.09	0.72	0.49	86.63
Gadolinium	Gd_2O_3	0.17	0.73	0.75	4.68	87.47
Lanthanum	La_2O_3	15.17	9.41	9.40	5.49	85.41
Neodymium	Nd_2O_3	9.04	12.34	9.49	10.77	84.74
Praseodymium	Pr_6O_{11}	0.89	2.58	2.44	1.57	85.94
Samarium	Sm_2O_3	0.90	1.99	1.81	8.66	86.02
Yttrium	Y_2O_3	1.14	0.49	0.50	1.63	76.26
	Total RE (%)	**63.49**	**59.24**	**56.20**	**54.15**	

The UAEx process is a sustainable metallurgical process for the refining of critical minerals using ultrasound technology. The laboratory results demonstrate that, when combined with certain acids and used at various frequencies, this ultrasound process breaks up the ore into fine particles in a more accelerated time over conventional methods. This reduces the cycle times significantly for the leaching of ores, leading to lower operating and capital costs.

Auxico will acquire mineral rights and surface rights to the Minastyc Property located in the municipality of Puerto Carreño, department of Vichada, Colombia. The Company made a discovery of high-value rare earth ore on the property, with a total rare earth content of 56.87% in concentrates, as well as an additional discovery at a distance of 1.6 kilometres from the initial discovery (total rare earth content of 55.03% in concentrates), confirming the presence of a host of rare earth minerals along this mineralized zone.

Free-trade zones in Colombia

Colombia’s competitive free-trade regime was established to promote industrial processing of goods and services primarily for export, and is regulated under a special customs, exchange, and fiscal regime offering various benefits to businesses. The Santa Marta free-trade zone, one of 12 free-trade zones in the country, is located near the port of Santa Marta on the Caribbean Sea, in the northern Colombian department of Magdalena. The port transports the third highest bulk volume in Colombia. The Zona Franca Tayrona industrial park is located within the free-trade zone and 12 kilometres from the port, and has excellent access to roads, including a railway line that connects the port to the interior of Colombia.

On December 4, 2021, Auxico signed a contract with Michel Goncalves Pacheco and Angelica Martinez Flores, the principal shareholders of Americanbol. Under the terms of this agreement, Auxico agreed to buy 99% of the common shares of Americanbol from Mr. Goncalves and Mrs. Martinez for a total amount of US$442,500. An initial payment of US$42,500 was made to Mr. Goncalves and Mrs. Martinez upon signature of the agreement. Additional payments are contingent upon Auxico's due diligence on Americanbol and the mining assets it has in Bolivia.

On December 8, 2021, the Company announced the acquisition of the surface rights to 1,293 hectares of land titled Agualinda, located in the municipality of Puerto Carreño, in the department of Vichada, Colombia. The land adjoins the Minastyc property, which the Company purchased in December 2020. The Minastyc property has been the subject of several previous news releases announcing the discovery of rare earths, tantalum, tin, and platinum group metals. The Company made a discovery of high-grade rare earth concentrates on the Minastyc property, with a total rare earth oxide content of 56.87% in concentrates, as well as an additional discovery at a distance of 1.6 kilometres from the initial discovery (total rare earth oxide content of 55.03% in concentrates). This purchase significantly increases the Company's land position in Colombia, from the initial 189 hectares to 1,482 hectares. The two properties, both now controlled by the Company, are located within a strategic area that has been defined by the Colombian Government for their potential for tantalum, niobium, and rare earths.

As per the signed agreement, the Company will pay to the vendors a purchase price of US$315,000, in addition to a yearly fee in the amount of US$100,000 for a period of three years following the signing of the agreement.

The Agualinda property has been the subject of a satellite imagery interpretation study (remote sensing study), which resulted in the identification of 20 sampling and exploration targets based on the artificial intelligence interpretation of the satellite data. These targets have the same signature as those on the Minastyc property.

The properties are located along the Orinoco River, which separates Colombia and Venezuela, and are conveniently located only 10 kilometres from the airport of Puerto Carreño.

SUBSEQUENT EVENTS

On January 6, 2022, Auxico announced that it had entered into a Memorandum of Understanding ("MOU") with the Brazilian mining cooperative Cooperativa Estanífera de Mineradores da Amazônia Legal Ltda ("CEMAL"), with regard to the exploitation and commercialization of rare earths from the tin tailings originating from deposits located over an estimated area of 18,000 hectares in Masangana, counties of Ariquemes and Monte Negro, in the state of Rondonia, Brazil. The properties are estimated to contain 30,000,000 tonnes of tin tailings, however the data for this estimate has not yet been reviewed nor verified on the ground by Auxico's Qualified Person. The deposits are located within the Rondonia Tin Province, which hosts one of the world's largest cassiterite (tin ore) reserves.

Samples of the concentrates taken by the property owners from the property were recently analyzed by Coalia Research Institute in Thetford Mines, Quebec. The results of selected concentrate samples are presented in the table below, indicating a total rare earth oxide content of 63.49%.

Element	Symbol	Grade (%)	UAEx Recovery (%)
Cerium	CeO2	35.90	94.43
Dysprosium	Dy2O3	0.28	83.54
Gadolinium	Gd2O3	0.17	100.00
Lanthanum	La2O3	15.17	94.24
Neodymium	Nd2O3	9.04	92.51
Praseodymium	Pr6O11	0.89	100.00
Samarium	Sm2O3	0.90	93.28
Yttrium	Y2O3	1.14	80.80
	Total REO (%)	**63.49**	

The above sample results were provided with the use of XRF (X-ray fluorescence) by Coalia.

Under the terms of the MOU, Auxico has an exclusive 180-day period to conduct due diligence, for which the Company will pay a one-time fee of US$100,000 to CEMAL. After the due diligence is completed and to Auxico's satisfaction, the parties will then sign a definitive contract and enter into a joint venture ("JV") for the development of the properties in Brazil, whereby Auxico will have a minimum of 51% of the net profits of the JV. Auxico will be committing 100% of the capital required for the technical operations, exploration, exploitation, concentration, transport, and commercialization of rare earths from the tailings from the properties in Brazil. Auxico will have the option to purchase or lease the properties, at a price to be agreed upon with CEMAL.

On January 19, 2022, Auxico closed a non-brokered private placement (the "Private Placement"), issuing a total of 1,476,000 units (the "Units") at a price of $1.20 per Unit raising gross proceeds of $1,771,200. This Private Placement is the first tranche of a $3,000,000 financing authorized by the Board of Directors of Auxico.

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 $1.50 for a period of 3 years from the date of issuance (the "Closing Date").

The Company paid finder's fees of $117,336 in connection with the Private Placement and issued 80,080 broker warrants ("Broker Warrants"). The Broker Warrants have the same terms as the Warrants mentioned above.

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 for general working capital, as well as to advance the Company's rare earth opportunity in Colombia.

On January 31, 2022, Auxico announced that, as a result of a recent sampling program conducted by Joel Scodnick, the Company's Qualified Person ("QP"), the Company has decided to sign a joint venture agreement for the acquisition of a 70% interest in the Luz Angelica property located in the municipality of Concepcion, in the province of Ñuflo de Chavez, in the region of Santa Cruz in Bolivia. The recent due diligence process has confirmed the presence of pegmatite veins containing lithium mineralization, as well as high-grade cesium and rubidium mineralization, and various rare earths. The results of selected samples are presented in the table below.

Samples	Lithium Grade (ppm)	Cesium Grade (ppm)	Rubidium Grade (ppm)	Neodymium Grade (ppm)	Yttrium Grade (ppm)	Dysprosium Grade (ppm)	Gadolinium Grade (ppm)	Praseodymium Grade (ppm)
S00357807	**348.91**	**1,019.73**	**56.07**	**530.97**	**9.05**	**2.45**	**2.88**	**4.66**
S00357810	**10.30**	**2.25**	**33.42**	**594.46**	**25.17**	**5.27**	**5.20**	**451.82**
S00357811	**<DL**	**3.88**	**11.08**	**378.91**	**4,354.87**	**308.17**	**164.05**	**199.66**
S00357816	**1,475.87**	**100.60**	**2,694.27**	**530.09**	**8.71**	**1.72**	**1.41**	**119.08**

The property covers an area of 825 hectares and is classified as a mining concession according to the laws of Bolivia. The Company paid a one-time fee of US$103,000 for the work done to date on the property. In addition, the Company has an option to purchase an additional 15% of the joint venture interest for an amount of CA$500,000. Auxico will be committing 100% of the capital required for the technical operations, exploration, exploitation, concentration, transport, and commercialization of ore from the property.

Cesium applications are critical for modern technologies, including advances in healthcare, defense, and the 5G revolution. The "cesium standard" allows the accurate measuring of time, which means that cesium is the key to mobile networks, the internet, and GPS. The average cesium content in the samples referenced above is 281 grams per tonne. The current price of cesium is US$79 per gram.

Rubidium is used in vapor turbines, in vacuum tubes, in photocells, in atomic clocks, in some types of glass, the production of superoxide by burning oxygen, and with potassium ions in several biological uses. The average rubidium content in the samples referenced above is 698 grams per tonne. The current market price of rubidium is US$25 per gram.

Cesium and rubidium are not mined in the United States, and the metal and its compounds are produced from imported ores. Both minerals are included on the list of critical minerals released by the US Department of the Interior.

Samples from the Luz Angelica property were analyzed by Impact Global Solutions in Delson.

Following the due diligence on the concession, the Company decided to move forward with a joint venture agreement. As at the date of this MD&A, no joint venture agreement has been completed between the two parties.

Promissory notes

In February 2022, the Company advanced $200,000 through promissory notes to a third-party. The promissory notes will bear interest at the rate of 10% and will be reimbursed March 31, 2022.

Share Information

As at the date of this MD&A, there are 68,130,000 common shares issued and outstanding of Auxico. Between December 31, 2021 and the date of this MD&A, a total of 2,426,000 common shares were issued, as follows:

- 1,476,000 common shares were issued at a price of $1.20 in the Private Placement that closed on January 19, 2022 (and as described above); and
- 950,000 common shares were issued as a result of an exercise of 950,000 stock options at a price of $0.25 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) and on SEDAR (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.Geo., a Qualified Person ("QP") 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 prior to his site visit in December 2021; the property in Puerto Carreño, Vichada, Colombia prior to his site visit in August 2021; and the manganese ore in Brazil. Mr. Scodnick did not supervise or visit any of these properties described hereto, other than the Zamora Property, the Vichada property in December 2021 and the Minastyc property near Puerto Carreño in his first visit to the site in August 2021.

Disclaimer

The QP of the Company did not supervise the sampling on the following properties:

- The property in the Ivory Coast (see the Company's news release of October 20, 2021);
- The Minastyc property in Colombia (see the Company's news release of October 20, 2021); and
- The Masangana property located in Brazil (see the Company's news release of January 6, 2022).

Therefore, the QP warns the reader that the results cannot be relied upon and do not conform to National Instrument 43-101.

Subsequent to the sampling results being made public from the Minastyc property in Colombia, the QP conducted independent sampling, which confirmed the results.

FINANCIAL POSITION

The Company prepared its condensed consolidated financial statements in accordance with the International Financial Reporting Standards (''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 December 31, 2021 (unaudited) and September 30, 2021 (audited) is presented below:

Interim Consolidated Statements of Financial Position

As at	December 31, 2021 (unaudited)	September 30, 2021 (audited)
	$	$
ASSETS		
Current assets		
Cash & cash equivalents	1,238,420	2,563,533
Receivables	319,668	254,810
Prepaid expenses	1,741,266	1,546,960
Inventory	126,776	126,776
Advance to directors	-	3,098
Advance to companies controlled by a director	11,675	-
	3,437,805	**4,495,177**
Non-current assets		
Equipment	100,989	-
Prepaid expenses	500,000	500,000
	600,989	**500,000**
TOTAL ASSETS	**4,038,794**	**4,995,177**
Liabilities		
Current liabilities		
Accounts payable and accruals	356,302	335,644
Income tax payable	4,310	4,314
Due to companies controlled by a director	736	12,733
Due to directors	-	3,883
Current portion of finder’s fees payable	224,988	224,988
Convertible debentures	66,232	66,232
	652,568	**647,794**
Non-current liabilities		
Long-term finder’s fees payable	121,018	159,601
Convertible debentures	26,930,280	28,121,815
	27,051,298	**28,281,416**
TOTAL LIABILITIES	**27,703,866**	**28,929,210**
DEFICIENCY		
Deficiency attributable to shareholders	(23,666,116)	(23,935,120)
Equity attributable to non-controlling interest	1,044	1,087
TOTAL DEFICIENCY	**(23,665,072)**	**(23,934,033)**
TOTAL LIABILITIES & DEFICIENCY	**4,038,794**	**4,995,177**

Cash and cash equivalents at December 31, 2021 were $1,238,420, compared to $2,563,533 at September 30, 2021, a decrease of $1,325,113. This is due primarily to the cash operating expenses of the Company for the three-month period ended December 31, 2021 (and as described below).

At December 31, 2021, Auxico had prepaid expenses (current portion) of $1,741,266, which was an increase of $194,306, compared to prepaid expenses (current portion) of $1,546,960 at September 30, 2021. The biggest portion of this was the prepayment for manganese ore in Brazil; this amounted to $1,200,785 at both dates. The deposit on the Minastyc property amounted to $225,090 at both dates as well. The increase in prepaid expenses is comprised primarily of: the deposit of the acquisition of Americanbol ($54,975); the deposit on the Agualinda property ($53,030); and the deposit on the acquisition of the Luz Angelica concession, all of which are described above.

At December 31, 2021, the Company had prepaid expenses (non-current portion) of $500,000 (September 31, 2021 – $500,000). Auxico paid a deposit to Central America Nickel ("CAN") to license the technology developed by CAN over a period of 10 years.

At December 31, 2021, the Company recorded inventory of $126,776 (September 30, 2021 – $126,776). This relates to columbite ore purchased by Auxico in Brazil for its commodities trading business.

At December 31, 2021, Auxico recorded equipment of $100,989. This relates to XRF machines that the Company will use in Colombia and Bolivia.

Auxico had accounts payable and accruals of $356,302 as at December 31, 2021, compared to $335,644 at September 30, 2021, an increase of $20,658. These are trade payables in the normal course of the Company's operations.

Participating Convertible Debentures

The most significant item that has impacted the audited consolidated financial statements for the period ended December 31, 2021 is the participating convertible debentures ("Debentures"). The accounting treatment for these Debentures is complex and has resulted in the Company recognizing a significant non-current liability of $26,930,280 as at December 31, 2021, a decrease of $1,191,535 compared to the amount of $28,121,815 recognized as at September 30, 2021.

For the three-month period ended December 31, 2021, no Debentures were issued.

<u>Accounting treatment and evaluation of Debentures</u>

In accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"), the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset, and an equity instrument.

At the issuance of the Debentures, the Company determined that the conversion options constitute an embedded derivative financial instrument. Upon a conversion into units of the Company, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative will be transferred to equity. Upon a conversion into common shares of CAN, the carrying amount of the host debt instrument and the fair value of the related embedded derivative will be transferred to profit and loss.

The convertible debentures are a hybrid instrument, which are in their entirety regarded as a financial liability. The initial carrying amount of for the debt host issued in October 2020 was valued at $1,624,355 and represents the residual debt instrument. The Company determined the initial carrying amount using the discounted fair value of the debt host and, following initial measurement, the host component will be amortized over the term of maturity using the effective interest rate method. The interest rate used for the calculation of the discounted fair value was 19%. Any directly attributable transaction costs are allocated to the host and derivative components in proportion to their initial carrying amounts.

At December 31, 2021, the Company reviewed the estimated fair value of the conversion options and adjusted the initial fair value to $24,377,131 (September 30, 2021 – $25,648,406) using the same valuation technique.

The fair value of the Conversion Options was estimated using Monte Carlo simulation (using the Black-Scholes framework). Monte Carlo simulation is a procedure for randomly sampling changes in market variables in order to value derivatives. Information on the assumptions used by the Company in this regard can be found in Note 11 of the condensed interim consolidated financial statements of the Company for the period ended December 31, 2021.

For the three-month period ended December 31, 2021, the change in fair value of derivatives resulted in a decrease of expense of $1,271,274 (September 30, 2021 – an increase of expense of $23,734,924) and was recorded in the consolidated statements of loss and comprehensive loss.

Readers of this MD&A should note that this is a non-cash expense of the Company, resulting from the accounting treatment of the Debentures.

As at December 31, 2021, the Debentures have a nominal value of $3,650,000 (September 30, 2021 – $3,650,000).

RESULTS OF OPERATIONS

For the three-month period ended December 31, 2021, the Company recorded a net loss and comprehensive loss of $251,649, compared to a net loss and comprehensive loss of $5,857,656 for the three-month period ended December 31, 2020, representing a decrease of $5,606,007. Details for the three-month periods ended December 31, 2021 and 2020 are presented below:

Interim Consolidated Statements of Loss and Comprehensive Loss

For the three-month periods ended December 31 (unaudited)	**2021 $**	**2020 $**	**Variance $**
Expenses			
Exploration and evaluation expenditures	459,048	221,111	237,937
Share-based compensation	358,110	-	358,110
Professional fees	243,522	197,699	45,823
Accreted interest on convertible debentures	97,404	239,655	(142,251)
Management fees	90,000	60,000	30,000
Office expenses	84,562	-	84,562
Interest on convertible debentures	71,329	147,362	(76,033)
Travel expenses	51,235	-	51,235
Other expenses	29,219	33,850	(4,631)
Loss on foreign exchange	10,915	1,761	9,154
Public listing fees	9,185	-	9,185
Rent	9,000	9,000	-
Depreciation	5,941	-	5,941
Interest, penalties and bank fees	3,453	989	2,464
Financing fees	-	123,907	(123,907)
Unrealized loss on derivative financial instrument	-	935,198	(935,198)
Fair value adjustment of the conversion option	(1,271,274)	3,887,124	(5,158,398)
	251,649	5,857,656	(5,606,007)
Net loss and comprehensive loss	**(251,649)**	**(5,857,656)**	**5,606,007**
Net loss and comprehensive loss attributable to:			
Shareholders	(251,606)	(5,857,399)	5,605,793
Non-controlling interest	(43)	(257)	214
	(251,649)	(5,857,656)	5,606,007
Loss per share	(0.004)	(0.130)	
Weighted average number of shares outstanding	65,529,217	44,983,370	

Sales

There were no sales recorded in either of the three-month periods ended December 31, 2021 or December 31, 2020.

Expenses

In the three-month period ended December 31, 2021, expenses amounted to $251,649, which was a decrease of $5,606,007, compared to expenses of $5,857,656 for the three-month period ended December 31, 2020.

As stated previously, the Debentures have had the most significant impact on the Company's financial statements, due to the complex accounting treatment of this financial instrument.

In the three-month period ended December 31, 2021, the Company recorded a gain of $1,271,274 on the fair value adjustment on the conversion option, whereas the Company recorded an expense of $3,887,124 in the three-month period ended December 31, 2020; this is difference of $5,158,398. In addition, the Company recognized an unrealized loss on derivative financial instrument of $935,198 in the three-month period ended December 31, 2020 (December 31, 2021 – $Nil).

In comparing the expenses of the two quarters, interest on convertible debentures decreased by $76,033 and accreted interest decreased by $142,251. At December 31, 2021, the principal amount of Debentures outstanding was $3,650,000, compared to $4,408,000 at December 31, 2020.

Certain expenses did increase quarter-over-quarter. Exploration and evaluation expenditures increased by $237,937 as the Company increased its geological activity in Colombia. In the three-month period ended December 31, 2020, the Company was in lockdown due to COVID-related restrictions in Canada, Mexico and elsewhere. As the restrictions loosened in 2021, Auxico's operational activities increased, as did its expenses. Professional expenses increased by $45,823, office expenses increased by $84,562, and travel expenses increased by $51,235.

In the three-month period ended December 31, 2020, the Company had financing fees of $123,907 (December 31, 2021 – $Nil). There were no financings in the quarter ended December 31, 2021.

In the quarter ended December 31, 2021, the Company recognized share-based compensation expense of $358,100 (December 31, 2020 – $Nil). This is a non-cash expense associated with the granting of options.

The net loss and comprehensive loss of the Company for the three-month period ended December 31, 2021 was $251,649, compared to $5,857,656 for the three-month period ended December 31, 2020, representing a difference of $5,606,007.

CASH FLOWS AND LIQUIDITY

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

Interim Consolidated Statements of Cash Flows

For the three-month periods ended December 31 (unaudited)	2021	2020
	$	$
Cash used in operating activities		
Net loss and comprehensive loss for the period	(251,649)	(5,857,656)
Depreciation	5,941	-
Share-based compensation	358,110	-
Write-off on sales tax receivable	7,203	-
Unrealized loss on derivative financial instrument	-	935,198
Fair value adjustment of the conversion option	(1,271,274)	3,887,124
Accreted interest	97,404	239,655
Net changes in non-cash working capital items		
Sales tax receivables	(83,737)	(105,154)
Income tax payable	(4)	(4,314)
Prepaid expenses	(194,306)	44,333
Inventory	-	(1,422,560)
Accounts payable and accruals	20,658	561,415
	(1,311,654)	**(1,721,959)**
Cash used in investing activities		
Deposit on acquisition	-	(56,068)
Acquisition of equipment	(106,930)	-
Advances to companies controlled by a director	-	(15,862)
	(106,930)	**(71,930)**
Cash flows from financing activities		
Advance to directors	3,098	3,098
Advance to companies controlled by a director	(11,997)	(34,000)
Due to directors	(3,883)	(36,530)
Long-term finder's fees payable	(56,247)	-
Proceeds from stock options exercised	37,500	43,750
Proceeds from warrants exercised	125,000	-
Proceeds from issuance of debentures (net)	-	2,668,000
	93,471	**2,644,318**
Increase (Decrease) in cash and cash equivalents	(1,325,113)	850,429
Cash and cash equivalents, beginning of period	2,563,533	288,780
Cash and cash equivalents, end of period	**1,238,420**	**1,139,209**

For the quarter ended December 31, 2021, Auxico generated a decrease of cash of $1,325,113, compared to an increase of cash of $850,429 for the quarter ended December 31, 2020.

Cash used in operating activities amounted to $1,311,654 in the three-month period ended December 31, 2021, compared to cash used in operating activities of $1,721,959 for the three-month period ended December 31, 2020, representing a difference of $410,305.

In the quarter ended December 31, 2021, cash used in investing activities amounted to $106,930 (December 31, 2020 – $71,930). In the quarter ended December 31, 2021, the Company purchased equipment, as described above.

In the three-month period ended December 31, 2021, the Company generated cash flows from financing activities of $93,471, compared to $2,644,318 for the three-month period ended December 31, 2020, representing a decrease of $2,550,847. The Company generated net proceeds of $2,668,000 through the issuance of Debentures in the quarter ended December 31, 2020.

At December 31, 2021, the cash balances and the working capital of the Company were positive. Auxico will continue to rely on access to equity and debt financings to cover operational expenses and geological work.

CAPITAL STRUCTURE

Shares issued

At December 31, 2021, there were 65,704,000 issued and fully paid common shares (September 30, 2021 – 65,014,000).

Warrants

At December 31, 2021, the Company had 7,638,600 warrants issued and outstanding, as presented below:

Date of Issue	Expiry Date	Strike Price	Balance
Aug. 29, 2017	Aug. 28, 2022	$0.25	16,600
Dec. 3, 2020	Dec. 2, 2023	$0.15	200,000
Feb. 3, 2021	Feb. 2, 2024	$1.00	4,872,000
Jun. 14, 2021	Jun 21, 2024	$0.15	400,000
Aug. 9, 2021	Aug. 9, 2024	$0.25	1,650,000
Aug. 25, 2021	Aug. 25, 2024	$0.15	500,000
			7,638,600

Stock options

At September 30, 2021, there were 5,190,000 stock options issued and outstanding to consultants, officers, and directors of the Company, with no vesting period, as described below:

Date of Issue	Expiry Date	Strike Price	Balance
Feb. 10, 2017	Feb. 9, 2022	$0.25	1,155,000
Oct. 23, 2017	Oct. 22, 2022	$0.40	300,000
Mar. 13, 2018	Mar. 12, 2023	$0.40	200,000
Aug. 22, 2018	Aug. 21, 2023	$0.25	100,000
Mar. 28, 2019	Mar. 27, 2024	$0.25	500,000
Sep. 16, 2020	Sep. 15, 2025	$0.105	400,000
Mar. 17, 2021	Mar. 16, 2026	$0.45	900,000
Jul. 19, 2021	Jul. 19, 2026	$0.79	675,000
Sep. 1, 2021	Sep. 1, 2026	$1.26	510,000
Nov. 24, 2021	Nov. 24, 2026	$1.39	450,000
			5,190,000

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 December 31, 2021.

Quarter ending	Dec. 31, 2021 $	Sep. 30, 2021 $	June 30, 2021 $	Mar. 31, 2021 $
Revenue	-	(24,315)	609,288	187,767
Net loss and comprehensive loss	(251,649)	(18,144,855)	(5,691,323)	(1,008,253)
Net loss per share	(0.004)	(0.287)	(0.097)	(0.019)

Quarter ending	Dec. 31, 2020 $	Sep. 30, 2020 $	June 30, 2020 $	Mar. 31, 2020 $
Revenue	-	-	-	-
Net loss and comprehensive loss	(5,857,656)	(1,326,441)	(1,551,087)	(157,089)
Net loss per share	(0.130)	(0.030)	(0.035)	(0.003)

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 directors. 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 December 31, 2021 were as follows:

For the three-month period ended December 31	2021 $	2020 $
Management fees		
Company controlled by a director	60,000	60,000
Key management personnel and directors	30,000	30,000
Rent		
Company controlled by a director	9,000	9,000
Consulting fees		
Company controlled by a director	-	30,000

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

		Amounts owed by related parties $	Amounts owed to related parties $
Key management personnel and directors	December 31, 2021	-	12,023
	September 30, 2021	3,098	3,883
Companies controlled by a director	December 31, 2021	-	-
	September 30, 2021	-	12,733

The dues and advances to directors are unsecured, payable on demand and bear no interest. The dues and advances to companies controlled by a director are unsecured, payable on demand and bear no interest.

COMMITMENTS

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.

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.
commitment to approximate $322,000.

Agreement with the École Polytechnique and Impact Global Systems ("IGS")
On February 1, 2021, the Company signed an agreement with École Polytechnique and IGS concerning the recovery of critical minerals from ore tailings. As per the terms of this contract, the Company has agreed to provide to École Polytechnique $15,000 in each of 2022 and 2023.

Joint Venture with Impact Global Systems
On May 25, 2021, the Company signed a joint venture agreement with IGS concerning the processing of ores bearing tantalum, niobium, iridium and possibly other minerals. As per the terms of this agreement, the Company will assume all costs related to the purchase and transport of ores to the IGS facility in Delson, Quebec, as well as providing funds for the purchase of equipment and working capital. In return, the Company will receive 80% of the net profits from the sale of these minerals, with the remaining 20% going to IGS.

Agreement with AMCO Consultores ("AMCO") in Colombia
On August 30, 2021, the Company signed an agreement with AMCO, which agreed to provide environmental consulting services to the Company with respect to the Minastyc property in Colombia. The Company will pay to AMCO 252,342,914 Colombia pesos (approximately $82,000) upon filing of the temporary environmental study, 126,171,457 Colombian pesos (approximately $41,000) upon the delivery of the final environmental study on Minastyc. A further and final payment of 126,171,457 Colombian pesos will be paid to AMCO by Auxico upon approval and acceptance of this environmental study by the governmental and regulatory authorities in Colombia.

RISKS AND UNCERTAINTIES

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, 2021.

Dated this 1st day of March, 2022

“signed”

Mark Billings
President
Auxico Resources Canada Inc.