

Consolidated Financial Statements

ACLARA RESOURCES INC.

Santiago, Chile

As of December 31, 2021 and 2020

Independent Auditor's Report

To the Shareholders
Aclara Resources Inc.

Opinion

We have audited the consolidated financial statements of Aclara Resources Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Subsequent event

As described in note 1 and note 21- Subsequent events, on March 24, 2022, the Company withdrew the original EIA (environmental impact assessment) application related to the Penco Module to allow time to address two technical aspects in particular, which relate to the protection of local flora and fauna. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit Matter	How our audit addressed the key audit matter
<i>Going Concern assessment – the Company is in development stage</i>	
As discussed in Note 2 to the accompanying financial statements, the Company is in the development stage and has not generated any revenue. The economic analysis contained in the economic analysis contained in the Pre-Economic Assessment NI 43-101 Report ("Technical Report") is based, in part, on inferred mineral resources, and is preliminary in nature. Inferred mineral resources are considered too geologically speculative to have mining and economic considerations applied to them and to be categorized as mineral reserves. There is no certainty that economic forecasts on which the preliminary economic assessment contained in the Technical Report is based will be realized.	<p>We obtained and analyzed the amended and restated NI 43-101 Technical Report issued by a third party, issued on September 15th, 2021, to gain an understanding of the economic analysis and its conclusions.</p> <p>We assessed the projected prices of the Rare Earth Basket Prices contained in the economic analysis of the Technical Report and by comparing them to observed prices in the market.</p> <p>We obtained and reviewed minutes of the board and their follow up of the project and the budget.</p> <p>We evaluated the main financial index, including working capital, debt ratio, projected capital expenditures and cash needed in the next 12 months.</p>

Other information

Management is responsible for the other information. The other information comprises:

- Management's discussion and analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charge with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Oscar Gálvez.



Oscar Gálvez R.
EY Audit SpA

Santiago, Chile
March 29, 2022

Consolidated Financial Statements

ACLARA RESOURCES INC.

As of December 31, 2021 and 2020

Consolidated Financial Statements

Statement of Comprehensive Income

		As at 31 December 2021	As at 31 December 2020
	Notes	US\$000	US\$000
Continuing operations			
Administration expenses	4	(498)	(237)
Exploration expenses	5	(514)	(554)
Loss from continuing operations before net finance income/(cost) and income tax		(1,012)	(791)
Financial income		-	2
Financial costs	6	(17)	(2)
Exchange differences		(479)	-
Loss from continuing operations before income tax		(1,508)	(791)
Income tax expense	7	-	-
Loss for the year from continuing operations		(1,508)	(791)
Loss attributable to controlling owners		(1,508)	(791)
Loss attributable to non-controlling owners		-	-
Basic loss per share US\$	8	(0.02197)	(0.01981)
Diluted loss per share US\$	8	(0.02127)	(0.01981)
		As at 31 December 2021	As at 31 December 2020
		US\$000	US\$000
Loss for the year		(1,508)	(791)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		(12,773)	2,999
Other comprehensive (loss)/profit for the year, net of tax		(12,773)	2,999
Total comprehensive (loss)/profit for the year		(14,281)	2,208

The attached notes are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Statement of Financial Position

ASSETS	Notes	As at 31 December 2021	As at 31 December 2020
		US\$000	US\$000
CURRENT ASSETS			
Cash and cash equivalents	12	64,185	1,265
Short term investments	13	27,000	-
Trade debtors and other accounts receivable, net, current	11	124	247
Accounts receivable from related entities, current	17	12	-
TOTAL CURRENT ASSETS		91,321	1,512
NON-CURRENT ASSETS			
Trade debtors and other accounts receivable, non-current	11	2,667	2,193
Property, plant and equipment, net	9	704	536
Evaluation and exploration assets	10	70,125	70,921
TOTAL NON-CURRENT ASSETS		73,496	73,650
TOTAL ASSETS		164,817	75,162
EQUITY AND LIABILITIES	Notes	As at 31 December 2021	As at 31 December 2020
		US\$000	US\$000
CURRENT LIABILITIES			
Trade accounts payable and other accounts payable, current	14	2,222	2,222
Accounts payable to related entities, current	17	6	3,810
Other provisions, non-current	15	822	-
TOTAL CURRENT LIABILITIES		3,050	6,032
EQUITY			
Equity share capital	16	164,508	26,768
Retained Earnings		(3,657)	(2,149)
Other reserves		916	44,511
Capital and reserves attributable to shareholders of the Parent		161,767	69,130
Non-controlling interests		-	-
TOTAL EQUITY		161,767	69,130
TOTAL LIABILITIES AND EQUITY		164,817	75,162

The attached notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors:

(Signed) "PAUL ADAMS"
Paul Adams (Director)

(Signed) "CATHARINE FARROW"
Catharine Farrow (Director)

Consolidated Financial Statements

Statement of Cash Flow

	Notes	As at 31 December 2021 US\$000	As at 31 December 2020 US\$000
Cash flows from operating activities			
Cash from / (used in) operations	18	(4,013)	2,509
Interests received		-	2
Interests paid		(11)	-
Net cash from/(used in) operating activities		(4,024)	2,511
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(343)	(294)
Purchase of evaluation and exploration assets	10	(11,661)	(8,297)
Short term investments, current	13	(27,000)	-
Net cash used in investing activities		(39,004)	(8,591)
Cash flows from financing activities			
Capital contributions	16	11,250	7,000
Shares issued	16	94,698	-
Cash flows generated from financing activities		105,948	7,000
Net increase/(decrease) in cash and cash equivalents during the year		62,920	920
Exchange difference		-	(875)
Cash and cash equivalents at beginning of the period		1,265	1,220
Cash and cash equivalents at end of the period	12	64,185	1,265

The attached notes are an integral part of these consolidated financial statements

Consolidated Financial Statements

Statement of Changes in Equity

	Notes	Equity share capital	Cumulative translation adjustment	Other reserves	Total other reserves	Retained earnings	Capital and reserves attributable to shareholders of the Parent	Participations non-controlling	Total equity
		US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance as at January 1, 2021	16	26,768	3,596	40,915	44,511	(2,149)	69,130	-	69,130
Other comprehensive expense		-	(12,773)	-	(12,773)	-	(12,773)	-	(12,773)
Profit (Loss) of the period		-	-	-	-	(1,508)	(1,508)	-	(1,508)
Total comprehensive expense for the year		-	(12,773)	-	(12,773)	(1,508)	(14,281)	-	(14,281)
Shares issued to settle debt		3,500	-	-	-	-	3,500	-	3,500
Shares issued - Capital Contributions		10,250	-	-	-	-	10,250	-	10,250
Pre-IPO reorganization		30,822	-	(30,822)	(30,822)	-	-	-	-
Total Pre-IPO reorganization	16	44,572	-	(30,822)	(30,822)	-	13,750	-	13,750
Capital contributions		13	-	-	-	-	13	-	13
Shares issued - IPO		99,397	-	-	-	-	99,397	-	99,397
Share issuance costs		(6,242)	-	-	-	-	(6,242)	-	(6,242)
Balance as at December 31, 2021	16	164,508	(9,177)	10,093	916	(3,657)	161,767	-	161,767
Balance as at January 1, 2020		19,768	597	40,915	41,512	(1,358)	59,922	-	59,922
Other comprehensive expense		-	2,999	-	2,999	-	2,999	-	2,999
Profit (Loss) of the period		-	-	-	-	(791)	(791)	-	(791)
Total comprehensive expense for the year		-	2,999	-	2,999	(791)	2,208	-	2,208
Capital contributions		7,000	-	-	-	-	7,000	-	7,000
Balance as at December 31, 2020	16	26,768	3,596	40,915	44,511	(2,149)	69,130	-	69,130

The attached notes are an integral part of these consolidated financial statements

Consolidated Financial Statements

Index

Content

1 Corporate information	7
2 Significant accounting policies	8
(a) Basis of preparation	8
(b) Judgements in applying accounting policies and key sources of estimation uncertainty	9
(c) Currency translation	10
(d) Evaluation and exploration assets	10
(e) Determination of ore reserves and resources	10
(f) Property, plant and equipment	10
(g) Impairment of non-financial assets	11
(h) Trade and other receivables	12
(i) Income Tax	12
(j) Financial instruments	13
(k) Cash and cash equivalents	16
(l) Fair value measurement	16
3 Subsidiary and branch companies	17
4 Administration expenses	18
5 Exploration expenses	18
6 Financial costs	19
7 Income tax	19
8 Basic and diluted earnings per share	19
9 Property, plant and equipment	21
10 Evaluation and exploration assets	22
11 Trade and other receivables	23
12 Cash and cash equivalents	23
13 Short term investments	24
14 Trade and other accounts payables	24
15 Other provisions	25
16 Equity	25
(a) Share capital	25
(b) Other reserves	26
(c) Non-controlling interests	26
17 Related-party balances and transactions	26
(a) Related-party accounts receivable and payable	27
(b) Compensation of key management personnel of the Company	27
18 Notes to the statement of cash flows	28
19 Contingencies	28
a) Taxation:	28
b) Guarantees:	28
c) Litigations:	28
20 Financial risk management	29
(a) Foreign currency risk	29
(b) Credit risk	29
(c) Liquidity risk	29
(d) Capital risk management	29
(e) Environmental risk	29
21 Subsequent events	29

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1 Corporate information

Aclara Resources Inc., formerly 1303714 B.C. Ltd. (hereinafter the 'Company') is a limited Company incorporated under the Business Corporations Act (British Columbia) on May 5, 2021. The Company's registered office is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8, Canada. On August 5, 2021, the Company established 1303714 B.C. LTD., Agencia en Chile (hereinafter the 'Agencia'), a foreign legal entity branch in Chile. On October 04, 2021, the Company changed its name to "Aclara Resources Inc.". On October 15, 2021, Agencia changed its name to "Aclara Resources Inc., Agencia en Chile".

Aclara Resources Inc. is the direct owner of 100% of the issued and outstanding share capital of Ree Uno SpA, which was incorporated on 28 October 2011. Ree Uno SpA's registered office is located in Chile. Ree Uno SpA's principal business is the development of the Penco Module, which is located in Chile.

Investment in a subsidiary

- On October 2, 2019, Minera Hochschild Chile S.C.M., a Chilean subsidiary of the Hochschild Mining Group, acquired an 100% interest in Ree Uno SpA. On November 27, 2020 Minera Hochschild Chile S.C.M. sold its 100% interest in Ree Uno SpA to Hochschild Mining Holdings Ltd, a UK-based subsidiary of the Hochschild Group. On October 15, 2021, Hochschild Mining Holdings Ltd contributed 100% of its ownership interest in Ree Uno SpA's shares to the Company in exchange for a total of 88,262,106 common shares in the capital of the Company as part of Hochschild Mining Group's and the Company's reorganization strategy. Immediately thereafter, the Company allocated all of its shares in the capital of Ree Uno SpA to its Chilean branch.
- Ree Uno SpA is the direct owner of 100% of the issued and outstanding share capital of Prospecciones Greenfield SpA, which was incorporated on October 4, 2021. Prospecciones Greenfield SpA's registered office is located in Chile. Prospecciones Greenfield SpA's principal business is managing exploration concessions for Ree Uno SpA for the potential development of new modules in Chile. The immediate controlling party of Prospecciones Greenfield SpA is Ree Uno SpA.

Business segment

The Company is involved in the exploration of rare-earth metals in Chile and operates one business segment, which is the development of the Penco Module project in Chile. The operations are conducted through the Company's wholly-owned subsidiary, Ree Uno SpA.

The Company is a mining company engaged in the exploration and development of rare earth mineral resources with approximately 451,985 hectares of mining concessions located in the Maule, Nuble, Biobio and Araucanía regions of Chile. The Company is presently focused on the development of the Penco Module, which covers a surface area of approximately 600 ha and contains ionic clays rich in REE. Subsequent developmental stages of the Company are expected to include optimisation of the metallurgical process, additional production modules and vertical integration opportunities. Results from the preliminary economic assessment of the Penco Module were issued on October 18th, 2021.

As part of the Original EIA approval process, the Company filed an initial application and three supplementary submissions to the Environmental Assessment Service ("SEA") by way of addendums (each an "Addendum") and engaged in a number of productive discussions with the relevant authorities relating to the Penco Module. Management of the Company 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 local 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 ("**Revised EIA**"). Management's current expectation, based on preliminary discussions with its technical consultants and other advisors, is that the Revised EIA approval process could take two years or more to complete. However, there can be no assurances as to the timing of a Revised EIA application, the length of delay in obtaining an approval or whether or not such approval will be issued.

The Company was involved in an initial public offering ("IPO") process that was completed on December 10, 2021. Following the date of its initial public offering, the entire issued share capital of the Company has been and continues to be listed on the Toronto Stock Exchange ("TSX").

Presentation of Financial Statement

The ultimate controlling party of the Company is Mr. Eduardo Hochschild whose beneficial interest in the Company and its subsidiaries is held through Pelham Investment Corporation, a company governed under the laws of the Cayman Islands, and Hochschild Mining Holdings Ltd, a company governed under the laws of the United Kingdom. This means that there has been no loss of control after the demerger from Hochschild Mining Holdings Ltd. and the Company's IPO. Consequently, the Company, after its incorporation, as well as Ree Uno SpA are considered to be under common control. Consolidated financial statements of the Company and Ree Uno SpA are provided herein and more particularly, the information presented herein for the period ended December 31, 2020 reflects the financial results of Ree Uno SpA given the Company lacked significant operations prior to the transfer of interests in Ree Uno SpA, while as of and for the year ended December 31, 2021, the financial results represent a consolidation of the Company and Ree Uno SpA's income statement and cash flows for the entire year ended December 31, 2021.

These consolidated financial statements were approved for issue by the Board of Directors, on March 29th 2022.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

2 Significant accounting policies

(a) Basis of preparation

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

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended December 31, 2021 and 2020 have been consistently applied and are set out below. The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

The Company is a development stage company and has not generated any revenue. The economic analysis contained in the technical report titled "Amended and Restated NI 43 – 101 Technical Report – Preliminary Economic Assessment for Penco Module Project" ("Technical Report") is based, in part, on inferred mineral resources, and is preliminary in nature. Inferred mineral resources are considered too geologically speculative to have mining and economic considerations applied to them and to be categorized as mineral reserves. There is no certainty that economic forecasts on which the preliminary economic assessment contained in the Technical Report is based will be realized.

On December 10, 2021, the Company received net proceeds of US\$93.15 million pursuant to the IPO and concurrent private placement of common shares in the capital of the Company. The net proceeds received will be used in activities in connection with the Penco Module such as the development of the feasibility study and piloting, brownfield exploration and infill drilling, permitting and ESG-related activities, surface land purchase and mining concessions, and construction capital expenditures. In addition, the Company intends to advance activities in connection with potential new modules such as exploration; permitting processes and engineering. The Company is fully funded for the next eighteen months in terms of contemplated capital and operating expenditures. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The COVID-19 pandemic ("COVID-19") was declared a global pandemic by the World Health Organization on March 11, 2020. The Company has been closely monitoring the impact of COVID-19 on all aspects of its business. The COVID-19 pandemic has resulted in governments worldwide enacting measures to combat the spread of the virus, including the implementation of travel bans, quarantine requirements, social distancing, stay at home orders and the closure of non-essential businesses. The future impacts of the pandemic and any resulting economic impact continue to be unknown and evolving. It is not possible to reliably estimate the length and severity of these developments and the impact it may have on the Company and the development of the Penco module. Management will continue to monitor and assess the impact of the pandemic.

Changes in accounting policy and disclosures

Amendments to standards and interpretations which came into force during the years 2021 and 2020 do not have a significant impact on the Company's consolidated financial statements and are as follows:

- **Conceptual framework, applicable for annual periods beginning on or after 1 January 2020.**

The IASB issued the Conceptual Framework (revised) in March 2018. It incorporates new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. The new pronouncement does not have impact on the consolidated financial statements of the Company.

- **IFRS 3 Definition of a business, applicable for annual periods beginning on or after 1 January 2020.**

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether or not an acquired set of activities and assets is a business. The IASB clarifies the minimum requirements to define a business; eliminates assessment of whether market participants are able to replace any missing elements; includes guidance to assist entities in assessing whether an acquired project is substantive; narrows the definition of a business and of products; and introduces an optional fair value concentration test. There is no impact in the Company's consolidated financial statements as the Company does not have any business combination transactions.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material, applicable for annual periods beginning on or after 1 January 2020.**

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, to align the definition of "material" in all standards and clarify certain aspects of the definition. The new definition establishes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendment has no impact on the Company's consolidated financial statements.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2**

In August 2020, the IASB issued the Interest Rate Benchmark Reform – Phase II that comprises amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Thus, the IASB finalizes its work to address the effects of the reform to interbank offered rates (IBORs) in financial reporting.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

The amendments provide temporary exemptions that address the effects on financial reporting when interest rate benchmarks (IBORs) are replaced with alternative interest risk-free rates.

The amendments are mandatory and early application is permitted. A hedge relationship must be resumed if the hedge relationship was solely discontinued because of the changes implemented by the interest rate benchmark reform and thus, it would have not been discontinued if Phase II of the project had been applied at the time. While amendments must be applied retrospectively, an entity is not required to restate prior periods. The amendments have no impact on the Company's consolidated financial statements.

- IFRS 16 COVID-19-related rent concessions beyond June 30, 2021

In March 2021, the IASB amended the practical expedient conditions in IFRS 16 regarding the application of the IFRS 16 guidance on Covid-19-related rent concession.

As a practical expedient, a lessee may opt to not assess whether COVID-19-related rent concession (an exemption provided by a lessor) is a lease modification. A lessee that applies this exemption recognizes changes to lease payments derived from COVID-19 related rent concessions in the same way as it recognizes IFRS 16 changes, provided that these changes are not lease modifications. In addition, the practical expedient is now eligible for rent concessions that affect lease payments that were originally due up to 30 June 2022, provided that the remaining conditions for applying the practical expedient are met.

A lessee will apply this practical expedient retroactively and recognize the cumulative effect of the amendment initial application as an adjustment to the initial balance of retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time. The lessee is not obliged to disclose the information required by paragraph 28 (f) of IAS 8.

Paragraph 2 of IFRS 16 requires a lessee to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, regardless of whether the contract became eligible for the practical expedient before or after the amendment. The amendment has no impact on the Company's consolidated financial statements.

Standards, interpretations and amendments to existing standards that are not yet effective and have not been previously adopted by the Company

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2022 or later periods but which the Company has not previously adopted. These have not been listed as they are not expected to impact the Company.

(b) Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the consolidated financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Significant areas of estimation uncertainty and critical judgements made by management in preparing the consolidated financial statements include:

Significant estimates:

- Ore reserves and resources – 2(e)
There are numerous uncertainties inherent in estimating ore reserves and resources. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and resources and may, ultimately, result in the reserves and resources being restated.
- Recoverable values of mining asset
The value of the Company's mining assets is sensitive to a range of characteristics unique to each mine project. Key sources of estimation for all assets include uncertainty around ore resource estimates. In performing impairment reviews, the Company assesses the recoverable amount of its operating assets principally with reference to fair value less costs of disposal, assessed using an in-situ valuation to estimate the amount that would be paid by a willing third party in an arm's length transaction. There is judgement involved in determining the assumptions that are considered to be reasonable and consistent with those that would be applied by market participants. Key judgments include the estimation of future rare earths prices, future capital requirements, and exploration potential. Changes in these assumptions will affect the recoverable amount of the evaluation and exploration assets, and intangibles. The first resources and reserves report was issued on October 18, 2021.
- Income tax
Judgement is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

Critical judgements:

- Determination of functional currencies – 2(c)
The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.
- Recognition of evaluation and exploration assets– notes 2(d) and 9.
Judgement is required in determining when the future economic benefit of a project can reasonably be regarded as assured, at which point evaluation and exploration expenses are capitalized.

This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalization of costs; the timing of the end of the exploration phase, the start of the development phase; and the commencement of the production phase. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when the Board authorises management to conduct a feasibility study, mine-site exploration is being conducted to convert resources to reserves, or mine-site exploration is being conducted to confirm resources, all of which are based on supporting geological information.

(c) Currency translation

The functional currency for the Company is in US dollars and is determined by the currency of the primary economic environment in which it operates.

Consolidated financial statements expressed in their corresponding functional currencies are translated into US dollars by applying the exchange rate at period-end for assets and liabilities and the transaction date exchange rate for income statement items. The resulting difference is included as cumulative translation adjustment in equity.

The consolidated financial statements are presented in US dollars (US\$).

(d) Evaluation and exploration assets

Based on IFRS 6 “Exploration for and evaluation of mineral resources” costs of mineral properties are capitalized as exploration and evaluation assets on a project-by-project basis capitalized when the future economic benefit of the project can reasonably be regarded as assured.

Costs related to the project that could be capitalized among others are; acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Capitalized.

Evaluation and exploration assets are transferred to mine development costs within property, plant and equipment once the work completed to date supports the future development of the property and such development receives appropriate approval.

For the period ended December 31, 2021, a minor reclassification has been made to facilitate comparison with the period ended December 31, 2020. This reclassification does not modify the result or equity of the previous year and corresponds to the presentation of the movements of assets for exploration and development detailed in note 10.

(e) Determination of ore reserves and resources

The Company estimates its ore reserves and mineral resources based on information compiled by internal competent persons. Reports to support these estimates are prepared each year and are stated in conformity with Canadian securities law requirements including National Instrument 41 – *Standards of Disclosure for Mineral Projects* (“NI 43-101”).

It is the Company's policy to have the report audited by a Qualified Person.

Reserves and resources are used in the units of production calculation for depreciation as well as the determination of the timing of mine closure cost and impairment analysis. As at December 31, 2021 and December 31, 2020 there is no provision of mine closure costs.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost comprises its purchase price and directly attributable costs of acquisition or construction required to bring the asset to the condition necessary for the asset to be capable of operating in the manner intended by management. Economical and physical conditions of assets have not changed substantially over this period.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

The cost less residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves and resources of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of production on a units of production basis for mine buildings and installations and plant and equipment used in the mining production process, or charged directly to the income statement over the estimated useful life of the individual asset on a straight-line basis when not related to the mining production process. Changes in estimates, which mainly affect units of production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within other income/expenses, in the income statement.

The expected useful lives under the straight-line method are as follows:

	Years
Buildings	3 to 33
Plant and equipment	5 to 10
Vehicles	5

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to be ready for its intended use are capitalized as part of the cost of the asset. All other borrowing costs are expensed where incurred. For borrowings associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used. The Company capitalises the borrowing costs related to qualifying assets with a value of US\$1,000,000 or more, considering that the substantial period of time to be ready is six or more months.

The Company has not capitalized interest because as it is in the stage previous to construction and consequently does not meet IAS 23 requirements.

Mining properties and development costs

Purchased mining properties are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Costs associated with developments of mining properties are capitalized when incurred.

Mine development costs are, upon commencement of commercial production, depreciated using the units of production method based on the estimated economically recoverable reserves and resources to which they relate.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development. In addition, the revenue generated from the sale of the inventory produced during the pre-operating stage is recognised as a deduction of the costs capitalized for this project.

Construction in progress and capital advances

Assets in the course of construction are capitalized as a separate component of property, plant and equipment when incurred. Once the asset moves into the production phase, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment is capitalized separately with the carrying amount of the component being written-off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure including repairs and maintenance expenditures are recognised in the income statement as incurred.

As at December 31, 2021 the Company does not have any balance of mining properties and development costs and construction in progress and capital advances.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Company does not have assets with an indefinite useful life.

The carrying amounts of evaluation and exploration assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset-by-asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash-generating unit level.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

The assessment requires the use of estimates and assumptions such as long-term commodity prices, future capital requirements, and exploration potential. Changes in these assumptions will affect the recoverable amount of the evaluation and exploration assets.

If the carrying amount of an asset or its cash-generating unit ("CGU") exceeds the recoverable amount, an impairment provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use ("VIU") and fair value less costs of disposal ("FVLCD") to sell. FVLCD is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis. VIU is based on estimated future cash flows discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable values of the CGU are determined using a FVLCD methodology. FVLCD was determined using a combination of level 2 and level 3 inputs to estimate the amount that would be paid by a willing third party in an arm's length transaction.

Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Trade and other receivables

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost.

Impairment of financial assets – The company recognizes a value adjustment on expected credit losses ("ECL") related to financial assets measured at amortized cost or at FVTOCI, lease accounts receivable, amounts owed by customers under construction contracts, as well as loan commitment and financial guarantee contracts. The amount of the expected credit losses is restated at each reporting date to reflect changes in the credit risk since the initial recognition of the corresponding financial asset.

The company always recognizes ECL over the life of the asset for trade accounts receivable. The expected credit losses of these financial assets are estimated using provisions matrix based on the historical experience of the Company's credit losses, adjusted for factors that are specific to the debtors, general economic conditions and an evaluation both of the real and budgeted direction of the conditions on the reporting date, including the time value of money when appropriate.

For all other financial instruments, the Company recognizes ECL over the life of the asset when there has been a significant increase in the credit risk since initial recognition. If, on the other hand, the credit risk of the financial instrument has not significantly increased since initial recognition, the Company measures the value restatement for losses for this financial instrument at an amount equal to the expected credit losses in the next twelve months.

The evaluation as to whether ECL should be recognized over the life of the asset is based on a significant increase in the probability or risk of non-compliance occurring since initial recognition instead of on evidence of a credit-impaired financial asset as of the reporting date or the existence of a non-compliance event.

ECL over the life of the asset represent the expected credit losses that will result from all possible non-compliance events during the expected life of a financial instrument. In contrast, the ECL in the next twelve months represents the portion of the s ECL during the life of the asset that are expected to result from a non-compliance event on a financial instrument that is possible within 12 months after the reporting date.

The Company applied a simplified focus to recognize expected credit losses over the life of the asset for its trade and other accounts receivable, as required by IFRS 9. In relation to related parties, management believes that there has not been a significant increase in the credit risk of loans with related parties from initial recognition to December 31, 2021. Consequently, management does not expect to recognize expected credit losses in the next 12 months for loans with related companies. The amount of the provision is the difference between the carrying amount and the recoverable amount and this difference is recognised in the income statement.

(i) Income Tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years. The tax rates and applicable Canadian and Chilean tax regimes are as follows:

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

Canadian Entity

Aclara Resources Inc. 2021 26.5% (public corporation tax)

Chilean Entities

Aclara Resources Inc., Agencia en Chile 2021 27%, General semi integrated 14A
Ree Uno SpA 2021 and 2020 27%, General semi integrated 14A
Prospecciones Greenfield SpA 2021 27%, Pro PYME general 14D

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company has not recognised deferred taxes as the recoverability in the foreseeable future is not more-likely-than-not to occur. Deferred taxes not recognised as of December 31, 2021 amount to US\$ 2,426,276.

As of December 31, 2021 and December 31, 2020, the result for the year of the Company, its branch and subsidiaries is a tax loss, for which no tax expense is recognized. The accumulated tax losses as at December 31, 2021 and December 31, 2020 by entity are as follows:

Name	Country	2021 US\$000
Aclara Resources Inc.	Canada	1,078
Aclara Resources Inc., Agencia en Chile	Chile	-
Ree Uno SpA	Chile	2,758
Prospecciones Greenfield SpA	Chile	4

Name	Country	2020 US\$000
Ree Uno SpA	Chile	2,307

(j) Financial instruments

Financial instruments — initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through OCI, or fair value through profit or loss.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade receivables (not subject to provisional pricing), trade receivable from related entities and other receivables.

The Company's financial assets at fair value through profit or loss include short term investments (time deposit 6 months).

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Company applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Company does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date. For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment including forward-looking information.

The Company consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and trade and other payables)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and trade and other payables)

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents, as defined above, are shown net of outstanding bank overdrafts.

Liquidity funds are classified as cash equivalents if the amount of cash that will be received is known at the time of the initial investment and the risk of changes in value is considered insignificant.

(l) Fair value measurement

The Company measures financial instruments, such as, derivatives, and non-financial assets at fair value at each statement of financial position date. Also, fair values of financial instruments are measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement and unquoted financial assets, and for non-recurring measurement.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company, in conjunction with its external valuers, where applicable, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2021, and December 31, 2020, the Company does not have financial assets fair valued with these valuation techniques.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

3 Subsidiary and branch companies

Summary of subsidiaries and branch

Name	Country	Functional Currency	Voting power percentage	Participation % 2021	
				Direct	Indirect
Aclara Resources Inc., Agencia en Chile	Chile	Chilean Pesos	100%	100%	
Ree Uno SpA	Chile	Chilean Pesos	100%		100%
Prospecciones Greenfield SpA	Chile	Chilean Pesos	100%		100%

(a) Investments in indirect subsidiaries accounted for using the equity method

Movements investments	Balance as at January 1, 2021	Additions	Profit (loss) share	Another increment (decrement)	Balance as at December 31, 2021
	US\$000	US\$000	US\$000	US\$000	US\$000
Ree Uno SpA	-	71,340	(695)	-	70,645
Prospecciones Greenfield SpA	-	1	(4)	-	(3)

As of December 31, 2021, the Company does not present distribution of dividends or sale of investments.

Consolidation basis

(a) Subsidiaries or affiliates

Subsidiaries or affiliates are all entities over which The Company is in control. We consider that we maintain control when:

- You have power over the entity,
- It is exposed, has the right or shares, to variable returns derived from its participation in companies,
- There is the ability to affect returns, through its power over the entity.

The Company has power and control over the subsidiaries due to the shares that the Company owns, which give it the current ability to direct the entity's relevant activities, that is, activities that significantly affect the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred and excluded from consolidation on the date on which it ceases.

Intercompany transactions, balances and unrealized gains by transactions between related entities are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment loss of the transferred asset.

The functional currency for subsidiaries: Agencia, Ree Uno SpA and Prospecciones Greenfield SpA is the Chilean Pesos and is determined by the currency of the primary economic environment in which it operates. The results and financial situation of all the subsidiaries and Branch of the Company, which have a functional currency different from the currency of presentation are translated into the presentation currency US dollars by applying the exchange rate at period-end for assets and liabilities and the transaction date exchange rate for income statement items. The resulting difference is included as cumulative translation adjustment in equity.

Changes in the scope of consolidation

(a) Direct consolidation scope

The following changes have occurred in the scope of direct consolidation of our subsidiary for the year ended December 31, 2021:

On August 5, 2021, "Aclara Resources Inc. Agencia en Chile ("the Agency") was incorporated as a branch of the Company, with a capital contribution of US\$12,876 made by Hochschild Mining Holdings Ltd. The Agency is included in the consolidated financial statements since the date of inception.

Hochschild Mining Holdings Ltd acquired a 100% stake in Agencia.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

(b) Indirect consolidation scope

The following changes have occurred in the scope of indirect consolidation of our subsidiaries for the year ended December 31, 2021:

On October 4, 2021, Prospecciones Greenfield SpA was incorporated with a capital contribution of \$1,000,000 Chilean pesos made by Ree Uno SpA.

Ree Uno SpA acquired a 100% stake in Prospecciones Greenfield SpA.

On October 15, 2021, in relation to the share contribution agreement, the Company acquired 100% of the issued and outstanding shares of Ree Uno SpA from Hochschild Mining Holdings Ltd and allocated such shares to the Company's foreign legal entity branch in Chile. At the same time and in consideration for such shares of Ree Uno SpA, the Company issued to Hochschild Mining Holdings Ltd. 88,262,106 common shares (see note 16) at a value of \$1 Canadian dollar per share (\$58,877,074,295 Chilean pesos for the total number of shares acquired, equivalent to US\$ 71,340,208.77). As at December 31, 2021, the Company recognized the investment of Agencia in Ree Uno SpA in its balance sheet. Agencia has a 100% stake in Ree Uno SpA.

4 Administration expenses

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Personnel expenses (1)	161	-
Professional fees	40	179
Depreciation and amortisation	82	58
Contractors and services	190	-
Others	25	-
Total	498	237

(1) Personnel expenses were capitalized during the year 2021 and 2020. Non-capitalized personnel expenses belong to Aclara Resources Inc. and are not directly related to the project executed in subsidiary Ree Uno SpA.

5 Exploration expenses

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Personnel expenses	68	117
Professional fees	-	14
Mining rights	-	90
Rentals	15	18
Subscriptions	-	13
Repair and maintenance	5	16
Analysis & technical	195	268
Studies	51	8
Surveillance	3	-
Technology and system	42	-
Exploration Supplies	28	-
Contractors and Services	86	-
Others	21	10
Total	514	554

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

6 Financial costs

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Interests	11	-
Bank commissions	6	2
Total	17	2

7 Income tax

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Current income tax (expense)/credit	-	-
Deferred income tax (expense)	-	-
Total	-	-

As indicated, the Company does not record deferred tax related to tax loss carry forwards as the recoverability as of the date of these financial statements does not fulfil the more-likely-than-not criteria under IAS 12.

8 Basic and diluted earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders by the weighted average number of common shares issued during the year. As indicated in note 1, the financial information as of and for the year ended December 31, 2020 reflects financial information of Ree Uno SpA only, which underlies the reason for calculating EPS based on the outstanding number of issued and outstanding shares in the capital of Ree Uno SpA during such period.

The Company does not have dilutive potential common shares. As at December 31, 2021 and December 31, 2020, EPS has been calculated as follows:

	Year ended December 31	
	2021	2020
Basic loss per share from continuing operations		
Total for the year and from continuing operations (US\$)	(0.02197)	(0.01981)
Diluted loss per share from continuing operations		
Total for the year and from continuing operations (US\$)	(0.02127)	(0.01981)

Loss from continuing operations attributable to equity holders is derived as follows:

	Year ended December 31	
	2021	2020
Loss attributable to equity holders – continuing operations (US\$000)	(1,508)	(791)

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

The following reflects the share data used in the basic and diluted EPS computations:

	Year ended December 31	
	2021	2020
Basic weighted average number of ordinary shares in issue (thousands)	68,639	39,920
Effect of dilutive potential ordinary shares related to contingently issuable shares (thousands)	2,251	-
Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share (thousands)	70,890	39,920

The calculation of the weighted average number of common shares is as follows:

	Total
January 1, 2020	39,052,658
Shares issued October 30, 2020	4,870,296
Shares issued December 31, 2020	9,686,057
Closing balance December 31, 2020	53,609,010
Weighted average number of shares as at December 31, 2020	39,919,821

The number of issued and outstanding shares for fiscal year 2020 was adjusted for the exchange ratio determined for the transaction on October 15, 2021.

	Total
January 1, 2021	53,609,010
Issuance May 5, 2021	100
Incremental shares 8 September and October 15, 2021 ⁽¹⁾	34,653,096
Issuance December 10, 2021	74,336,956
Closing balance December 31, 2021	162,599,162
Weighted average number of shares as at December 31, 2021	68,639,071

- (1) The incremental number of shares reflect shares issued by Ree Uno SpA during fiscal year 2021, as adjusted for the exchange ratio determined for the transaction on October 15, 2021.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

9 Property, plant and equipment

	Land US\$000	Plant and equipment US\$000	Total US\$000
Cost property, plant and equipment			
Balance at January 1, 2020	-	455	455
Additions	237	57	294
Foreign exchange effect	-	119	119
Balance at December 31, 2020	237	631	868
Additions	218	125	343
Foreign exchange effect	(98)	(56)	(154)
Balance at December 31, 2021	357	700	1,057
Accumulated depreciation plant and equipment			
Balance at January 1, 2020	-	255	255
Depreciation of the period	-	58	58
Foreign exchange effect	-	19	19
Balance at December 31, 2020	-	332	332
Depreciation of the period	-	82	82
Foreign exchange effect	-	(61)	(61)
Balance at December 31, 2021	-	353	353
Net book value as at December 31, 2020	237	299	536
Net book value as at December 31, 2021	357	347	704

There were no borrowing costs capitalized in property, plant and equipment as there are no qualifying assets.

There are no restrictions on ownership of property, plant and equipment.

There are no capital commitments for property, plant and equipment.

As of November 23, 2020, a purchase agreement was signed between Ree Uno SpA and Forestal Arauco SA for the purchase of land located in Concepción, Chile. As of December 31, 2021, the company has paid two of the seven instalments indicated in the agreement described above. The total value paid to date is indicated in note 9 "Property, plant and equipment", column "Land". The Company has the right to cancel the contract at any moment if the project is proven unfeasible. Under this scenario, the Company would not have to pay the remaining quotas and ownership of the land would revert back to Forestal Arauco S.A. property. Otherwise, the remaining instalments will be paid as follows:

Year	Total US\$000
2022	220
2023	6,000
2024	1,300
2025	1,300
2026	1,300
Total	10,120

As at December 31, 2021, and 2020, the Company has not recognised any impairment.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

10 Evaluation and exploration assets

	Total US\$000
Cost	
Balance at January 1, 2020 ⁽¹⁾	58,858
Additions ⁽²⁾	8,297
Foreign exchange effect	3,774
Balance at December 31, 2020	70,929
Additions ⁽²⁾	11,661
Foreign exchange effect	(12,458)
Balance at December 31, 2020	70,132
Accumulated amortisation and impairment	
Balance at January 1, 2020	8
Balance at December 31, 2020	8
Foreign exchange effect	(1)
Balance at December 31, 2021	7
Net book value as at December 31, 2020	70,921
Net book value as at December 31, 2021	70,125

(1) On October 2, 2019, Minera Hochschild Chile S.C.M., acquired a 100% interest in Ree Uno SpA. The fair value of the assets acquired and the liabilities assumed on that occasion included adjustments to the exploration and evaluation assets. The book value of the intangible assets reflect the continuing book value of the previous shareholders as of January 1, 2020.

(2) The total investment in the Penco Module project capitalized in the period 2021 and 2020 amounting to US\$ 11,661 and US\$ 8,297 (respectively) is detailed below:

	2021 US\$000	2020 US\$000
Personnel expenses	2,530	1,527
Professional fees	933	1,034
Environmental impact study	997	446
Geochemical study	192	209
Diamond drilling	867	1,195
Engineering services	1,003	1,244
Mining rights	493	180
Feasibility studies	1,693	93
Rent building, vehicles, others	349	-
Analysis & technical	830	-
Contractors and Services	1,317	-
Other	457	2,369
Total	11,661	8,297

The Company is currently focused on the development of the Penco Module, which will aim to produce a rare earth concentrate through a processing plant that will be fed by clays from nearby deposits. The Company is currently focused on developing pre-feasibility and feasibility studies, which will include activities such as engineering of the different deposits and the production process, as well as brownfield exploration and resources and reserves estimation. In addition, the Company continues working on the environmental permit, which is planned to be approved no later as at April 19, 2022.

There were no borrowing costs capitalized in evaluation and exploration assets as there are no qualifying assets.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

There are no restrictions on ownership of evaluation and exploration assets.

There are no capital commitments for evaluation and exploration assets.

As at December 31, 2021, and 2020, the Company has not recognised any impairment as no indicators of impairment were identified in the project.

According to the policy of capitalization of evaluation and exploration expenses, costs of mineral properties are capitalized as exploration and evaluation assets on a project-by-project basis. As of December 31, 2021 the Company only have one project named Penco Module. The Company capitalizes expenses related to researching and analysing historical exploration data, gathering exploration data through geophysical studies, exploratory drilling and sampling, determining and examining the volume and grade of the resource, surveying transportation and infrastructure requirements, and conducting market and finance studies.

11 Trade and other receivables

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Current		
Advances to suppliers	106	234
Loans to employees	-	13
Others	1	-
Assets classified as receivables	107	247
Prepaid expenses	17	-
Value added tax	-	-
Total	124	247
Non-current		
Value added tax	2,667	2,166
Others	-	27
Total	2,667	2,193

The fair values of trade and other receivables approximate their book value.

As at December 31, 2021 and 2020, none of the financial assets classified as receivables (net of impairment) were past due.

12 Cash and cash equivalents

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Current demand deposit accounts	64,185	1,265
Cash and cash equivalents considered for the statement of cash flows	64,185	1,265

The fair value of cash and cash equivalents approximates their book value. The Company does not have undrawn borrowing facilities available in the future for operating activities or capital commitments.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

The composition of the item by currency as of December 31, 2021 and December 31, 2020 is as follows:

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Chilean pesos (equivalent US\$)	246	384
Canadian dollar (equivalent US\$)	6,071	-
United States dollar	57,868	881
Total	64,185	1,265

The composition of the item by bank as of December 31, 2021 and December 31, 2020 is as follows:

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Citi Bank	28,185	1,096
BCI	-	169
JP Morgan	9,000	-
RBC	27,000	-
Total	64,185	1,265

13 Short term investments

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Time deposits (6 months)	27,000	-
Total	27,000	-

14 Trade and other accounts payables

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Trade payables 1	1,454	1,608
Taxes and contributions	69	47
Salaries and wages payable 2	621	341
Others	78	226
Total	2,222	2,222

The fair value of trade and other payables approximate their book values.

- 1 Trade payables relate mainly to the acquisition of materials, supplies and contractors' services. These payables do not accrue interest and no guarantees have been granted. The Company does not have significant suppliers whose liabilities exceed 10% of this item.
- 2 Salaries and wages payable relates to remuneration payable.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

15 Other provisions

The other provisions are as follows:

	Year ended December 31	
	2021 US\$000	2020 US\$000
Contractors and Services	773	-
Other	49	-
Total	822	-

16 Equity

(a) Share capital

Issued share capital and additional capital

The changes in share capital are as follows:

	Number of shares type A - Aclara Resources Inc,	Number of shares type A - Ree Uno SpA	Total US\$000
Balance as at January 1, 2020	-	12,374,370,670	19,768
Capital Contribution	-	-	6,000
Total shares issued	-	4,612,380,000	6,000
Additional - capital contribution	-	-	1,000
Balance as at December 31, 2020	-	16,986,750,670	26,768
Balance as at January 1, 2021	-	16,986,750,670	26,768
Capital Contribution	-	-	10,250
Capital Contribution - loans received in the period	-	-	1,000
Capital Contribution - loans prior periods	-	-	2,500
Total shares issued to settle debt	-	10,980,309,297	13,750
Balance as at October 15, 2021	-	27,967,059,967	40,518
Pre-IPO reorganization	-	-	30,822
Total pre-IPO reorganization	-	-	44,572
Shares issued - Pre IPO Reorganization	88,262,206	(27,967,059,967)	71,340
Capital contribution	-	-	13
Shares issued - IPO	74,336,956	-	99,397
Shares issued - IPO to be collected	-	-	(1)
Expenses - IPO	-	-	(4,698)
Shares issued - net cash received	-	-	94,698
Expenses - IPO others to be paid	-	-	(1,544)
Shares issued - net of IPO costs	-	-	93,154
Share issuance costs	-	-	(6,242)
Balance as at December 31, 2021	162,599,162	-	164,508

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

Shareholder	Shares subscribed	Percentage share
Hochschild Mining Holdings Ltd	32,526,389	20.0%
Pelham Investments Corporation	59,701,161	36.7%
Other Investors	70,371,612	43.3%
Total	162,599,162	100.0%

On May 5, 2021 the Company issued 100 common shares for a total consideration of 100 Canadian dollars equivalent to US\$81.

On August 5, 2021 Hochschild Mining Holdings Ltd made a capital contribution of US\$ 12,876, As of December 31, 2021 it is pending to be collected, which was recorded as an account receivable - current.

As described in note 1, on October 15, 2021, The Company as part of a reorganization process under the common control, obtained 100% of the shares of Ree Uno SpA for \$58,877,074,295 Chilean pesos (equivalent US\$ 71,340,208.77 - equivalent CAD\$ 88,262,106).

On December 31 2021 the Company completed the IPO and offered an aggregate of 74,336,956 common shares at a value of \$1.7 Canadian dollar per share (equivalent US\$ 99,396,590.53), As of December 31, 2021 US\$1,420 is pending to be collected, which was recorded as an account receivable (current).

Dividends will be paid exclusively from the net earnings for the year, or from the retained earnings from balance sheets approved by the general shareholders' meeting. If the Company has accumulated losses, the profits for the year will first be used to absorb them, If there are losses for a year, these will be absorbed with retained earnings, if any, The Chairman of the Board of Directors may, under his personal responsibility, distribute provisional dividends during the fiscal year charged to the profits thereof, provided there are no accumulated losses.

(b) Other reserves

Cumulative translation adjustment

The cumulative translation adjustment account is used to record exchange differences arising from the translation of the financial with a functional currency different to the reporting currency of the Company.

Other reserves

As described in note 1, the Company as part of a process under the common control, obtained 100% of the shares of Ree Uno SpA. during 2021. The adjustment in other reserves reflects the effects of this transaction.

(c) Non-controlling interests

Non-controlling interests

As of December 31, 2021 and December 31, 2020 there are no participations not controlled.

17 Related-party balances and transactions

The Company had the following related-party balances and transactions during the years ended December 31, 2021 and 2020, The related parties are companies owned or controlled by the principal shareholder of Aclara Resources Inc. or associates.

	Accounts receivable	
	As at December 31	
	2021	2020
	US\$000	US\$000
Current related party balances		
Hochschild Mining Holdings Ltd.	12	-
Total	12	-

Consolidated Financial Statements

Notes to the Consolidated Financial Statements. Continued

	Accounts payable	
	As at December 31	
	2021	2020
	US\$000	US\$000
Current related party balances		
Hochschild Mining Holdings Ltd.	-	2,500
Compañía Minera Ares S.A.C.	-	875
Minera Hochschild Chile SCM	6	435
Total	6	3,810

Account receivables of 10,000,000 Chilean pesos (equivalent US\$ 11,859.59) will be deposited in Agencia,

(a) Related-party accounts receivable and payable

As at December 31, 2020, all accounts are, or were, non-interest bearing and payable on demand.

On September 8, 2021, Ree Uno SpA converted the loan payable to Hochschild Mining Holdings Ltd that amounted US\$3,500,000 into a capital contribution.

On October 26, 2021, Ree Uno SpA received a related party loan of US\$ 1,500,000 from Hochschild Mining Holdings Ltd. The loan had a duration of 3 months and an annual interest rate of 5.0%. The purpose of this loan was to fund the Company's activities until the completion of the IPO process, Ree Uno SpA paid the loan on December 16, 2021.

No security has been granted or guarantees given by the Company in respect of these related party balances.

Principal transactions between related parties are as follows:

	As at December 31	
	2021	2020
	US\$000	US\$000
Expense recognized for the services performed by Compañía Minera Ares S.A.C.	-	(549)
Expense recognized for the services performed by Minera Hochschild Chile SCM	(55)	-
Expense recognized for the interest on the loan from Hochschild Mining Holdings Ltd.	(11)	-
Loan from Hochschild Mining Holdings Ltd.	-	2,500

Related parties are as follows:

	Relationship	Country	Type of transaction
Minera Hochschild Chile SCM	Related parties - Subsidiary of Shareholder	Chile	Intercompany administrative services
Hochschild Mining Holdings Ltd.	Related parties - Shareholder	Perú	Loans
Compañía Minera Ares S.A.C.	Related parties - Subsidiary of Shareholder	Perú	Intercompany administrative services

(b) Compensation of key management personnel of the Company

	Year ended December 31	
	2021	2020
	US\$000	US\$000
Compensation of key management personnel		
Short-term employee benefits	126	192
Total compensation paid to key management personnel	126	192

Number of key management of the Company was two at December 31, 2020 and four at December 31, 2021.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

18 Notes to the statement of cash flows

	Year ended December 31	
	2021 US\$000	2020 US\$000
Reconciliation of loss for the period to net cash generated from operating activities		
Profit (Loss) of the period	(1,508)	(791)
Adjustments to reconcile Company loss to net cash inflows from operating activities		
Depreciation and amortization of the period	82	58
Finance income	-	(2)
Finance costs	-	2
Income tax expense	-	-
Other movements that do not represent flows	(1,753)	-
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade debtors and other accounts receivable	(351)	(978)
Accounts receivable to related entities	(12)	-
Trade accounts payable and other accounts payable	-	1,925
Accounts payable to related entities	(1,293)	2,295
Other provisions	822	-
Cash generated from operations	(4,013)	2,509

19 Contingencies

a) Taxation:

As at December 31, 2021 and 2020, the Company is not subject to any contingencies,

b) Guarantees:

The Company does not have any guarantee in respect of exploration activities,

c) Litigations:

The main litigation currently affecting the Penco Module is an arbitration proceeding initiated by Madesal SpA ("Madesal") before the arbitrator Mr. Roberto Guerrero del Rio. The case is followed in the CAM with Role A-4367-2020. The grounds for this claim are an alleged violation of an agreement executed between the parties in 2014 and 2015 (the "MOU and its Addendum") by way of which Madesal would have been granted by the former owner of the Penco Module the status of "strategic partner" in the future development of the project in the Madesal's property called "Fundo El Cabrito". Nevertheless, it was subsequently decided for technical and environmental reasons that the Penco Module would be developed in a different location and that, therefore, no mining easement on Madesal's property was necessary. Madesal is seeking specific performance of the obligations allegedly derived from the MOU and its Addendum, plus damages. Requested damages amount to approximately US\$30 million.

The Company is currently defending the case and maintains that the MOU and its Addendum were merely preparatory contracts for the execution of two legal mining easements: one for exploration and the other for exploitation in Fundo El Cabrito and that these activities were always subject to the results of the respective economic, technical and environmental studies, which eventually led to the decision to continue the development of the project elsewhere. No other contractual relationship or joint venture is considered to have arisen from these agreements and since they and the respective mining easements have terminated, Madesal has no right or expectation over any future development of the Penco Module. No provision has been booked because an unfavourable outcome is not considered probable.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

20 Financial risk management

The Company is exposed to a variety of risks and uncertainties which may have a financial impact on the Company.

The Company identify and, where appropriate, implement the controls to mitigate the impact of significant risks.

(a) Foreign currency risk

The Company is in the pre-operational stage, and no income or operating costs have been recorded. The main disbursements are in Chilean pesos. As at December 31, 2021, the Company has deposits, trade and other payables and account payables to related parties stated in US dollars. The sensitivity of financial assets and liabilities, at December 31, 2021 to a +/- 10% change in the US dollar exchange rate, with all other variables held constant, is +/- US\$9,234,000 for Canadian dollars and US\$142,000 for Chilean pesos.

(b) Credit risk

Credit risk arises from debtors' inability to make payment of their obligations to the Company as they become due (without taking into account the fair value of any guarantee or pledged assets). The Company is not exposed to credit risk as it does not have commercial activities.

(c) Liquidity risk

Liquidity risk arises from the Company's inability to obtain the funds it requires 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 constantly monitors the Company's level of short- and medium-term liquidity, and their access to credit lines, in order to ensure appropriate financing is available for its operations.

The table below categorises the undiscounted cash flows of Company's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position to the contractual maturity date.

	Note	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At December 31, 2021						
Trade and other payables	14	2,144	78	–	–	2,222
Trade and other payables related parties	17	6	–	–	–	6
Total		2,150	78	-	-	2,228
At December 31, 2020						
Trade and other payables	14	2,222	–	–	–	2,222
Trade and other payables related parties	17	3,810	–	–	–	3,810
Total		6,032	-	-	-	6,032

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties.

(e) Environmental risk

One of the main concerns of the Company is caring for the environment as its policy is zero impact. The environmental impact study has already been carried out and submitted to the authority in 2018. The Company is complying with all requests from the authorities, and expects to finish the study in January 2022.

21 Subsequent events

On February 2022, the Company acquired for a value of 999 Peruvian soles 99.9% of the shares of Aclara Resources Perú SAC, which was incorporated on January 21, 2022 with a capital contribution made by Ramon Gino Barua Costa and Jaime Francisco Rinaldo Mansilla. At the same time Ree Uno SpA acquired 0.01% of the shares of Aclara Resources Perú SAC for a value of 1 Peruvian sol. The acquisition values previously indicated, will be paid for the Company and Ree Uno SpA in cash. Aclara Resources Perú SAC has its office located in Perú and its activity is to provide management and administration services.

On March 17, 2022, the remuneration of the directors was approved in a board meeting as follows: Chairman Eduardo Hochschild 149,576 restricted share units (hereinafter "RSUs"), Karen Poniachik 74,788 RSUs, Sanjay Sarma 74,788 RSUs, Paul Adamas 74,788 RSUs and Catharine Farrow 74,788 RSUs. The total RSUs amount to 448,728.

Notes to the Consolidated Financial Statements. Continued

On March 24, the Company withdrew the Environmental Impact Assessment ("EIA") application to allow time to address two technical aspects in particular, which relate to the protection of local flora and fauna. The Company was unable to satisfy the Environmental Assessment Authority ("SEA") within the mandated regulatory timetable relating to the EIA process. Therefore, the Company determined that it is in its best interests and those of the Project to take the additional time required to fully understand and resolve the remaining issues and resubmit a Revised EIA application. Management's current expectation, based on preliminary discussions with its technical consultants and other advisors, is that the Revised EIA approval process could take two years or more to complete. However, there can be no assurances as to the timing of a Revised EIA application, the length of delay in obtaining an approval or whether or not such approval will be issued.