AUXICO RESOURCES CANADA INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

OVERVIEW

The following management's discussion and analysis of the financial condition and results of operations ("MD&A") covers the operations of Auxico Resources Canada Inc. ("Auxico" or the "Company") for the year ended September 30, 2022. 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 audited consolidated financial statements for the year ended September 30, 2022.

The accompanying audited 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 6, 2023.

FORWARD-LOOKING INFORMATION

This MD&A includes certain forward-looking statements or information. All statements other than statements of historical fact included in this MD&A are forward-looking statements that involve various risks and uncertainties. Forward-looking statements in this MD&A include: statements with respect to drilling, bulk sampling and geological work at the Company's Zamora Property in Sinaloa, Mexico; the potential mineralization and geological merits of the Zamora Property and the Company's prospects in Colombia, Brazil, the Democratic Republic of the Congo, Bolivia and elsewhere; and other future plans, objectives, or expectations of the Company. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's plans or expectations include the risk that actual results of planned exploration activities will not be consistent with the Company's expectations; the geology, grade and continuity of any mineral deposits and the risk of unexpected variations in mineral resources, grade and/or recovery rates; fluctuating metals prices; possibility of accidents, equipment breakdowns and delays during exploration; exploration cost overruns or unanticipated costs and expenses; uncertainties involved in the interpretation of drilling results and geological tests; availability of capital and financing required to continue the Company's future exploration programs and preparation of geological reports and studies; delays in the preparation of geological reports and studies; the metallurgical characteristics of mineralization contained within the Zamora Property are yet to be fully determined; general economic, market or business conditions; competition and loss of key employees; regulatory changes and restrictions including in relation to required permits for exploration activities (including drilling permits) and environmental liability; timeliness of government or regulatory approvals; and other risks detailed herein and from time to time in the filings made by the Company with securities regulators. In connection with the forward-looking information contained in this MD&A, the Company has made numerous assumptions. Auxico expressly disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as otherwise required by applicable securities legislation.

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 and mining opportunities in Colombia, Brazil, the Democratic Republic of the Congo ("DRC"), and Bolivia. The following are descriptions of the Company's activities in these jurisdictions.

MEXICO: THE ZAMORA SILVER-GOLD PROPERTY IN SINALOA

Auxico has a 100% interest in the Zamora Silver-Gold Property, which is located 85 km southeast of the city of Culiacan and some 9 km northeast of the village of El Espinal in the state of Sinaloa, Mexico. The Zamora Property is comprised of five individual lots measuring a total of 3,376.6265 hectares or 8,343.6441 acres.

A description of the lots is shown in the table below.

Lot Name	Lot Number	Area (He)
Campanillas	224618	105.6427
Chio	227400	92.1787
Gaby	277399	80.0000
San Felipe	224654	100.000
Zamora	225182	2,998.8051
Total		**3,376,6265**

The Zamora Silver-Gold Property, according to historical records, is characterized by 25 mines / prospects, all of which have varying degrees of exploration, development, and production. There has never been a concentrating plant on this property; the ore was sent as direct shipping ore to the La Minita plant located approximately 25 km from Zamora.

Net Smelter Return Royalty ("NSRR")

Auxico 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, the Company's wholly-owned Mexican subsidiary. As per the terms of this agreement, the Zamora Property is subject to a 2% NSRR; half of this NSRR can be purchased by Auxico at any time for US$500,000.

Option to Purchase La Franca Property

On November 9, 2020, the Company announced that it had been granted an exclusive option to acquire the historic high-grade silver-gold La Franca mine, located in the state of Sinaloa, Mexico for US$500,000 payable quarterly over a 5-year period and is subject to a 2% Net Smelter Return Royalty ("NSRR"), which can be re-purchased at any time from the owners for US$500,000 for each percentage point. The La Franca claim, measuring 12 hectares, is located within Auxico 's Zamora gold-silver property.

BRAZIL: THE MASSANGANA TIN TAILING PROJECT

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 Massangana, counties of Ariquemes and Monte Negro, in the state of Rondonia, Brazil.

Independent analysis published jointly by the German Mineral Resources Agency (DERA) and the Geological Survey of Brazil (CPRM) in 2018 estimated that the property could contain 30,000,000 tonnes of tin tailings (not NI 43-101 compliant), however the data for this estimate has neither 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) resources.

Samples of the concentrates taken by the property owners from the Massangana property, and therefore are not NI 43-101 compliant. The samples were analyzed in 2022 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 (%)**
Cerium	CeO_2	35.90
Dysprosium	Dy_20_3	0.28
Gadolinium	Gd_2O_3	0.17
Lanthanum	La_2O_3	15.17
Neodymium	Nd_2O_3	9.04
Praseodymium	Pr_6O_{11}	0.89
Samarium	Sm_2O_3	0.90
Yttrium	Y_2O_3	1.14
Total Rare Earth Oxide (TREO)		**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 had an exclusive 180-day period to conduct due diligence, for which the Company paid a one-time fee of US$100,000 to CEMAL. On June 7, 2022, Auxico announced that a final agreement had been signed with CEMAL concerning the production of tin, niobium and rare earths from the Massangana tailings. Auxico will earn 85% of the profits of the Joint Venture ("JV") by first, paying US$2,000,000 over the next year, and second, by providing the JV with the necessary capital to engage in the production of the above-mentioned concentrates.

Under the agreement, Auxico made payments as follows: a first payment of US$300,000 within five days of signing of the Agreement (this payment was made during the period ended June 30, 2022); a second payment of US$200,000 within 30 days of the execution of the Agreement (this payment was made in the second week of August 2022) and a third payment of US$250,000 was made on or before September 30, 2022. Subsequent to the end of the fiscal year, a further payment of US$250,000 was made shortly after December 31, 2022 and final payment of US$1,000,000 will be made on the anniversary of the first payment.

On August 23, 2022, Auxico announced the signing of an offtake agreement with the company Cuex Metal AG ("Cuex"), for the purchase of commercial tin concentrates (cassiterite) from Massangana. The agreement represents a purchase of 3,600 tonnes per year, over a period of five years, for a total of 18,000 tonnes of commercial tin concentrates. At current London Metal Exchange prices, the material is valued at US$330 million. Cuex is the Swiss subsidiary of Shangai Qunxian Industrial (Group) Co., Ltd., a bulk commodity Chinese trading company.

Auxico intends to build a 2,500 tonne-per-day processing facility in Rondônia that may produce on a yearly basis (actual outputs will be subject to a 2023 field sampling program): 6,000 tonnes of cassiterite, 90,000 tonnes of ilmenite, 13,500 tonnes of columbite, 90,000 tonnes of zirconium and 37,500 tonnes of monazite. Of note, the monazite contains radioactive thorium and Central America Nickel has successfully removed the thorium content, making the concentrate non-radioactive and eligible for international shipping. Using the ultrasound-assisted extraction ("UAEx") process, the thorium content in the concentrate was reduced to less than 0.1%. This procedure was done in the lab. It has not yet been done in a commercial application.

COLOMBIA: THE MINASTYC PROPERTY IN VICHADA

On March 28, 2022, Auxico filed on SEDAR its National Instrument (NI) 43-101 Technical Evaluation Report ("Report") on the Minastyc Property in Vichada, Colombia. Provided below are selected highlights from the Report:

- In August of 2021, Joel Scodnick, P.Geo., & Qualified Person ("QP") for Auxico took a representative 3.2 tonne bulk sample from two locations of the Area 50 pit. A 7.7 kg fine concentrate returned Total Rare Earth Oxides (TREO) grading 68.32% and 65.67% respectively from the two locations;

- The presence of radioactive Thorium has always been an issue with many rare earth deposits, however, working with Impact Global Solutions (IGS), the Thorium is precipitated from the monazite concentrate using acid bake, which results in recoveries of 99%+ rendering the rare earth concentrate safe for transportation, thus virtually eliminating the Thorium;

- Auxico initiated a project with Central America Nickel to develop a metallurgical process using acid bake and the Ultrasound Assisted Extraction technology ("UAEx"). Recoveries of over 80% have been demonstrated at IGS on the Rare Earth Elements (REE's);

- The TA Area and Area 50 are approximately 1.6 km apart, with both areas returning various high-grades in concentrates including the following elements:

Element	**Symbol**	**Industrial Use**
Cerium	Ce	Catalytic converters, ceramics, glass
Dysprosium	Dy	Permanent magnets, data storage, lasers
Erbium	Er	Fiber optics, optical amplifiers, lasers
Gadolinium	Gd	Medical imaging, permanent magnets
Hafnium	Hf	Nuclear control rods, alloys & high-T ceramics
Lanthanum	La	catalyst ceramics, glass polishing, metallurgy & batteries
Neodymium	Nd	permanent magnets, rubber catalysts, medical & industrial lasers
Niobium	Nb	Steel and superalloys
Palladium	Pd	Catalytic converters & catalyst agent
Platinum	Pt	Catalytic converters
Praseodymium	Pr	Permanent magnets, batteries, aerospace alloys, ceramics & colorants
Samarium	Sm	Permanent magnets, absorber in nuclear reactors & cancer treatments
Tantalum	Ta	Electronic components & superalloys
Tin	Sn	Protective coatings & alloys
Titanium	Ti	White pigment & metal alloys
Ytterbium	Yb	Catalysts, scintillometers, lasers & metallurgy
Yttrium	Yt	Ceramic, catalysts, lasers, metallurgy & phosphors
Zirconium	Zr	High-T ceramics & corrosion-resistant alloys

- Gold, Silver, Platinum, and Palladium were also detected in coarse concentrates in the TA Area, returning values as high as 63 g/t Gold, 32 g/t Silver, 53 g/t Platinum, and 19 g/t Palladium. One sample from a 5.7 kg laterite in the main TA Area pit returned 15 g/t Gold and 38 g/t Platinum. The presence of these precious metals indicates a relationship with upstream basements or serpentine or olivine or pyroxene-rich ultramafic rocks.

On May 16, 2022, Auxico announced that the National Mining Agency of Colombia ("ANM" or *Agencia Nacional de Minería*) had granted a mining permit for the Minastyc Property in Vichada, Colombia, which is controlled by Auxico; more specifically, the ANM has authorized the Company's work plan ("PTO" or *Programa de trabajo y obras*).

In addition to the approval of the PTO, the Company is required to have an authorization from Corporinoquia, which is the Colombian environmental agency. Once the authorization from Corporinoquia is obtained, the Company will be able to move equipment on-site, including heavy machinery for bulk sampling and a processing facility, which will enable Auxico to move towards making a production decision for small-scale mining operations. As of the date of this MD&A, the Company has not yet received the authorization from Corporinoquia.

In the summer of 2022, Auxico conducted an exploration program on the Minastyc Property. A systematic initiative of digging approximately 250 pits using shovels was executed via a grid system. The samples were sent to an accredited lab. The purpose of this exercise was to test the first couple meters depth of the mineralized gravels, specifically for transition metals (gold, platinum, palladium, tantalum, niobium, hafnium, zirconium and scandium), actinoids (thorium and uranium), alkali metals (lithium, rubidium and cesium), post-transition metals (tin and aluminum) and rare earth elements (lanthanum, cerium, praseodymium and neodymium).

In December 2022, the technical team of Auxico met to review the work done on Minastyc and to contemplate next steps. After reviewing the splitting procedure at the laboratory, it was concluded that this smaller sample fraction may have accounted for lower grades than expected.

In 2023, the Company will continue its geological work on the Minastyc Property. This will include larger volume sampling, and without splitting, on the most prospective zones of the property, as well as consolidation of all technical information into one database. Other proposed activities in 2023 include:

- Hiring of a geological firm with expertise in alluvial economic deposits
- Pits and trenches sampling program
- Design of stratigraphic columns (sedimentary units interpolation)
- Implementation of exploration mapping / logging techniques (Anaconda method)
- Lithogeochemical analyses (rock classification, economic sedimentary layers, etc.)
- Design of 2D-3D geological modeling (integration with the historical information geophysics, DEM, LIDAR, etc.)
- Publication of a technical report in compliance with National Instrument 43-101, including a mineral resource estimate

Tin Trading

As of the date of this MD&A, the Company has begun the purchase and sale of tin from different indigenous communities in Vichada. According to Gracor, Auxico' s partner, 20 metric tonnes of tin have been obtained and are enroute to Bogota for export. As per the agreement with Gracor, Auxico will retain 70% of the net profits from this tin trading, with the remaining 30% going to Gracor.

Auxico will continue this trading of tin during this current fiscal year. The sales of tin from Vichada will represent one of the two income streams for Auxico during this coming year. The second is the sale of rare earth concentrates from the Democratic Republic of the Congo, as described below.

DEMOCRATIC REPUBLIC OF THE CONGO: SALES AGENT FOR RARE EARTH CONCENTRATES

In April 2022, Auxico signed a sales agency agreement with Central America Nickel ("CAN"), whereby Auxico will be the exclusive sales agency for rare earth concentrates from the Democratic Republic of the Congo ("DRC").

As the exclusive sales agent, Auxico will retain a commission equal to 15% of the sales price.

As of the date of this MD&A, a total of four trades have been concluded, the highlights of which are below:

- A total of 720 metric tonnes of rare earth concentrates have been sold and shipped from the DRC.
- This material was sold for approximately US$3.8 million.
- This represents an average price of approximately US$5,280 per metric tonne.
- The rare earth concentrates, contained in the non-radioactive monazite sands, are purchased from various cooperatives in the province of North Kivu, DRC.
- Samples of the material, analyzed by SGS South Africa, had on average over 14% neodymium and 3% praseodymium. The lab analysis confirmed that the samples had approximately 60% total rare earth oxide content (TREO).
- Based on the demand from existing and potential customers of these rare earth concentrates, Auxico and CAN are targeting to reach a monthly export of 1,000 to 1,500 tonnes of material from the DRC.

BOLIVIA: THE LUZ ANGELICA CONCESSION

On November 3, 2021, a Memorandum of Understanding ("MOU") was signed between Auxico and Mr. Rolando Chavez, the sole owner of the concession Luz Angelica, consisting of 825 hectares located in the region of Santa Cruz in Bolivia, province of Nuflo de Chávez.

Based on Auxico 's due diligence, the Luz Angelica concession lacks basic infrastructure needed to develop a mining project, and there were no geological merits to continue with this project. Auxico has therefore abandoned this project.

Auxico will continue, however, to monitor other opportunities in Bolivia, given its rich mining history and potential.

OTHER CORPORATE HIGHLIGHTS

Private Placements of Units – January 19, 2022

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.

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.

Private Placement of Convertible Debentures – March 11, 2022

On March 11, 2022, Auxico closed a non-brokered private placement (the "Private Placement"), raising aggregate gross proceeds of $3,900,000 in convertible debentures (the "Debentures").

Each Debenture consists of $1 principal amount of unsecured, non-redeemable 10% convertible debentures, maturing on March 11, 2023 (the "Maturity Date") and convertible at the option of the Debenture holder into common shares of Auxico (the "Common Shares") at a conversion price of $2.50 per Common Share. If all Debentures were converted, this would result in the issuance of 1,560,000 Common Shares.

Interest at a rate of 10% per annum will be paid to Debenture holders monthly in arrears.

The Company paid finder's fees of $390,000 in connection with the Private Placement. The Debentures issued pursuant to the Private Placement are subject to a four-month hold period in Canada.

Private Placement of Units – March 22, 2022

On March 22, 2022, Auxico closed a non-brokered private placement (the "Private Placement"), issuing a total of 2,062,776 units (the "Units") at a price of $0.90 per Unit raising gross proceeds of $1,856,500.

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 $1.20 for a period of 3 years from the date of issuance (the "Closing Date").

The Company paid finder's fees of $142,520 in connection with the Private Placement and issued 158,355 broker warrants ("Broker Warrants"). The Broker Warrants is exercisable at $0.90 for a period of 3 years from the date of issuance (the "Closing Date").

Share Information

As at the date of this MD&A, there are 74,529,578 common shares issued and outstanding of Auxico. Between September 30, 2022 and the date of this MD&A, a total of 2,939,382 common shares were issued, as follows:

- 2,584,382 common shares were issued as a result of the conversion of convertible debentures; these convertible debentures had a conversion price of $0.10 per common share;
- 155,000 common shares were issued as a result of the exercise of stock options. 150,000 stock options were exercised at a conversion price of $0.40 per common shares and 5,000 stock options were exercised at a conversion price of $0.105 per common share; and
- 200,000 common shares were issued as a result of the exercise of warrants at an exercise price of $0.15 per common share.

Additional Information

Additional information on Auxico, the Zamora Property and the Company's opportunities in Colombia, Brazil and the DRC 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").

FINANCIAL INFORMATION

The Company prepared its consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS"). The Company's 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 consolidated financial statements for the years then ended.

The audited consolidated statements of Financial Position of Auxico are presented below:

Consolidated Statements of Financial Position

As at September 30 (audited)	**2022**	2021	2020
		(Restated)	*(Restated)*
	$	$	$
ASSETS			
Current assets			
Cash	**2,115,889**	2,563,533	288,780
Receivables	**676,939**	254,810	103,733
Promissory notes	**200,000**	-	-
Prepaid expenses	**185,526**	1,321,870	156,469
Inventory	**-**	126,776	47,171
Advances to a joint operation	**-**	-	288,360
Advances to directors	**3,098**	3,098	3,098
Advance to companies controlled by a director	**364,464**	-	8,646
	3,545,916	4,270,087	896,257
Non-current assets			
Equipment	**81,662**	-	-
Prepaid expenses	**500,000**	500,000	-
Other assets	**680,019**	225,090	-
Exclusive sales agency distribution agreement	**561,150**	-	-
Conversion right	**693,000**	-	-
TOTAL ASSETS	**6,061,747**	4,995,177	896,257
LIABILITIES			
Current liabilities			
Accounts payable and accruals	**1,977,326**	339,958	582,942
Due to companies controlled by a director	**-**	12,733	34,000
Due to directors	**-**	3,883	36,530
Farm-out agreement debt	**798,280**	759,640	782,400
Current portion of finder's fees payable	**218,724**	224,988	-
Convertible debentures	**20,639,170**	66,232	215,433
	23,633,500	1,407,434	1,651,305
Non-current liabilities			
Deferred income tax liabilities	**-**	-	70,972
Long-term finder's fees payable	**-**	159,601	-
Convertible debentures	**12,716,048**	77,870,781	4,565,348
TOTAL LIABILITIES	**36,349,548**	79,437,816	6,287,625
DEFICIENCY			
Deficiency attributable to shareholders	**(30,288,892)**	(74,443,726)	(5,393,400)
Equity attributable to non-controlling interests	**1,091**	1,087	2,032
TOTAL DEFICIENCY	**(30,287,801)**	(74,442,639)	(5,391,368)
TOTAL LIABILITIES & DEFICIENCY	**6,061,747**	4,995,177	896,257

As of September 30, 2022, Auxico had negative working capital of $20,087,584, compared to positive working capital of $2,862,653 at September 30, 2021, representing a decrease of $22,950,237 in Auxico 's working capital position.

Cash and cash equivalents at September 30, 2022 were $2,115,889, compared to $2,563,533 at September 30, 2021, a decrease of $447,644. This is due primarily to more explorations and investing activities during the Fiscal 2022 when compared to 2021.

Receivables as at September 30, 2022 are $676,939 (September 30, 2021 - $254,810), an increase of $$422,129. Receivables contain various items such as trade accounts receivable ($515,545), sales tax receivable ($86,853) and some other receivables ($74,941).

At September 30, 2022, Auxico had prepaid expenses (current portion) of $185,526, which was a decrease of $1,136,344, compared to prepaid expenses (current portion) of $1,321,870 at September 30, 2021. The Company has written-down in Fiscal 2022 prepaid expenses by $1,200,785 and recorded the same amount as an expense on the statement of net income (loss) and comprehensive income (loss). This amount relates to advances made to JBNX, a Brazilian company, for the purchase of manganese by that entity. As the Company still has not received the manganese over two years after the advances were made, and given the uncertainties concerning the collectability of this amount from JBNX, the Company has decided to write-down the entire amount advanced to JBNX.

At September 30, 2022 and 2021, the Company had prepaid expenses (non-current portion) of $500,000. On July 28, 2021, the Company signed an agreement with Central America Nickel ''CAN'' (a related company) to use the license developed by CAN for a period of 10 years upon the signing of the agreement. The Company had to pay a deposit of $500,000 that will be applied against future license royalties.

At September 30, 2022, the Company had other assets of $680,019 (September 30, 2021 - $225,090). A deposit on the Minastyc property was made on December 14, 2020, the Company signed an agreement to purchase a parcel of land in Colombia. As at September 30, 2022, the Company paid a total deposit of $235,375 ($225,090 as of September 30, 2021). However, the transfer of property of the land has not been completed at the date of these consolidated financial statements.

A deposit on the Agualinda property was completed 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 agreed to purchase in December 2020. As per the signed agreement, the Company has the obligation to pay to the vendors a purchase price of US $315,000, which was payable as US$35,000 upon signature and $US 280,000 upon completion of the succession documents. As of September 30, 2022, the Company has made an initial payment of US$41,100 (or $53,000) and a payment of US$7,000 (or $7,848), for taxes and legal fees. The succession documents were completed therefore the amount of $US280,000 (or $383,796) is payable as of September 30, 2022 and was recorded accordingly. In addition, the Company has committed to pay a yearly fee in the amount of US$100,000 for a period of three years following the beginning of production.

On March 30, 2022, the Company signed an exclusive sales agency distribution agreement with Central America Nickel Inc. ''CAN'' (a related company) for the sales of CAN's rare earths. The contract gives the Company the exclusive rights to distribute CAN's rare earths in exchange for a payment of $1,247,000 (US$1,000,000) that was paid on April 1, 2022. The term of the contract is for two years. The contract entitles the Company to receive a 15% commission on CAN'S rare earth gross revenues. The commission revenues for the year ended September 30, 2022 totalled $448,050. Anytime during the two year's contract period, the Company has the right to convert the full value of the $1M USD into the number of common shares of CAN resulting from a conversion ratio of $2CAD/common share based on the exchange rate on conversion date, otherwise this amount is not repayable by CAN. No additional payment is required to convert.

At inception, the fair value of the conversion right was estimated assuming a share price of $0.80 CAD for CAN and a number of shares of 623,500 resulting in an initial fair value of $498,800. At September 30, 2022, the fair value of the conversion right increased to $693,000, due to the variability in the number of shares resulting from changes in foreign exchange and a change in share price of CAN from $0.80 CAD to $1.00 CAD, resulting in a fair value gain of $124,700 which was recorded to variation of fair value of conversion option and a foreign exchange gain of $69,500.

At September 30, 2022, the Company recorded inventory of $Nil, which is a decrease of $126,776 compared to inventory of $126,776 at September 30, 2021. This relates to columbite ore purchased by Auxico in Brazil for its commodities trading business. A total amount of $126,776 was written-down as at September 30, 2022.

Auxico had accounts payable and accruals of $1,977,326 as at September 30, 2022, compared to $339,958 at September 30, 2021, an increase of $1,637,368. These are trade payables in the normal course of the Company's operations.
On April 7, 2017, the Company entered into a Gold Loan Settlement Agreement (the "Settlement Agreement") related to the June 13, 2013 Farm-Out Agreement. Pursuant to the Settlement Agreement, the Company agreed to pay US$400,000 and the number of common shares that would equate to $250,000 (based on the market price of the shares on the date of issuance). The Settlement Agreement was revised several times, with the most recent amendment being on September 1, 2019 pursuant to which the Company was to pay the amount on or before August 30, 2020. The amount remains unpaid and the shares have not yet been issued.

Convertible Debentures

The most significant item that has impacted the audited consolidated financial statements for the year ended September 30, 2022 and 2021, is the participating convertible debentures ("Debentures"). The accounting treatment for these Debentures is complex and has resulted in the Company recognizing a significant total liability of $33,355,218 as at September 30, 2022, a decrease of $65,154,733 over the amount of $77,937,013 recognized as at September 30, 2021, which had a serious impact on the consolidated financial statements as at September 30, 2022 and 2021. This is attributable primarily to the fluctuation in the share price of Auxico, Since the share price is significantly higher than the conversion price of the Debentures, a significant liability is recognized, which is highly sensitive to variations in the share price of the Company.

The current liability was $20,639,170 as at September 30, 2022, an increase of $20,572,938 over the amount of $66,232 recognized as at September 30, 2021.

The non-current liability was $12,716,048 as at September 30, 2022, a decrease of $65,154,733 over the amount of $77,870,781 recognized as at September 30, 2021.

As at September 30, 2022, the total debentures have a nominal value of $7,500,000 (September 30, 2021 - $3,650,000).

<u>Issuance debentures – Year ended September 30, 2021</u>

On October 26, 2020, the Company announced that it has completed a non-brokered private placement, raising aggregate gross proceeds of $2,788,000 in participating convertible debentures (the "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 Montréal, 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.

In addition, Debenture holders will receive a total of 13.94% of the net profits generated by the Company from the sale of tantalum and niobium-bearing ores, to be paid quarterly in arrears; this represents 1% of the profits for every $200,000 principal amount of Debentures ("Participating Feature").

The Company paid the following finder's fees:

- $146,800 in cash;
- $120,000 of convertible debentures with the same characteristics as the ones detailed below;
- 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;
- $606,083 as a variable remuneration on the form of a long-term debt

The company recorded total finder's fees of $971,119 for the issuance of these debentures. From the total of those finder's fees, $426,402 was allocated to the host component and was therefore capitalized to the consolidated statement of financial position.

Issuance debentures – Year ended September 30, 2022

On March 8, 2022, the Company completed a non-brokered financing of $3,900,000 by way of issuance of unsecured, non-redeemable convertible debentures (the "Debentures"). The debentures carry an interest rate of 10%, payable monthly, with a maturity date of March 11, 2023. The principal amount of the Debentures is convertible at any time at the election of the holder. The Debentures are convertible into common shares of the Company at a price of $2.50 per common share. If all debentures were converted, this would result in the issuance of 1,560,000 common shares. For accounting purposes, the Debentures are separated into their liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Debentures assuming a 14.5% discount rate, which was the estimated rate for a similar debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the Debentures and the fair value of the liability component.

Transaction costs of $390,000 were incurred and have been recorded pro rata against the liability and equity components. The liability balance of the transaction costs will be amortized over the life of the debenture.

On March 1, 2022, there was a conversion of $25,000 of the initial Debentures plus $411 of interest into 254,109 units (254,109 shares and 254,109 warrants that can be exercised at $0.15 over a 3-year period).

On June 15, 2022, there was a conversion of $25,000 of the initial Debentures plus $1,130 of interest into 261,301 units (261,301 shares and 261,301 warrants that can be exercised at $0.15 over a 3-year period).

Accounting treatment and evaluation of debentures

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 time of issuance of the debentures, the Company determined that the conversion options as well as the participating feature 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.

At the date of these consolidated financial statements, the Company reviewed the estimated fair value of the conversion options and adjusted the initial fair value to $28,119,197 (September 30, 2021 - $77,212,445) 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.

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 16 of the audited consolidated financial statements of the Company for the year ended September 30, 2022.

For the twelve-month period ended September 30, 2022, the change in fair value of derivatives resulted in a decrease of expense of $47,359,702 (September 30, 2021 – an increase of expense of $77,207,508) 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.

Convertible debenture

Management of the Company has determined that the methodology used to calculate the fair value of the conversion option of the convertible debentures issued during the September 30, 2020 and September 30, 2021 years was inappropriate. The fair values of the embedded derivative liabilities were not adequately determined. Furthermore, the Company recognized a loss at inception by measuring the host component at fair value rather than an allocation of the residual amount of the transaction price. The Company has determined that a correction was required, which resulted in an increase of $956,045 and $49,815,198 in the carrying value of the convertible debenture as at September 30, 2020 and 2021 respectively. The correction also resulted in an increase to the fair value adjustment on embedded derivatives of $53,472,584 and a decrease in finance costs of $671,195 for Fiscal 2021

Farm-out agreement debt

Management of the Company has determined that there was an erroneous extinguishment of a liability related to the Farm-out agreement (note 14). An amount of US$400,000 for the agreed upon cash settlement and the liability to issue the number of common shares that aggregates to a value of $250,000 based on market price of the shares on that date has been reincorporated on the October 1, 2020. The correction resulted in an increase to the liability of $782,400 and 759,640 at September 30, 2020 and 2021 respectively. The correct resulted in a decrease in selling and administrative expenses of $22,760 for Fiscal 2021, related to foreign currency translation.

Consolidated Statement of Financial Position as at October 1, 2020

	As restated $	As previously reported $	Restatement $
Farm-out agreement debt	782,400	-	782,400
Convertible debentures	4,780,781	3,824,733	956,048
Total Liabilities	6,287,625	4,519,177	1,768,448
Deficiency attributable to shareholders	(5,393,400)	(3,654,952)	(1,738,448)
Total equity (deficiency)	(5,391,368)	(3,652,920)	(1,738,448)

Consolidated Statement of Financial Position as at October 1, 2021

	As restated $	As previously reported $	Restatement $
Farm-out agreement debt	759,640	-	759,640
Convertible debentures	77,937,013	28,121,815	49,815,198
Total Liabilities	79,437,816	28,929,210	50,508,606
Deficiency attributable to shareholders	(95,324,343)	(40,807,866)	(54,516,477)
Issued capital	20,880,617	12,202,196	8,678,421
Total equity (deficiency)	(74,442,639)	(23,934,033)	(50,508,606)

Consolidated statement of Income (Loss) and Comprehensive Income (Loss) for the year ended September 30, 2022

	As restated $	As previously reported $	Restatement $
Selling and administrative expenses	4,356,899	4,379,659	(22,760)
Loss before finance income, finance costs and income taxes	(4,840,595)	(4,863,355)	22,760
Finance costs	(1,507,181)	(2,178,976)	671,795
Fair value adjustment on embedded derivatives	(77,207,508)	(23,734,924)	(53,472,584)
Net income (loss) and comprehensive income (loss)	(83,480,116)	(30,702,087)	(52,778,029)
Loss per share	(1.52)	(0.56)	

RESULT OF OPERATIONS

For the year ended September 30, 2022, the Company recorded a net income and comprehensive income of $35,087,746 compared to a net loss and comprehensive loss of $83,480,116 for the year ended September 30, 2021. Details for the years ended September 30, 2022 and 2021 are presented below:

Consolidated Statements of Loss and Comprehensive Loss **For the years ended September 30 (audited)**	**2022**	2021 *(Restated)*	Variance
	$	$	$
Sales	**-**	768,544	(768,544)
Sales commissions	**448,049**	-	448,049
Cost of sales	**126,776**	1,252,240	(1,125,464)
Gross margin (loss)	**321,273**	(483,696)	804,969
Selling and administrative expenses	**10,927,949**	4,356,899	6,571,050
Loss before net finance earnings (costs) and income taxes	**(10,606,676)**	(4,840,595)	(5,766,081)
Finance income	**12,327**	4,196	8,131
Finance costs	**(1,677,607)**	(1,507,181)	(170,426)
Fair value adjustment of the embedded derivatives	**47,359,702**	(77,207,508)	124,567,210
Net finance earnings (costs)	**45,694,422**	(78,710,493)	124,404,915
Income (loss) before income taxes	**35,087,746**	(83,551,088)	118,638,834
Recovered income taxes	**-**	(70,972)	70,972
Net income (loss) and comprehensive income (loss)	**35,087,746**	(83,480,116)	118,567,862
Net comprehensive income (loss) attributable to:			
Shareholders	**35,087,742**	(83,479,171)	118,566,913
Non-controlling interest	**4**	(945)	949
	35,087,746	(83,480,116)	118,567,862
Income (loss) per share to equity holders of Auxico Resources Canada Inc.			
Basic	**0.51**	(1.52)	
Diluted	**0.48**	(1.52)	
Weighted average number of shares outstanding			
Basic	**68,904,453**	54,815,945	
Diluted	**73,760,481**	54,815,945	

Sales and sales commissions

There were no sales recorded in the twelve-month period ended September 30, 2022. In the year ended September 30, 2021, the Company generated sales of $768,544 from the sale of commodities, primarily manganese from Brazil. Cost of sales for the year ended September 30, 2021 amounted to $1,252,240, resulting in a gross loss of $483,696.

ln the twelve-month period ended September 30, 2022, Auxico recorded sales commissions of $448,049 (September 30, 2021 - $Nil) in connection with its agreement with CAN as the exclusive sales agent of rare earth elements from the DRC, as described above. Cost of sales for the year ended September 30, 2022 amounted to $126,776, a write-down of the entire 2021 inventory, resulting in a gross margin of $321,273.

Selling and administrative expenses

For the year ended September 30, 2022, the Company recorded a total of 10,927,949 as selling and administrative expenses compared to $4,356,899 for the year ended September 30, 2021. Details for the years ended September 30, 2022 and 2021 are presented below:

For the years ended September 30	**2022**	**2021**	**Variance**
	$	**$**	**$**
Exploration and evaluation expenditures	**3,378,420**	1,171,601	2,206,819
Professional fees	**2,465,699**	932,163	1,533,536
Share-based compensation	**2,534,830**	1,202,836	1,331,994
Write-down of inventory prepayments	**1,200,785**	-	1,200,785
Management fees	**375,000**	375,000	-
Legal fees	**318,767**	154,124	164,643
Travel expenses	**261,988**	6,267	255,721
Amortization exclusive sales agency distribution agreement	**187,050**	-	187,050
Public listing fees	**88,329**	71,418	16,911
Advertising	**57,478**	30,633	26,845
Write-off of sales tax receivable	**43,638**	18,634	25,004
Bad debts	**37,479**	10,352	27,127
Rent	**36,000**	36,000	-
Depreciation	**34,789**	-	34,789
Office expenses	**16,249**	11,017	5,232
Taxes and permits	**7,997**	2,818	5,179
Telecommunication	**2,302**	1,253	1,049
Loss on foreign exchange	**5,849**	24,985	(19,136)
Fair value adjustment of the conversion option	**(124,700)**	-	(124,700)
Impairment on advance to joint operation	**-**	400,067	(400,067)
Subscriptions	**-**	5,878	(5,878)
Gain on debt settlement	**-**	(98,147)	98,147
Total selling and administrative expenses	**10,927,949**	4,356,899	6,571,050

ln the twelve-month period ended September 30, 2022 selling and administrative expenses amounted to $10,927,949, which was an increase of $6,571,050, compared to selling and administrative expenses of $4,356,899 for the same period ended September 30, 2022. Almost all of the selling and administrative expense categories had increases year-over-year. In the year ended September 30, 2022, the Company concluded two private placements and continued to develop the Minastyc property in Colombia. This resulted in an increase in expenses of the Company.

Exploration and evaluation expenditures increased by $2,206,819, as Auxico conducted more geological work on the Minastyc Property in Colombia, primarily.

Professional fees also increased by $1,533,536 if compared to last year as the Company spent more on consultants, professionals and investor relations in the year ended September 30, 2022. ln the twelve-month period ended September 30, 2022 the Company booked an expense of $704,200 associated with consulting fees paid in warrants; this is a non-cash charge to Auxico.

ln the twelve-month period ended September 30, 2022, the Company recorded share-based compensation expense of 2,534,830, which was an increase of $1,331,994 compared to share-based compensation expense of $1,202,836 in the twelve-month period ended September 30, 2021. This is a non-cash expense associated with the granting of options.

In the year ended September 30, 2022 Auxico recorded write-down of inventory prepayments of $1,200,785 (September 30, 2021 - $Nil).

Legal tees increased by $164,643, as the Company was involved in securing the Minastyc property in Colombia, in negotiating the joint venture of the Massangana tailings in Brazil and in concluding the sales agency agreement with CAN, among others.

Travel expenses increased by $255,721, given the increased activity in Colombia.

ln the year ended September 30, 2022 the Company recorded amortization of the exclusive rights (as described above) of $187,050 (September 30, 2021 - $Nil).

Fair value adjustment of the embedded derivatives

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. For the year ended September 30, 2022, the Company recorded a total of $47,359,702 as total fair value adjustment of the embedded derivatives compared to $77,207,508 total fair value adjustment for the year ended September 30, 2021. This is a non-cash charge associated with the accounting treatment of the Debentures and represents the single largest expense/earning of the Company.

Finance earnings and costs

Details of the finance earnings and costs for the years ended September 30, 2022 and 2021 are presented below:

For the years ended September 30	**2022**	2021	Variance
	$	$	$
Accreted interest	**1,268,194**	456,848	811,346
Interest on convertible debentures	**390,336**	113,919	276,417
Interest and bank fees	**18,790**	10,897	7,893
Interest and penalties	**287**	23,383	(23,096)
Transaction costs	**-**	902,134	(902,134)
Total finance costs	**1,677,607**	1,507,181	170,426

Total finance costs for the twelve-month period ended September 30, 2022 are $1,677,607, an increase of $170,426 over the same period in Fiscal 2021, a total amount of $1,507,181.

The accreted interest increased by $811,346 in Fiscal 2022 and interest on convertible debentures increased by $276,417. The transaction costs were $Nil for the twelve-month period ended September 30, 2022 compared to $902,134 in Fiscal 2021.

Earnings (loss) per share

The diluted weighted average number of shares has been calculated as follows:

	September 30, 2022	September 30, 2021
Weighted average number of common shares – basic	**68,904,453**	54,815,945
Addition to reflect the dilutive effect of stock options	**1,899,980**	-
Addition to reflect the dilutive effect of warrants	**2,956,048**	-
Weighted average number of common shares - diluted	**73,760,481**	54,815,945

Options and warrants that are anti-dilutive because the exercise price was greater than the average market price of the common shares is not included in the computation of net earnings per share. For the year ended September 30, 2022, 2,513,750 and 2,926,432 options and warrants respectively were excluded from the above computation. Net income is the measure of the income used to calculate the earnings per share. Convertible debenture is anti-dilutive due to the impact of adjustments related to them (specifically related to the derivatives see note 16) would have on net income. In Fiscal 2021, the Company reported a net loss and accordingly the weighted average number of common shares on a basic and diluted basis were the same.

Net earnings (loss) and comprehensive earnings (loss)

The net income and comprehensive income of the Company for the twelve-month period ended September 30, 2022 was $35,087,746, compared to a net loss and comprehensive loss of $83,480,116 for the same period ended September 30, 2021, representing a net difference of $118,567,862.

In the year ended September 30, 2022, five significant non-cash expenses – amortization of exclusive rights ($187,050), share based compensation ($2,534,830), consulting fees paid with warrants ($769,200), write-down on inventory ($1,200,785) and accreted interest ($1,199,756) – accounted for $5,891,621 of the total expenses generated by the Company for the year 2022. An amount of $47,359,702 was recorded as a non-cash earning for the fair value adjustment of the embedded derivatives.

In the year ended September 30, 2021, three significant non-cash expenses – impairment on advance of joint operation ($400,067), share based compensation ($1,202,836) and accreted interest ($456,848) accounted for $2,059,751 of the total expenses generated by the Company for the year 2021. An amount of $77,207,508 was recorded as a non-cash earning for the fair value adjustment of the embedded derivatives.

Auxico is a mining exploration company. Although it has no mining operations, the Company is generating sales and revenues with its commodities trading business. In the upcoming fiscal year, Auxico will focus on the commodities trading business in Latin America (principally Colombia, Brazil and Bolivia) to generate revenues for the Company. In addition, the Company intends to permit and to bring into production the rare earth element opportunity on the Minastyc property in Colombia. The Company may also have to rely on private placements of equity and/or debt in order to cover its operating expenses and geological work in Brazil, Colombia, Mexico, the DRC and Bolivia.

CASH FLOWS AND LIQUIDITY

The following table outlines the Company's cash flows for the years ended September 30, 2022 and 2021:

Consolidated Statements of Cash Flows			
For the years ended September 30 (audited)	**2022**	2021 *(Restated)*	Variance
	$	$	$
Cash used in operating activities			
Net income (loss)	**35,087,746**	(83,480,116)	118,567,862
Depreciation	**34,789**	-	34,789
Amortization exclusive sales agency distribution agreement	**187,050**	-	187,050
Share-based compensation	**2,534,830**	1,202,836	1,331,994
Bad debts	**37,479**	10,352	27,127
Consulting fees paid with warrants	**769,200**	-	769,200
Write-off of sales tax receivable	**43,638**	18,634	25,004
Write-down of Inventory prepayments	**1,200,785**	-	1,200,785
Unrealized foreign exchange loss	**(30,860)**	(7,666)	(23,194)
Impairment on advance to a joint operation	**-**	400,067	(400,067)
Gain on debt settlement	**-**	(98,147)	98,147
Write-down on inventory	**126,776**	26,535	100,241
Variation of the fair value of the conversion right	**(47,359,702)**	77,207,508	(124,567,210)
Deferred income tax expense	**-**	(70,972)	70,972
Accreted interest	**1,199,756**	456,848	742,908
Transaction costs	**-**	780,518	(780,518)
Fair value adjustment of the conversion option	**(124,700)**	-	(124,700)
Provision on prepayment of inventory	**-**	116,000	(116,000)
Net changes in non-cash working capital items	**685,884**	(2,151,575)	2,837,459
	(5,607,329)	(5,589,178)	(18,151)
Cash flows used in investing activities			
Advance to directors	**-**	(32,647)	32,647
Advances to company controlled by a director	**(364,464)**	8,646	(373,110)
Advances to a joint operation	**-**	(126,060)	126,060
Promissory notes to third party	**(200,000)**	-	(200,000)
Acquisition of other assets	**(71,133)**	(225,090)	153,957
Acquisition of exclusive sales agency distribution agreement	**(1,247,000)**	-	(1,247,000)
Acquisition of equipment	**(116,451)**	-	(116,451)
	(1,999,048)	(375,151)	(1,623,897)
Cash flows from financing activities			
Due to companies controlled by a director	**(12,733)**	(21,267)	8,534
Due to directors	**(3,883)**	-	(3,883)
Finder's fees payable	**(224,988)**	(198,561)	(26,427)
Exercise of warrants	**206,462**	1,205,000	(998,538)
Exercise of options	**340,751**	240,750	100,001
Proceeds from issuance of units (net)	**3,343,124**	4,409,528	(1,066,404)
Proceeds from issuance of convertible debentures (net)	**3,510,000**	2,603,528	906,472
	7,158,733	8,238,978	(1,080,245)
Increase in cash and cash equivalents	**(447,644)**	2,274,649	(2,722,293)
Cash, beginning of the year	**2,563,533**	288,780	2,274,753
Effect of foreign exchange rate fluctuations	**-**	104	(104)
Cash, end of the year	**2,115,889**	2,563,533	(447,644)

For the year ended September 30, 2022, Auxico generated a total decrease of cash of $447,644, compared to an increase of cash of $2,274,649 for the year ended September 30, 2021.

Cash used in operating activities amounted to $5,607,329 in the year ended September 30, 2022, compared to cash used in operating activities of $5,589,178 for the year ended September 30, 2021, representing an increase of $18,151. In both years, most of the cash used was for operating expenses, as described above.

In the year ended September 30, 2022, cash used in investing activities amounted to $1,199,048 (September 30, 2021 – $375,151). Most of this ($1,247,000) was used for the Company's exclusive sales agency distribution agreement with CAN (a company with common directors) for the sales of CAN's rare earth.

In the year ended September 30, 2022, the Company generated cash flows from financing activities of $7,158,733, compared to $8,238,978 for the year ended September 30, 2021, representing a decrease of $1,080,245.

In the year ended September 30, 2022, the Company generated gross proceeds of $3,900,000 (September 30, 2021 - $2,788,000) through the issuance of Debentures and gross proceeds of $3,577,700 (September 30,2021 - $4,721,000) through the issuance of Units, as described above. Despite the COVID-19 pandemic, the Company was successful in raising funds in both fiscal years.

Although the Company has begun to generate sales commissions and/or revenues from its commodities trading business, this is not sufficient to cover all of the expenses incurred by the Company. Auxico will continue to rely on access to equity and debt financings to cover operational expenses and geological work.

CAPITAL STRUCTURE

Shares issued

The Company has authorized an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at September 30, 2022, there were 71,590,196 (65,014,000 as at September 30, 2021) issued and fully paid common shares.

Warrants

At September 30, 2022, the Company had 10,629,823 warrants issued and outstanding, as presented below:

Date of Issue	Expiry Date	Strike Price	Balance
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
Jan. 19, 2022	Jan. 19, 2025	$1.50	818,080
Mar. 21, 2022	Mar. 21, 2025	$0.90	158,355
Mar. 21, 2022	Mar. 21, 2025	$1.20	1,031,388
Jun.22,2022	Jun.21,2025	$0.90	1,000,000
			10,629,823

Stock options

At September 30, 2022, there were 6,935,000 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
Oct. 23, 2017	Oct. 22, 2022	$0.40	300,000
Mar. 2, 2022	Mar. 2, 2023	$0.40	200,000
Mar. 13, 2018	Mar. 12, 2023	$1.00	1,000,000
Aug.22,2018	Aug.21,2023	$0.25	100,000
Mar. 28, 2019	Mar. 27, 2024	$0.25	300,000
Sep. 16,2020	Sep. 15,2025	$0.105	250,000
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
Apr. 19, 2022	Apr. 19, 2027	$0.85	2,250,000
			6,935,000

SELECTED ANNUAL INORMATION

The following table provides selected financial information for the past three years.

As at September 30 (audited)	2022	2021	2020
	$	$	$
Net income (loss) and comprehensive income (loss)	**35,087,746**	(83,480,116)	(3,190,814)
Net income (loss) per share	**0.48**	(1.52)	(0.071)
Total assets	**6,061,747**	4,995,177	896,257

SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information from the quarterly interim unaudited consolidated financial statements for the four quarters ending September 30, 2022.

Quarter ending	Sep. 30, 2022	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021
	$	$	$	$
Revenue	378,376	82,000	-	-
Net comprehensive income (loss)	32,003,551	(6,415,436)	9,751,280	(251,649)
Net income (loss) per share - basic	0.43	(0.09)	0.14	(0.004)

The following is a summary of selected financial information from the quarterly interim unaudited consolidated financial statements for the four quarters ending September 30, 2021

Quarter ending	Sep. 30, 2021	June 30, 2021	Mar. 31, 2021	Dec. 31, 2020
	$	$	$	$
Revenue	(24,315)	609,288	187,767	-
Net comprehensive income (loss)	(70,922,884)	(5,691,323)	(1,008,253)	(5,857,656)
Net income (loss) per share - basic	(1.25)	(0.10)	(0.02)	(0.16)

Results of the fourth quarter

The following is a summary of the results of the three-month periods ended September 30, 2022 and September 30, 2021:

For the three-month period ended September 30 (unaudited)	2022	2021	Variance
	$	$	$
Revenue	**378,376**	(24,315)	402,691
Net comprehensive income (loss)	**32,003,551**	(70,922,884)	102,926,435
Net income (loss) per share	**0.43**	(1.25)	
Weighted average number of shares outstanding	**75,178,924**	56,742,090	

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 incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash. All balances of advances receivables and advances payable are measured at fair value and occurred in the normal course of business.

	September 30, 2022 **$**	September 30, 2021 $
Management fees		
Company controlled by a director	**135,000**	145,000
Key management personnel and director	**240,000**	230,000
Share-based compensation		
Key management personnel and director	**412,090**	383,622
Rent		
Company controlled by a Director	**36,000**	36,000
Consulting fees		
Key management personnel and director	**103,103**	6,000
Interest on private placement		
Key management personnel and directors	**37,082**	18,581

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	**September 30, 2022**	**3,098**	**-**
	September 30, 2021	3,098	3,883
Company with common directors (a)	**September 30, 2022**	**879,609**	**-**
	September 30, 2021	-	-
Companies controlled by a director	**September 30, 2022**	**-**	**28,675**
	September 30, 2021	-	-

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

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

(a) This total amount consists of:

- Advance to a company controlled by a director for $364,464
- Trade accounts receivable from a company controlled by a director for $515,145

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 products proceed 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.

Net royalty – Central America Nickel Inc.

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 process is used by the Company. 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.

Agreement with the École Polytechnique and Impact Global Systems

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 agreement with Impact Global Systems

On May 25, 2021, the Company signed a joint venture agreement with Impact Global Systems ("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, Québec, 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.

Joint venture agreement with Cooperativa Estanifera de Mineradores da Amazonia Legal Ltda.

On June 3, 2022, Auxico signed a joint venture agreement ("Agreement") with CEMAL, concerning the production and sale of concentrates from the Massangana tailings in the state of Rondonia, Brazil. During Fiscal 2022, the Company has made payments of $648,435 (US$500,000) and subsequent to year-end made payments of $682,510 (US$500,000), which was accrued at September 30, 2022. A payment of $344,250 (US$250,000) was made in October 2022 and a second payment of $338,260 (US$250,000) was completed in January 2023, for a combined amount of $682,510 (US$500,000). These have been recorded as exploration and evaluation expenditures.

Pursuant to the Agreement, the Company is to obtain licenses and permits by June 20, 2023 and has a commitment to make a final payment of US$1,000,000 in August 2023. The Company has the right to terminate the agreement prior to the final payment being due.

Purchase of Agualinda Property

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. As per the signed agreement, the Company will pay to the vendors a purchase price of US$315,000 (of which US$35,000 was paid as of September 30, 2022 and US$280,0000 is due as of September 30, 2022), 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 upon revenues generated from production.

BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated statement of financial position:

- Derivative liabilities are measured at fair value.

The consolidated financial statements have been prepared on a going concern basis, meaning the Company would be able to realize its assets and discharge its liabilities in the normal course of action.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company. The Company's subsidiaries, as at September 30, are:

	2022	2021
Auxico Resources S.A. de C.V. ("Auxico Mexico")	**100%**	100%
C.I. Auxico de Colombia S.A ("Auxico Colombia")	**96%**	96%
Sociedad Minera Auxico S.A.S ("Auxico Colombia New")	**100%**	-
Minera Auxico Bolivia S.A ("Auxico Bolivia")	**100%**	-

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net income (loss) and comprehensive income (loss) is recognized directly in equity.

Operating segments are reported in a manner consistent with the internal reporting of the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the management team, which makes strategic decisions.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars. The parent company's functional currency is Canadian dollars. The functional currency of the subsidiaries is also Canadian dollars.

SIGNIFICANT ACCOUNTING POLICIES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The most significant accounting policies used in the preparation of the annual audited consolidated financial statements are:

Revenue recognition

The revenue from sale of ore concentrate is recognized at an amount that reflects the consideration that the Company expects to receive. The Company established a five-step model to account for revenue arising from contracts with customers: to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. The Company exercises judgment, taking into consideration all of the relevant facts and circumstances when applying each step of revenue recognition model to contracts with customers.

The revenue from sales commissions is recognized when the Company is notified from its customer that the sales has been completed, the final invoice issued and the payment is received.

Where a revenue arrangement includes consideration payable to a customer it is recorded as a reduction of the arrangement's transaction price. The payment is currently recognized as a contract asset and will reduce future revenue recognized over time during the life of the agreement.

Issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise, they are expensed as incurred. The Company charges share issue costs to share capital and debentures when the related financial instruments are issued. Deferred issue costs related to financing transactions that are not completed are charged to expenses as well as issuance cost affected to financial instruments classified at fair value through profit or loss.

Share-based compensation

A share-based compensation plan has been granted by the Company to its directors, officers and employees. Share-based compensation expense is measured based on the fair value at the grant date and recognized over the period that the employees unconditionally become entitled to the awards with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

Upon the exercise of the options, any consideration received from plan participants is credited to share capital; the amount originally credited to contributed surplus is also reclassified to share capital.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the services.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statements of income (loss) and comprehensive income (loss) in the period in which they arise, except when deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of income (loss) and comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Mining properties and exploration and evaluation expenditures

Exploration and evaluation (E&E) expenditures include rights in mining properties and costs related to the initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in net income (loss) when they are incurred.

E&E expenditures also include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Expenditures relating to E&E activities are expensed as incurred.

E&E include costs related to establishing the technical and commercial viability of extracting a mineral resource. E&E include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral source or a proven and probable reserve;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

The E&E expenses are recorded in the consolidated statement of loss and comprehensive loss until such time as the technical feasibility and commercial viability has been established that supports the future development of the property.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The acquisition cost includes the purchase price or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is recognized under the straight-line method to write-down the cost to its estimated residual value, over the useful life of the assets. Assets are depreciated once they are available for use. The depreciation of equipment is calculated over three years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

Financial instruments

(i) Financial assets

Financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified and valued according to three categories: at amortized cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured according to two categories: at amortized cost or at FVTPL. In accordance with IFRS 9, derivatives embedded in contracts where the host contract is a financial asset falling within the scope of the standard are not separated, but the hybrid financial instrument as a whole is valued for the purposes of ranking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. Financial assets at FVTOCI are stated at fair value, with any gains or losses arising on re-measurement recognized through other comprehensive income. Debt instruments are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company has classified all of its financial assets as follows:

Financial Assets	Classification	Subsequent Measurement
Cash	Debt instruments	Amortized cost
Receivables	Debt instruments	Amortized cost
Advances to directors	Debt instruments	Amortized cost
Advances to companies controlled by a director	Debt instruments	Amortized cost
Conversion right	FVTPL	FVTPL
Promissory notes	Debt instruments	Amortized cost

(ii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired if there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(iv) Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the amount of proceeds received, net of direct issue costs.

(v) Financial liabilities issued by the Company

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Derivative instruments are measured at FVTPL even though they are not held for trading or designated as such.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or if it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or if it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive loss.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

The Company has classified all of its financial liabilities as follows:

Financial Liabilities	**Classification**	**Subsequent Measurement**
Accounts payable and accruals	Other financial liability	Amortized cost
Due to companies controlled by a director	Other financial liability	Amortized cost
Due to directors	Other financial liability	Amortized cost
Finder's fees payable	Other financial liability	Amortized cost
Farm-out agreement	Other financial liability	Amortized cost
Long-term debt	Other financial liability	Amortized cost
Convertible debentures – Host component	Other financial liability	Amortized cost
Convertible debentures 2021 and 2022 – Conversion option	FVTPL	Fair value
Convertible debentures – Participating feature	FVTPL	Fair value

(vi) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(vii) Extinguishment of financial liabilities with equity instruments

In accordance with IFRIC 19, when debt is extinguished with equity, the difference between the carrying amount of the debt extinguished and the fair value of the equity is recognized in the consolidated statement of loss and comprehensive loss, unless the settlement was determined to be a transaction with an owner, in which case the difference is recognized in the equity.

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically valuates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax are recorded using the asset and liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Inventory and inventory prepayment

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the FIFO (first in, first out) method. The cost of inventory comprises costs of purchase incurred in bringing the inventory to their present location and condition. The costs of purchase include the purchase price, non-recoverable taxes, transport, handling and other costs directly attributable to the acquisition of finished goods. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. If the cost exceeds net realizable amount, a provision is recognized. The provision may be reversed in a subsequent period if the circumstances which caused the write down no longer exist.

Leases

Lease contracts which contain the legal form of a lease are classified as either finance or operating leases. Finance lease represent leases that transfer substantially all of the risks and rewards of ownership of the leased asset. To assess whether a contract transfers substantially all the risks and rewards of ownership of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (less than $8,000). The lease payments associated with these leases are classified as operating lease and are recognized as an expense on a straight-line basis over the lease term.

Standards issued but not yet effective

At September 30, 2022, a number of new standards, amendments to standards and interpretations have been issued but are not yet effective. Accordingly, they have not been applied in preparing these consolidated financial statements. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective that are expected to be relevant to the Company's consolidated financial statements are provided below.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements and are not listed.

i) <u>Amendments to IAS 1 – Classification of Liabilities as Current or Non-current</u>

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The Company is currently assessing the impact on its consolidated financial statements.

ii) *<u>Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract</u>*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of deficit or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after October 1, 2022, with early application permitted. The Company is currently assessing the impact on its consolidated financial statements.

RISKS AND UNCERTAINTIES

Risks related to our business

Exploration Stage Mining Company with No History of Operation

The Company is in its exploration stage, has very limited operating history, and is subject to all the risks inherent in a new business enterprise. For example, to date the Company has had no revenues and has relied upon equity and debt financing to fund its operations. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complication, and delays frequently encountered in connection with a new business, and the competitive and regulatory environment in which the Company will operate, such as under-capitalization, personnel limitations, and limited revenue sources.

Due to Its History of Operating Losses, the Company is Uncertain That It Will Be Able to Maintain Sufficient Cash to Accomplish Its Business Objectives

The Company incurred a net income and comprehensive income of $35,087,746 for the year ended September 30, 2022. At September 30, 2022, there was a total deficiency of $30,287,801 and a deficit working capital of $32,803,632. There is no assurance that the Company can generate more net income and revenues, or successfully explore and exploit its properties.

Significant amounts of capital will be required to continue to explore and then develop the Company's exploration projects. The Company is not engaged in any revenue producing activities and does not expect to do so in the near future. Currently, the Company's sources of funding consist of the sale of additional equity securities, borrowing funds, or selling a portion of its interests in its assets. There is no assurance that any additional capital that the Company will require will be obtainable on acceptable terms, if at all. Failure to obtain such additional financing could result in delays or indefinite postponement of further exploration and development of the Company's projects. Additional financing, if available, will likely result in dilution to existing stockholders.

Capital Requirements and Liquidity; Need for Subsequent Funding

Company management and its Board of Directors monitor the overall costs and expenses of the Company and, if necessary, adjust Company programs and planned expenditures in an attempt to ensure that the Company has sufficient operating capital. The Company continues to evaluate the costs and planned expenditures for its on-going exploration projects. Although the Company has raised significant capital in prior years, the continued exploration and development of its projects will require significant amounts of additional capital. As a result, the Company will need to raise additional capital so that it can continue to fund its planned operations. The uncertainties of the global economies and the volatile prices of gold and silver, combined with instability in capital markets, have impacted the availability of funding. If the disruptions in the global financial and capital markets continue, debt or equity financing may not be available to the Company on acceptable terms, if at all. Equity financing, if available, may result in substantial dilution to existing stockholders. If the Company is unable to fund future operations by way of financing, including public or private offerings of equity or debt securities, its business, financial condition, and results of operations will be adversely impacted.

Disruptions in the Global Financial and Capital Markets May Impact the Company's Ability to Obtain Financing.

The global financial and capital markets have experienced on-going volatility and disruption. The Company continues to need further funding to achieve its business objectives. In the past, the issuance of equity securities has been the major source of capital and liquidity for the Company. The extraordinary conditions in the global financial and capital markets have currently limited the availability of this funding. If the disruptions in the global financial and capital markets continue, debt or equity financing may not be available to the Company on acceptable terms, if at all. If the Company is unable to fund future operations by way of financing, including public or private offerings of equity or debt securities, its business, financial condition, and results of operations will be adversely impacted.

The Company may also be impacted by inflation and increases in interest rates, which have occurred in many jurisdictions recently. Inflation could increase the costs of materials, labour and capital equipment. Rising interest rates may increase the cost of borrowing for the Company.

The Company's Exploration Activities Require Significant Amounts of Capital that May Not Be Recovered.

Mineral exploration activities are subject to many risks, including the risk that no commercially productive or extractable resources will be encountered. There can be no assurance that the Company's activities will ultimately lead to an economically feasible project or that it will recover all or any portion of its investment. Mineral exploration often involves unprofitable efforts, including drilling operations that ultimately do not further the Company's exploration efforts, as well as operating and other costs. The cost of minerals exploration is often uncertain and cost overruns are common. The Company's drilling and exploration operations may be curtailed, delayed, or canceled as a result of numerous factors, many of which are beyond its control, including title problems, weather conditions, compliance with governmental requirements and shortages or delays in the delivery of equipment and services.

Risks Inherent in the Mining Industry

The Company is subject to all of the risks inherent in the minerals exploration and mining industry and including, without limitation, the following: competition from a large number of companies, many of which are significantly larger than the Company, in the acquisition, exploration, and development of mining properties; the Company might not be able raise enough money to pay the fees, taxes and perform labor necessary to maintain its concessions in good force; exploration for minerals is highly speculative and involves substantial risks, even when conducted on properties known to contain significant quantities of mineralization; the Company's exploration projects may not result in the discovery of commercially mineable deposits of ore; the probability of an individual prospect ever having reserves that meet regulatory requirements is extremely remote, or the properties may not contain any reserves, and any funds spent on exploration may be lost; the Company's operations are subject to a variety of existing laws and regulations relating to exploration and development, permitting procedures, safety precautions, property reclamation, employee health and safety, air quality standards, pollution and other environmental protection control and the Company may not be able to comply with these regulations and controls; and a large number of factors beyond the control of the Company, including fluctuations in metal prices, inflation, and other economic conditions, will affect the economic feasibility of mining.

The business of mineral exploration is subject to many risks

Fluctuating Price for Metals

The Company's operations will be greatly influenced by the prices of commodities, including gold, silver, and other metals. These prices fluctuate widely and are affected by numerous factors beyond the Company's control, including interest rates, expectations for inflation, speculation, currency values, in particular the strength of the United States dollar, global and regional demand, political and economic conditions, and production costs in major metal producing regions of the world.

Title to the Company's Mineral Properties May be Challenged

The Company attempts to confirm the validity of its rights to title to, or contract rights with respect to, each mineral property in which it has a material interest. However, the Company cannot guarantee that title to its properties will not be challenged. Title insurance generally is not available, and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects and the actions or inactions of underlying property owners or holders. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Risks Inherent with Foreign Operations

The Company's operations are currently conducted in Mexico, and as such the operations of the Company are exposed to various levels of political, economic, and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls and governmental regulations that favor or require the rewarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Mexico may adversely affect the operations or potential profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine's safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations of the Company.

Environmental Controls

Compliance with statutory environmental quality requirements may necessitate significant capital outlays, may materially affect the earning power of the Company, or may cause material changes in the Company's intended activities. The Company's exploration operations require compliance with local and federal regulations. No assurance can be given that environmental standards imposed by either federal or state governments will not be changed or become more stringent, thereby possibly materially adversely affecting the proposed activities of the Company. In addition, if the Company is unable to fund fully the cost of remediation of any environmental condition, it may be required to suspend operations or enter into interim compliance measures pending completion of the required remediation.

Availability of Outside Engineers and Consultants

The Company is heavily dependent upon outside engineers and other professionals to complete work on its exploration projects. The mining industry has experienced significant growth over the last several years and as a result, many engineering and consulting firms have experienced a shortage of qualified engineering personnel. The Company closely monitors its outside consultants through regular meetings and review of resource allocations and project milestones. However, the lack of qualified personnel combined with increased mining projects could result in delays in completing work on the Company's exploration projects or result in higher costs to keep personnel focused on its project.

Operational Hazards; Uninsured Risks

The Company is subject to risks and hazards, including environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, flooding, earthquakes, and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or facilities, personal injury or death, environmental damage, reduced productivity and delays in exploration, asset write-downs, monetary losses, and possible legal liability. The Company may not be insured against all losses or liabilities, which may arise from operations, either because such insurance is unavailable or because the Company has elected not to purchase such insurance due to high premium costs or other reasons. The realization of any significant liabilities in connection with the Company's exploration activities as described above could negatively affect its results of operations and the price of its common stock.

Need for Additional Key Personnel; Reliance on Officers and Directors

The Company relies in large part on the personal efforts of its officers and directors. The success of the Company's proposed business will depend, in part, upon the ability to attract and retain qualified employees. The Company believes that it will be able to attract competent employees, but no assurance can be given that the Company will be successful in this regard. If the Company is unable to engage and retain the necessary personnel, its business would be materially and adversely affected.

Risks related to our stock

Our Stock Price Can Be Extremely Volatile

The common shares of the Company began trading on the Canadian Securities Exchange on October 17, 2017. The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to announcements of our business developments and drill results, progress reports, the metals markets in general, and other events or factors. In addition, stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market prices of companies, at times for reasons unrelated to their operating performance. Such broad market fluctuations may adversely affect the price of our common stock.

Risks related to our directors

Certain directors of the Company are also directors, officers and/or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its consolidated financial position at the time.

SUBSEQUENT EVENTS

Agreement with Gracor

On October 26, 2022, Auxico announced that it had signed an agreement for high-grade tin trading operations in Colombia, which provides the Company with a 70% profit share on all sales of tine ore executed with Gracor S.A.S ("Gracor"). The remaining 30% goes to Gracor. Gracor' s principal business is the purchase of tin from the indigenous population in the state of Vichada, Colombia, close to the Minastyc Property that is controlled by Auxico. Auxico will be providing the working capital to increase direct purchases of tin concentrates. Auxico will also arrange the sales of tin according to international standards.

This MD&A is dated the 6th day of March, 2023

"signed" Mark Billings

Auxico Resources Canada Inc