



## **ACLARA RESOURCES INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management's discussion and analysis ("MD&A") is prepared as of November 02, 2022, and is intended to assist readers in understanding the operational performance and financial condition of Aclara Resources Inc. (hereinafter, the "Company" or "Aclara"). The Company is, and will remain, a holding company and the only business of the Company is that of the business of its subsidiaries. The Company's material assets consist of interests in (i) Ree Uno SpA ("REE Uno"), a wholly owned Chilean subsidiary that holds the Penco Module, being Aclara's sole material mineral resource property, and (ii) Prospecciones Greenfield SpA, an indirect wholly owned Chilean subsidiary that holds other exploration concessions located in Chile.

This MD&A provides information concerning the Company's consolidated interim financial condition and results of operations for the three and nine-months ended September 30, 2022 and September 30, 2021, and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine-months ended September 30, 2022, including the accompanying notes (collectively, the "Interim Consolidated Financial Statements") and the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2021. The Interim Consolidated Financial Statements were prepared in accordance with IAS 34 "Interim Financial Reporting", International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

As used in this MD&A, references to "Q3 2022" are to the three months ended September 30, 2022, references to "Q3 2021" are to the three months ended September 30, 2021, references to "YTD 2022" are to the nine months ended September 30, 2022, and "YTD 2021" are to the nine months ended September 30, 2021. Unless as otherwise specified, the financial information contained in this MD&A is reported in thousands of United States dollars. Certain totals, subtotals, and percentages throughout this MD&A may not reconcile due to rounding.

### **COMPANY OVERVIEW**

Aclara is a development-stage rare earth mineral resources company listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "ARA", beneficially holding approximately an aggregate of 441,985 hectares of mining rights, distributed in the Maule, Ñuble, Biobío and Araucanía regions of Chile. The Company is focused on the development of its resources through the Penco Module development project (the "Project" or "Penco Module"), which covers a surface area of approximately 600 hectares and contains ionic clays rich in rare earth elements ("REE"). The execution of the Project is expected to benefit from low estimated initial capital expenditures (driven by access to existing nearby key infrastructure including, among other things, power, motorways, port and airport access, and a local professional workforce). In parallel with the development of the Penco Module, the Company intends to define additional opportunities to increase potential future rare earth element production via intensive greenfield exploration programmes and the development of additional project "modules" within the Company's concessions.

#### Acquisition of REE Uno and IPO

On October 15, 2021, Hochschild Mining Holdings Limited ("HM Holdings"), an affiliate of Hochschild Mining PLC ("Hochschild Mining"), contributed 100% of the issued and outstanding share capital of REE Uno to the Company as part of a series of reorganization steps intended to bring accretive shareholder value through the divestiture of REE Uno resulting in the creation of an independent company uniquely focused on the exploration and development of REE mineral resources. As a result of the acquisition of REE Uno, the Company became the beneficial owner of the Company's current portfolio of mining concessions located in Chile.

On December 10, 2021, the Company completed its initial public offering (the “IPO”) and concurrent private placement resulting in a capital raise for total approximate net proceeds of C\$117.7 million (together with the IPO, the “Going Public Transaction”). Additionally, and in conjunction with the completion of the Going Public Transaction, the Company qualified the distribution by Hochschild Mining of approximately 80% of pre-IPO common shares of the Company by way of an in-specie dividend to the holders of ordinary shares in the capital of Hochschild Mining. As a result of the Going Public Transaction, Hochschild Mining and Pelham Investment Corporation (an investment company controlled by Eduardo Hochschild) held approximately 20.0% and 36.7% of the issued and outstanding common shares of the Company, respectively.

## **BUSINESS DEVELOPMENT AND OVERALL PERFORMANCE**

### Penco Module and Future Outlook

On May 10, 2022, following the withdrawal of the Company’s environmental impact assessment (“EIA”) application in respect of the Penco Module (the “Original EIA”), the Company provided an update on its corporate strategy which aims to deliver a more robust EIA application (the “Revised EIA”), strengthen and expand relationships with local stakeholders, and prioritize exploration activities to define new potential modules. Current key items of the Company’s renewed corporate strategy include, but are not limited to, the following:

#### *Revised EIA Application*

The Company’s main focus is to continue and expand baselines studies related to flora and fauna in order to address the issues raised by the Environmental Assessment Authority (“SEA”) in connection with the Original EIA. As part of the application for the Revised EIA, the Company intends to engage in closer communications with the SEA and other relevant authorities to establish agreement on key environmental evaluation metrics as well as protection and compensation measures. The Company will use the work completed as part of the Original EIA to accelerate the completion of the required studies for the Revised EIA. Aclara aims to file a Revised EIA application during the second quarter of 2023.

#### *Social License*

The Company intends to execute on a defined plan to strengthen its relationship with the local community, which includes, among other things, increasing the company’s presence in the community by hiring locally based senior executives focused on corporate affairs and stakeholder communications and engaging a communication firm to better connect with local stakeholders. In addition, the Company plans to increase social contribution activities that benefit and are desired by the local community in order to enhance reputation and community perception of the Project locally.

#### *Greenfield Exploration*

The Company defined a new brownfield exploration area - “Alexandra Poniente” - as part of the Project, which offers potential to increase the mineral resource base of the Project. Drilling results from the Company’s Alexandra Poniente brownfield exploration campaign were press released on July 25, 2022, and will be included in an updated mineral resource statement in the fourth quarter of 2022. Following completion of the Alexandra Poniente drilling campaign, the Company suspended further drilling in the Penco area pending receipt of requisite environmental permits in connection with the Penco Module.

The Company’s efforts are currently directed towards identifying other greenfield drilling targets in order to diversify permitting risk in respect of any individual prospect or project. In an effort to define potential new modules, the Company will be carrying out drilling campaigns in two areas - “Veronica” (located south of the Penco Module) and “Petronila” (located north of the Penco Module). The Company expects to announce exploration results from its first drilling campaign in Veronica during the first quarter of 2023.

#### *Feasibility Study and Pilot Plant*

The Company intends to engage engineering companies to undertake a feasibility study in respect of the Project during the fourth quarter of 2022 with such engineering activities to begin in January 2023. In addition, the

Company has completed designs for a pilot plant aimed at demonstrating the metallurgical flowsheet and intends for the plant to also produce concentrate samples for the Project's internal and external separation trials.

### *Technical Report*

The Company achieved a positive preliminary economic assessment of the Penco Module's potential for the development of rare earth elements, the results of which are detailed in the technical report entitled "Amended and Restated NI 43-101 Technical Report – Preliminary Economic Assessment for Penco Module Project" dated effective September 15, 2021 (the "Technical Report").

### Overall Performance Highlights

During Q3 2022, the Company completed several engineering modifications aimed at enhancing the Revised EIA, with only certain modifications that remain outstanding including mining design contingent on the results of the updated mineral resources statement to be released in the fourth quarter of 2022 and those relating to the inclusion of a new source of recycled water for the plant process. Such modifications were aimed to deliver a more robust Revised EIA for the Penco Module. Further, the Company continued to advance baselines studies in respect of the Penco Module, which included seasonal baseline flora and fauna field studies to resolve existing concerns raised by the SEA. As at Q3 2022, the Company has completed all field activities for the fall and winter segments of the contemplated baseline studies.

Following the 2022 Chilean constitutional plebiscite and the resulting rejection of the proposed constitution, the Company perceives that the government of Chile has shifted its view towards investment in the country. During Q3 2022, the Company has initiated a local communication campaign seeking to capitalize on the alignment between the Company and the Chilean government's position on sustainable projects in Chile. The communication campaign highlights not only efforts undertaken by the Company but as well as the positive technical attributes of the Project compared to traditional mining and the resultant value generated for nearby communities. The Company held presentations and seminars with various local stakeholders as part of an overall educational campaign contemplated by the Company.

During the third quarter of 2022, the Company achieved the technical validation of the Project's process flowsheet with highlights including improved Dysprosium and Terbium metallurgical recoveries as well as the confirmation of recovery estimates for other rare earth elements presented in the Technical Report, chemical stability of processed clays, water recirculation rates of up to 95% and primary reagent (ammonium sulphate) recirculation of up to 99%. On September 6, 2022, the Company received the Sustainable Initiative of the Year award by the Business Intelligence Group in recognition of the Project's environmentally friendly design including the absence of use of explosives, no crushing and milling processes, no radioactivity and the complete revegetation of impacted areas with native forests after completion of mining activities. The Company considers its intellectual property critical to its business and has filed a patent of its ionic clays production flowsheet in Chile and aims to register its patent in those countries where ionic clays may be found. Following the validation of the Project's flowsheet process, the Company has continued to advance its design of the pilot plant, with a primary objective of up-sizing flowsheet parameters on a semi-industrial scale while targeting to improve recovery estimates, water recirculation and impurities management. All equipment orders have been placed and the construction of the pilot plant is expected to begin in the first quarter of 2023.

In respect of greenfield exploration activities conducted during Q3 2022, the Company advanced its drilling campaign in Veronica and completed an aggregate of 56 holes and 1,269 metres bringing the total number of holes and meters drilled in this district in 2022 to 112 and 2,580, respectively. Preliminary results indicate the presence of ionic clay mineralization between 2 and 10 metres below surface with a drill hole spacing of between 35 and 300 metres. The drilling campaign is expected to be concluded during the fourth quarter of 2022 with exploration results to be reported in first quarter of 2023. In addition, the Company has also identified 28 potential ionic clay targets throughout its concessions covering an aggregate area of slightly over 40,000 hectares. The Company intends to commence new drilling campaigns as soon as surface landowners grant authorization to conduct such activities.

During the same period, the Company continued to conduct QA/QC validation of its brownfield campaign in Alexandra Poniente and the infill drilling campaign in Victoria North, Luna, and Alexandra Oriente with a view to delivering an updated mineral resources statement during the fourth quarter of 2022.

## Financial Performance Highlights

During Q3 2022, the Company continued to advance various aspects in the development of the Penco Module and made consistent investments in respect of evaluation and exploration (“E&E”) assets and property, plant and equipment (“PP&E”) assets of \$2.795 million and \$0.231 million, respectively, as compared to \$2.758 million and \$0.055 million in Q3 2021, respectively. Aggregate E&E and PP&E spend as at YTD 2022 totalled \$11.092 million and 0.272 million, respectively, as compared \$8.949 million and \$0.109 million, respectively, as at YTD 2021.

As at YTD 2022, the Company’s cash balance totalled \$73.042 million, as compared to cash and cash equivalents of \$1.510 million as at YTD 2021. The positive difference resulted from net proceeds of \$93.154 million (approximately C\$117.696 million) raised in connection with the Going Public Transaction less invested capital and expenses. The Company is fully funded for next 18 months in terms of contemplated capital and operating expenditures including, among other things, permitting and environmental activities, piloting and the development of a feasibility study in respect of the Penco Module, and preliminary exploration activities in connection with defining potential new modules.

## **DISCUSSION OF RESULTS AND OPERATIONS UPDATE**

### ***Exploration Activities***

#### Brownfield Exploration

In the first quarter of 2022, a new zone, “Alexandra Poniente”, was the subject of a drilling campaign comprised of a total of 2,315 metres drilled over 72 holes, and the results from which confirmed the continuity of the underlying mineralisation to be classified as “Measured and Indicated Resources” (as defined under the Canadian Institute of Mining, Metallurgy and Petroleum Standards on Mineral Resources and Reserves, Definitions and Guidelines). In the second quarter of 2022, the Company confirmed the Alexandra Poniente deposit as an extension of the Alexandra Oriente mineralization. The drill holes were intended to infill the central Alexandra Poniente deposit and extend known mineralization to the east, west, north and at depth. The results showed that the mineralized zone remains open in all directions and at depth, which supports the possibility for further resource growth.

Furthermore, during the first quarter and at the beginning of the second quarter 2022, the Company executed a drilling campaign to convert inferred mineral resources of approximately 2 Mt, as reported in the Technical Report, into measured and indicated resources in respect of the Penco Module. This resulted in a total of 637 meters drilled in 24 holes, 268 meters drilled in 8 holes and 963 meters drilled in 31 holes distributed over Victoria North, Luna and Alexandra East, respectively.

During Q3 2022, the Company continued to integrate analytical results and QA/QC validation from the aforementioned drilling campaigns in order to provide an updated geological model for the purposes of updating the Penco mineral resource statement. The Company aims to deliver the updated mineral resource statement (including results from the Alexandra Poniente drilling campaign) during the fourth quarter of 2022.

Since March and after the permit was withdrawn, all brownfield drilling was stopped at Penco until further clarity on the permit is obtained. Geological potential is still open at the Penco Module.

#### Greenfield Exploration

Based on the results from mapping and sampling works performed at end of the fourth quarter of 2021, the Company identified the presence of regolith formations and rare earth element mineralization within the Veronica, Catalina and Petronila districts. The initial success from the mapping exploration works was complemented by a multi-element geophysics radiometry and magnetometry fly-over that covered most of the Company’s mining concessions (6,017 km<sup>2</sup>). The survey took place over certain districts preliminarily identified as being potentially viable for rare earth element mineralization (including Verónica, Josefa, Catalina, Petronila, and Amparito) with the objective of creating a map by using key variables to link lithology with radiometry for the purposes of identifying structural controls in geomorphology and regolith formation. Survey results were delivered at the end of the first

quarter of 2022 and resulted in the generation of new prospective targets throughout the Company's concessions package.

During Q2 and Q3 2022, further geological and regolith mapping was carried out in the Petronila and Veronica districts, where over 40,000 hectares of mining concessions were assessed for the presence of mineralization. This is associated with the systematic collection of superficial samples, analyzed from a geochemical point of view, that evidenced new areas of interest for a sonic drilling campaign and resulted in total of 28 targets being proposed for sonic drilling. The Company is in the process of obtaining consent to access these drilling areas from the respective private landowners. As at YTD 2022, a total of 112 holes and 2,580 metres have been drilled as part of the Company's greenfield exploration initiative. Preliminary results indicate continuity of mineralization with drill hole spacing of between 35 meters and 300 meters and shows mineralization occurring between 2 and 10 meters below surface. The results indicate that the mineralization is hosted in regolith, formed through the weathering of a biotite-bearing tonalite with some amphibole (in contrast to the Penco Module where mineralization is hosted in garnet-bearing granitoid). The Company intends to report the results of its greenfield exploration drilling campaigns in the first quarter of 2023.

During the third quarter of 2022, and as a result of the mapping exploration works completed in groups of mining concessions, the Company discarded 9,200 hectares that did not evidence potential for ionic clays generation or attractive rare earths content. The Company expects to continue discarding concessions as part of the mapping and sampling exploration programme. In October, a total of 10,300 hectares were discarded due to the same reasons.

### ***Development Activities***

The following section of this MD&A provides an overview of the activities carried out in support of the continued development of the Penco Module for Q3 2022.

#### **General Engineering**

During Q3 2022, the Company continued to advance engineering work in connection with water and electrical supply, and infrastructure design associated with the Penco Module mine and processing plant for the purposes of the Revised EIA application. These activities were carried out in collaboration with engineering consulting companies, Ausenco, CDM Smith and Reich and included studies associated with the operation, construction, and closure phases of the Project. During the same quarter, the Company continued to evaluate new sources of water for the Penco Module's process plant in order to evaluate improvements to the current design. In connection with its evaluation of alternatives, the Company has begun conceptual engineering designs to incorporate the use of treated industrial water as a source following initial favourable results relating to the quality and availability of the treated industrial water.

During the same period, the Company initiated a geotechnical drilling campaign, which will provide additional information needed for the characterization of extraction zones and to update certain mine design criteria including slope and bench considerations.

#### **Mining Study**

Mining studies conducted during Q3 2022 included the completion of a discrete event simulation model focused on mine haulage operations. The simulation model has been built using open-source tools and seeks to simulate certain of the distinctive operational characteristics of the Penco Module including, among other things, an analysis of local historic rainfall data to provide a probabilistic characterization of the types of events (light, moderate, heavy, violent rain) and their expected intensity and frequency. In addition to other features, this model aims to analyse the operational impact of having different ore stockpiles capacities. Also, the model can be used to produce a ranking for the different road segments based on their predicted impact on mine productivity, by shutting off each road segment one by one, the required transportation needs are re-routed, and the overall resulting productivity assessed and compared with a base case scenario. This is expected to provide insights and input for the upcoming engineering studies, which will determine the allocation of resources on those road segments scoring the highest negative impact on productivity. The latest pit and road designs as well as the aforementioned operating parameters will be updated in the software for utilization in the next phase of the study.

New block models for all six deposits defined as part of the Penco Module (Victoria Norte and Sur, Alexandra Oriente and Poniente, Maite and Luna) are being produced to update the mineral resource information contained in the Technical Report with the incremental results from the Company's recent drilling campaigns. All variables (including rare earth elements and yttrium) are being estimated for each domain using ordinary kriging. Pit optimization analyses, using current long-term rare earth element price estimates for mineral resources, will be completed in order to verify the reasonability of and prospects for eventual extraction. The Company intends to publish an updated mineral resources statement in the fourth quarter of 2022.

Also, during Q3 2022, the Company completed scoping level mining studies including pit optimization, sequencing, mine design, mine scheduling, fleet size estimates, geotechnical stability analysis, and the design of roads and general layout for inclusion in the Revised EIA application.

### Process Design

During Q3 2022, the Company successfully completed metallurgical recovery validation tests at SGS Lakefield, Canada. The results improved Dysprosium and Terbium metallurgical recoveries as well as confirmed recovery estimates for other rare earth elements presented in the Technical Report and gave support to the economic indicators of the Project. Furthermore, with the support of BQE Water in Vancouver, Canada, laboratory test work using actual process solution was carried out to validate the efficacy of the currently contemplated water treatment plant design. Preliminary results confirmed the chemical stability of residues and demonstrated the process plant's capacity to recirculate 95% of the water used resulting in a zero liquid discharge process design. Remaining water lost in the process consists of that contained in washed clays, which is returned to the field.

Aiming to demonstrate (improved) flowsheet at an up-sized scale, the Company continued to advance engineering design, equipment procurement and fabrication in connection with the Project's pilot plant. The design and operation of the pilot plant is being supported by Promet101, BQE Water, University of Concepción, University of Toronto, SGS, as well as other companies associated with the Project. The plant has been scheduled to run continuously for 3 months during the second and third quarters of 2023, the results of which will seek to demonstrate that the proposed recovery method is metallurgically sound and environmentally friendly. Approximately 50 kilograms of mixed rare earth carbonates will be produced during the term of the test run. In addition, processed clays from the pilot plant will be used in the revegetation trials planned for 2023.

The pilot plant will be constructed at an industrial warehouse near the Company's office in Concepción, Chile with preparatory work in order to proceed with construction of the pilot plant in Q1, 2023. Permits for the facility are in place and only minimum adjustments are needed.

## ***Environmental, Social and Governance***

### Environment and Permits

In 2022, the Company has been focused on advancing the environmental permitting process in respect of the Penco Module. As part of the Original EIA, the Company completed and submitted a third addendum to the SEA on January 31, 2022. Management expected an evaluation report to be issued by the SEA in advance of, and as a requirement to, the decision-making process of the relevant environmental permitting evaluation committee, which was required to render its decision in respect of the environmental permit by April 19, 2022. Notwithstanding that over the course of the Original EIA approval process, the Company had addressed many key aspects relating to the Penco Module, the Company was unable to satisfy the SEA in relation to two technical aspects in particular, which related to the protection of particular species of flora and fauna, within the mandated regulatory timetable relating to the Original EIA process. In light of follow-up discussions between representatives of Aclara and the SEA to better understand the outstanding issues and consultations with technical and other advisors, on March 24, 2022, the Company withdrew its application for the Original EIA so that it could fully address the issues raised during the late stages of the application process. The Company determined that it was in its best interests and those of the Penco Module to take the additional time required to fully understand and resolve the remaining issues and plans to resubmit a Revised EIA application relating to the Penco Module. Management's current expectations, based on preliminary discussions with its technical consultants and other advisors, is that the Revised EIA approval process could take between 12 months and 18 months from the filing date. The revised EIA application is projected to be filed in Q2, 2023.

Since April 2022, the Company has started new base line flora and fauna field studies and as at YTD 2022 have completed the autumn and winter segments of its baseline studies. Principally, the field studies were led by specialist consultants in flora identification using “plots” methodology and direct observation, fauna observation using “trap cameras” and water flow rate estimation by whirligig. The Company is aiming to complete spring base lines studies in the next quarter.

The Company is also evaluating certain voluntary measures in order to strengthen its application. These initiatives are expected to come mostly from the dialogue that the Company has started with the local community.

#### Occupational Health and Safety

In Q3 2022, safety key performance indicators, including frequency and severity indices, reported nil values resulting from an absence of recorded accidents. Comparatively, during the same period in 2021, the Company reported nil values resulting from an absence of recorded accidents.

In addition, during Q3 2022, the Company’s continued to provide safety measures training, site visits, and climate alert management, in order to improve field conditions for ongoing greenfield drilling campaigns, as well as other field activities from the engineering and sustainability teams. During the same period, the Company reported a total of 11 COVID-19 positive cases with 7 stemming from independent contractors. Comparatively, in Q3 2021, the Company reported a total of 1 COVID-19 positive cases.

#### Social License

In September 2022, following the Chilean constitutional plebiscite, the Company initiated a digital communication campaign emphasizing aspects of the Penco Module contributing to and aligning with the Chilean government’s shift towards sustainable projects in Chile. The communication campaign highlights not only efforts undertaken by the Company but as well as technical attributes of the Project compared to traditional mining and the resultant value generated for nearby communities. The Company also held presentations and seminars with various local stakeholders as part of an overall educational campaign contemplated by the Company. During the same period, the Company has evaluated the results of public perception surveys undertaken in the second quarter of 2022 and continue to integrate those findings in its social outreach and education campaigns.

To continue strengthening relationships with the community, the Company has hired a manager of Corporate Affairs and Social Value committed to realizing strategic objectives focused on integrating the Project with local communities. These strategies emphasize active and open communication with the community and inclusion of diversity and local talent.

### **OPERATIONAL PERFORMANCE**

#### ***Source of Funds***

From January 1, 2020 to October 15, 2021, HM Holdings contributed to the Company a total of \$20.750 million as capital contributions. On December 10, 2021, the Company raised aggregate net proceeds of \$93.154 million (approximately C\$117.700 million) in connection with its Going Public Transaction.

As at YTD 2022, the Company had a cash balance of \$45.884 million and \$27.158 million in short-term investments comprised of term deposits, resulting in total cash of \$73.042 million. Comparatively, as at YTD 2021, the Company had a cash balance of \$1.510 million and nil in short-term investments resulting in total cash of \$1.510 million.

As at December 31, 2021, the Company had a cash balance of \$64.185 million and short-term investments in term deposits of \$27.000 million, resulting in total cash of \$91.185 million. The Company is expected to be able to fully fund its liabilities and ongoing capital and operating expenditures for the next 18 months.

#### ***Overview of Operating Expenditure and Costs***

During Q3 2022, the Company incurred a loss of \$2.436 million in connection with its operating expenditures and costs, compared to a loss of \$0.173 million during Q3 2021. The Company’s operating expenditures and costs

arising from its continued operations include exploration expenses, administration expenses, finance costs, finance income and loss or gain resulting from exchange rate fluctuations.

(in thousands of US\$)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Exploration expenses	1,391	139	1,864	247
Administration expenses	1,133	31	3,447	88
Other income	-	-	-	(264)
Financial costs	4	2	13	4
Financial income	(288)	-	(387)	-
Exchange differences	196	1	254	1
<b>Loss from continuing operations before income tax</b>	<b>2,436</b>	<b>173</b>	<b>5,191</b>	<b>76</b>

#### Exploration Expenses

The breakdown of exploration expenses incurred by the Company for the periods Q3 2022, Q3 2021, YTD 2022 and YTD 2021 are as follows:

(in thousands of US\$)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Personnel expenses	147	45	169	46
Professional fees	23	-	23	-
Mining rights	-	-	50	-
Rental	-	1	6	2
Analysis & technical	276	39	369	64
Studies	35	25	139	25
Technology and system	-	-	20	12
Exploration Supplies	-	12	0	23
Contractors and Services	879	4	1,050	52
Other	31	13	37	23
<b>Total</b>	<b>1,391</b>	<b>139</b>	<b>1,864</b>	<b>247</b>

Exploration expenses comprise all activities related to and arising from greenfield exploration. Greenfield exploration is conducted for the purposes of identifying additional resources that may support new development and operation modules. Greenfield activities include, among others, superficial mapping works, geophysics and topographic studies.

During Q3 2022, the Company continued superficial mapping and soil sampling works, resulting in personnel expenses of \$147, chemical assays resulting in analysis and technical costs of \$276 and other costs of \$31. Comparatively, during Q3 2021, the Company incurred in personnel expenses of \$45, chemical assays considered as analysis and technical expenses of \$39 and other costs of \$13. In addition, the Company carried out socio-environmental screening studies of Petronila and Catalina concessions resulting in \$35 in studies expenses, compared to \$25 during Q3 2021. Finally, during Q3 2022, the Company incurred professional fees in the amount of \$23, \$80 in geological study expenses for the exploration and exploitation of rare earths, \$590 in drilling expenses and sample analysis, \$53 in licenses, studies and permits, and \$156 in other expenses.

#### Other Income (Expenses)

The breakdown of other income (expenses) incurred by the Company for the periods Q3 2022, Q3 2021, YTD 2022 and YTD 2021 are as follows:



(in thousands of US\$)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Analysis & technical	-	-	-	(256)
Rental	-	-	-	(8)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(264)</b>

As at YTD 2022, the Company incurred other income (expenses), due to a negative exploration “cost” as a result from a reversal of a provision of \$264 in 2020.

### Administration Expenses

The breakdown of administration expenses incurred by the Company for the periods Q3 2022, Q3 2021, YTD 2022 and YTD 2021 are as follows:

(in thousands of US\$)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Personnel expenses	613	-	1,842	-
Professional fees	90	6	195	29
Depreciation and amortization	59	22	207	59
Contractors and services	292	-	1,030	-
Permit	55	-	100	-
Other expenses	24	3	73	-
<b>Total</b>	<b>1,133</b>	<b>31</b>	<b>3,447</b>	<b>88</b>

The increase in overall administration expenses is primarily a result of expenses incurred in connection with the Going Public Transaction and the demerger from Hochschild Mining, as the Company operates now as an independent entity. Personnel expenses of \$613 were incurred by the Company as a result of its new management team, which includes the Company’s current Chief Executive Officer and his assistant, and Chief Operating Officer.

Professional fees of \$90 incurred during Q3 2022, corresponded to accounting services and auditing services rendered for the Company’s 2021 annual audit, comparatively during Q3 2021, the Company incurred accounting expenses in the amount of \$6.

During Q3 2022, the Company incurred depreciation and amortization expenses of \$59, as compared to \$22 during Q3 2021. The change is largely driven by the amortization of exploration mining concessions following the expiration schedule of each concession. The comparative increase in amortization expenses resulted from the contribution of certain exploration concessions from REE Uno to Prospecciones Greenfield SpA, and accordingly, for the purposes of accounting, Prospecciones Greenfield SpA was required to amortize the capitalized expenses as it does not otherwise operate a corresponding mining project.

During Q3 2022, the Company incurred contractor and services expenses of \$292 comprised of \$79 in director fees and expenses, \$93 in communication initiatives, and \$120 in accounting, information technology, and legal expenses to comply with continued disclosure obligations as a Canadian reporting issuer and TSX-listed company, compared to nil in Q3 2021.

During Q3 2022, the Company incurred permit expenses of \$55 and other expenses of \$24, principally comprised of administrative costs for renewal of current concessions and miscellaneous expenses related to offices, rent, telephones, auditing, and transportation, respectively.

### Financial Income and Costs

During Q3 2022, net financial income and costs incurred in the amount of \$288, and \$4 were associated with investments in short-term deposits and interest-bearing bank accounts, and bank commissions, respectively, as compared to net financial costs incurred in the amount of \$2 in Q3 2021.

(in thousands of US\$)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Financial costs	4	2	13	4
<b>Loss from continuing operations before income tax</b>	<b>4</b>	<b>2</b>	<b>13</b>	<b>4</b>

  

(in thousands of US\$)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Financial income	(288)	-	(387)	-
<b>Loss from continuing operations before income tax</b>	<b>(288)</b>	<b>-</b>	<b>(387)</b>	<b>-</b>

### ***Evaluation and Exploration Assets***

In accordance with IFRS accounting principles regarding capitalization of E&E assets, costs of mineral properties are capitalized on a project-by-project basis. As at YTD 2022, the Company's principal business included the development of the Penco Module. The Company capitalizes expenses related to brownfield exploration and infill drilling, metallurgical testing and process design, engineering of the mine, processing plant and project infrastructure, permitting and administration activities and services.

The following table sets out an overview of the Company's capitalized E&E asset balance as follows:

(in thousands of US\$)	Total
<b>Balance as at January 1, 2021</b>	<b>70,929</b>
Additions	9,070
Subsidy	(121)
Foreign exchange effect	(9,621)
<b>Balance as at September 30, 2021</b>	<b>70,257</b>
Additions	2,712
Foreign exchange effect	(2,837)
<b>Balance as at December 31, 2021</b>	<b>70,132</b>
Additions	11,092
Foreign exchange effect	(9,739)
<b>Balance as at September 30, 2022</b>	<b>71,485</b>
Accumulated amortisation and impairment	
<b>Balance as at January 1, 2021</b>	<b>8</b>
Additions	-
Foreign exchange effect	-
<b>Balance as at September 30, 2021</b>	<b>8</b>
Additions	-
Foreign exchange effect	(1)
<b>Balance as at December 31, 2021</b>	<b>7</b>
Additions	142
Foreign exchange effect	(14)
<b>Balance as at September 30, 2022</b>	<b>135</b>
<b>Net book value as at September 30, 2021</b>	<b>70,249</b>
<b>Net book value as at December 31, 2021</b>	<b>70,125</b>
<b>Net book value as at September 30, 2022</b>	<b>71,350</b>

The total investments in E&E assets in the Penco Module for the periods YTD 2022, YTD 2021 and fiscal year ended December 31, 2021, are as follows:

	Nine months ended September 30,		Year ended December 31,
(in thousands of US\$)	2022	2021	2021
Personnel expenses	2,082	1,643	2,530
Professional fees	130	1,003	933
Environmental impact study	1,067	472	997
Geochemical study	-	163	192
Diamond drilling	-	807	867
Engineering services	358	795	1,003
Mining rights	509	341	493
Feasibility studies	7	1,520	1,693
Rent building, vehicles, others	293	240	349
Analysis & technical	1,466	606	830
Contractors and Services	4,753	1,187	1,317
Other	426	293	457
<b>Total</b>	<b>11,092</b>	<b>9,070</b>	<b>11,661</b>

The Company incurred personnel expenses of \$2.082 million YTD 2022 compared to \$1.643 million YTD 2021, due to an increased employment of 13 staff members. The headcount as of September 30, 2022 was 59 compared to 46 as of September 30, 2021 and 46 as of December 31, 2021.

Each of the Company's categories of costs related to its investment in the Penco Module during YTD 2022 have been discussed elsewhere in this MD&A. In particular, expenses related to the development of the contemplated feasibility study are comprised of costs related to engineering services, feasibility studies, analysis and technical and contractor and services, each of which are discussed above under the section of this MD&A titled "*Brownfield Exploration*" and "*Development Activities*". Comparatively, during YTD 2021, expenses comprised of the above-mentioned categories of costs as well as costs related to geochemical study and diamond drilling were in respect of the development of the Technical Report, which included engineering activities as well as brownfield and infill drilling activities.

During YTD 2022, expenses related to permitting activities were comprised of costs relating to the environmental impact study and are as described above under the section of this MD&A titled "Environmental, Social and Governance". The environmental impact study expenses for the period YTD 2022 totalled \$1,067, compared to \$472 during YTD 2021.

During YTD 2022, expenses related to mining rights were comprised of costs relating to exploration and exploitation concessions of the Company. As at September 30, 2022 there were 441,985 hectares compared to 346,285 hectares as at September 30, 2021.

Lastly, fixed expenses related to professional fees, and rent, building, vehicles and others corresponding to legal fees, capital leases and leased property of the Company, increased during YTD 2022 as compared to YTD 2021. The increase was primarily as a result of a warehouse lease for the purposes of storing mineral and soil cores and expenditures incurred in connection with board meetings and attendance at industry conferences.

## SUMMARY OF QUARTERLY RESULTS

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
(in thousands of US\$)				
Net income (loss) from continuing operations	(2,436)	(1,758)	(997)	(1,435)
Net income (loss) and comprehensive income (loss)	(2,436)	(1,758)	(997)	(1,435)

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Net income (loss) from continuing operations	(173)	(109)	208	520
Net income (loss) and comprehensive income (loss)	(173)	(109)	208	520

During Q3 2022, the Company incurred higher net losses from continuing operations compared to the two previous quarters mainly explained by an increase in exploration comprised of geological surveys, analysis and drilling expenses for the exploration and exploitation of rare earths. The increase in net loss from continuing operations since the three months ended December 31, 2021, is related to the result of the Going Public Transaction and the demerger from Hochschild Mining, which assumed increasing expenses related to the management team to operate independently.

## FINANCIAL INSTRUMENTS

### *Nature and Extent*

The Company's consolidated financial instruments consist of cash and cash equivalents. Cash and cash equivalents are included in current assets due to their short-term nature. The fair value of cash and cash equivalents approximates their book value.

The Company's consolidated financial instruments for the periods YTD 2022 and YTD 2021 are as follows:

(in thousands of US\$)	Nine months ended September 30, 2022	September 30, 2021	Year ended December 31, 2021
<b>Cash and cash equivalents</b>			
Current demand deposit accounts	73,042	1,510	64,185
<b>Total cash and cash equivalents</b>	<b>73,042</b>	<b>1,510</b>	<b>64,185</b>

As at September 30, 2022, the Company held a one-month term deposit in the amount of \$27.158 million as an investment in Banco Scotiabank, compared to nil in term deposits and mutual funds as at September 30, 2021.

### *Financial Instrument Risks*

The Company manages risks to minimize potential losses. The primary objective is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The Company's risk exposure in respect of its financial instruments is summarized below.

#### *Foreign Currency Risk*

The Company is a development stage mineral resources company and accordingly, no income or operating costs have been recorded. The principal disbursements are denominated in Chilean pesos. The Company has deposits, trade and other payables and account payables to related parties stated in U.S. dollars.

#### *Credit Risk*

Credit risk relates to the Company's inability to make payment of their obligations as they become due. The Company is not exposed to credit risk as it does not have commercial activities.

#### *Liquidity Risk*

Liquidity risks relate to the Company's inability to obtain funds required to comply with its commitments, including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management regularly monitors the Company's level of short- and medium-term liquidity, and access to credit lines, in order to ensure appropriate financing is available for its operations. As of the date of this MD&A, the Company has not opened, or been provided access to, any lines of credit.

## LIQUIDTY AND CAPITAL RESOURCES

### *Working capital requirements*

The Company has working capital needs of \$1.965 million as at September 30, 2022. This requirement will be largely covered by current cash and cash equivalent position of \$73.042 million.

### *Off-Balance Sheet Commitments*

The Company has no off-balance sheet commitments.

The Company's contractual obligations as at September 30, 2022 that need to be satisfied with cash and their approximate timing of payment are as follows:

	Q4 2022	FY 2023	FY 2024	FY 2025	FY 2026
(in thousands of US\$)					
Office leases	23	46	46	23	-
Vehicles lease	6	17	17	3	-
Warehouse leases	30	16	-	-	-
Land acquisition	220	6,000	1,300	1,300	1,300
<b>Total Contractual Obligations</b>	<b>279</b>	<b>6,078</b>	<b>1,362</b>	<b>1,326</b>	<b>1,300</b>

### *Cash and Liquidity*

The Company did not have any commercial debt as at September 30, 2022.

As at September 30, 2022, the Company had a cash balance of \$73.042 million as total available cash. The Company's present cash resources are sufficient to meet all its current liabilities and administrative and overhead expenses for the next 18 months.

## RELATED PARTY TRANSACTIONS

### *Key Management Compensation*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

During YTD 2022, the remuneration of the Company's key management totalled \$1.676 million compared \$0.483 million during YTD 2021. The increase of the Company's key management remuneration is as a result of the establishment of an independent management team as part of the Going Public Transaction including, hiring costs incurred in respect of the Company's current Chief Executive Officer and Chief Operating Officer.

	Nine months ended September 30,		Year ended December 31,
(in thousands of US\$)	2022	2021	2021
Shared-based payments	548	-	-
Short-term employee benefits	1,128	483	643
<b>Total compensation paid to key management personnel</b>	<b>1,676</b>	<b>483</b>	<b>643</b>

### *Related Party Transactions*

The Company was subject to the following related-party balances and transactions for the periods YTD 2022, YTD 2021 and fiscal year ended December 31, 2021:

(in thousands of US\$)	Accounts Payable		
	Nine months ended September 30, 2022	Year ended December 31, 2021	
Compañía Minera Ares S.A.C.	42	1,226	-
Minera Hochschild Chile SCM	-	262	6
<b>Total</b>	<b>42</b>	<b>1,488</b>	<b>6</b>

(in thousands of US\$)	Accounts Receivable		
	Nine months ended September 30, 2022	Year ended December 31, 2021	
Hochschild Mining Holdings Ltd	-	-	12
<b>Total</b>	<b>-</b>	<b>-</b>	<b>12</b>

Minera Hochschild Chile SCM and Compañía Minera Ares S.A.C., as members of Hochschild Mining group, are both related parties and have granted intercompany administrative services since 2019. During the first quarter of 2022, account payables with related parties were incurred pursuant to the transitional service agreement between Hochschild Mining PLC and the Company. The services agreement includes the provision of ongoing services by Hochschild Mining to the Company such as information technology, technical advice, and accounting advice and ad hoc services such as legal, sustainability, internal auditing and human resources. These services are provided by Compañía Minera Ares S.A.C. and Minera Hochschild Chile SCM on behalf of Hochschild Mining. For a more fulsome description of the Transitional Services Agreement, please see Aclara's most recent annual information form, and Aclara's other filings with securities and regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

Accounts payables with Compañía Minera Ares S.A.C. during Q3, 2022 amount to \$42 compared to \$1,226 during Q3, 2021. In addition, Accounts payables with Compañía Minera Hochschild Chile SCM during Q3, 2022, were nil, compared to \$262 during Q3, 2021. These accounts payable were related to the administrative support of Hochschild Mining.

## OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's issued and outstanding share capital comprised of an aggregate of 162,599,162 common shares.

As of the date of this MD&A, the Company's issued and outstanding convertible share capital is comprised of an aggregate of 1,198,956 restricted share units ("RSUs") issued pursuant to the Company's long-term incentive plan.

	As at September 30, 2022	As at September 30, 2021
<b>RSUs (Management)</b>	<b>750,228</b>	<b>-</b>
<b>Vesting Period</b>		
December 10, 2022	250,076	-
December 10, 2023	250,076	-
December 10, 2024	250,076	-
<b>RSUs (Board)</b>	<b>448,728</b>	
<b>Vesting Period</b>		
December 31, 2022	448,728	-
<b>Total RSUs issued</b>	<b>1,198,956</b>	<b>-</b>

## **SIGNIFICANT ACCOUNTING POLICIES**

The Company's accounting policies are described in Note 2 to the Interim Consolidated Financial Statements.

## **SIGNIFICANT EQUITY INVESTEE**

Disclosure related to the Company's significant equity investee is provided under Note 16 to the Interim Consolidated Financial Statements.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A includes "forward-looking information" and "forward-looking statements" within the meaning of applicable securities legislation (collectively referred to herein as "forward-looking statements") and are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". All statements other than statements of historical fact are forward-looking statements and in particular, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances and similar words suggesting future outcomes or statements regarding an outlook. All statements in this MD&A that address events or developments that the Company expects to occur in the future are forward-looking statements.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, but are not limited to, operating in a foreign jurisdiction (including local political and socioeconomic issues); dealing with changes to local laws and regulations; compliance with laws; failure to obtain necessary permits and licences or to renew them; permits and third party consents (as may be required) timing and requirements; impact of social and environmental activism; relations and agreements with local communities; government regulation of mining operations; environmental compliance; expected production, capital and operating costs; price volatility of rare earth elements; statements regarding anticipated exploration, drilling, development, construction, permitting and other activities or achievements of Aclara; expectations, strategies and plans for the Penco Module, including as it relates to geology, metallurgy, engineering, title, and environmental matters; expected costs and timing of development of the Penco Module; costs, location and timing of potential future exploration and drilling; estimated completion dates for certain milestones; success of future exploration and development activities; the impact of competition and applicable laws and regulations on the Company's operations and results; environmental risks and hazards; future objectives of the Company and growth and other strategies to achieve those objectives; future financial or operating performance of the Company; global markets for the demand and supply of rare earth elements; continuous availability of required expertise and manpower; continuous access to capital markets; future trends that may affect the Company's business and results of operations; the impact of the COVID-19 pandemic on Aclara's operations, including any restrictions or suspensions with respect to our operations and the effect of any such restrictions or suspensions on our financial and operational results; the impact of COVID-19 on Aclara's workforce, suppliers and other essential resources and what effect those impacts, if they occur, would have on Aclara's business; future or estimated mine life, rare earth price assumptions, ore grades and sources, recovery rates; the continued qualification for listing on the TSX; and Aclara having further potential through exploration at the Penco Module, and those risks associated with the mining industry, including delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of resource estimates; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environmental risks, the risk of commodity price and foreign exchange rate fluctuations; as well as other factors identified and as described in more detail in Aclara's most recent annual information form, and Aclara's other filings with securities and regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

Readers are cautioned that the foregoing list of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company

undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

## **APPROVAL**

The Board of Directors of Aclara has approved the disclosure contained in this MD&A on November 02, 2022.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company and the Company's other continuous disclosure materials, including the annual information form, annual management's discussion and analysis and audited annual financial statements, Interim Consolidated Financial Statements, and notice of annual meeting of shareholders and management information circular will be available on Aclara's website at [www.aclara-re.com/](http://www.aclara-re.com/) and on SEDAR at [www.sedar.com](http://www.sedar.com).