ACLARA RESOURCES INC.

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

The following management's discussion and analysis ("MD&A") is prepared as of March 28, 2023, and is intended to assist readers in understanding the operational performance and financial condition of Aclara Resources Inc. (hereinafter, the "Company" or "Aclara"). The Company is, and will remain, a holding company and the only business of the Company is that of the business of its subsidiaries. The Company's material assets consist of interests in (i) REE Uno SpA ("REE Uno"), a wholly owned Chilean subsidiary that holds the Penco Module (as defined below), being Aclara's sole material mineral resource property, (ii) Prospecciones Greenfield SpA, an indirect wholly owned Chilean subsidiary that holds other exploration concessions located in Chile, (iii) Aclara Resources Peru S.A.C., a wholly owned Peruvian subsidiary that lends administrative services to Aclara and performs exploration activities in Peru, and (iv) Aclara Resources Mineracao Ltda., an indirect wholly owned Brazilian subsidiary that performs exploration activities in Brazil.

This MD&A provides information concerning the Company's financial condition and results of operations for the fiscal years ended December 31, 2022 ("FY 2022") and December 31, 2021 ("FY 2021"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for FY 2022 and FY 2021 (together, the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

As used in this MD&A, references to "Q4 2022" and "Q4 2021" are to the three (3) months ended December 31, 2022 and three (3) months ended December 31, 2021, respectively, and references to "FY 2022" and "FY 2021" are to the twelve (12) months ended December 31, 2022 and twelve (12) months ended December 31, 2021, respectively. Unless as otherwise specified, the financial information contained in this MD&A is reported in thousands of United State Dollars ("$" or "US$"). Certain totals, subtotals, and percentages throughout this MD&A may not reconcile due to rounding. Additional cautionary statements regarding forward-looking information and mineral reserves and mineral resources can be found under the section of this MD&A titled "*Cautionary Statements and Reader Advisories*".

COMPANY OVERVIEW

Aclara is a mining company engaged in the exploration and development of rare earth mineral resources listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "ARA", beneficially holding approximately an aggregate of (i) 253,285 hectares of mining rights, distributed in the Maule, Ñuble, and Biobío regions of Chile, and (ii) 369,410 hectares of mining rights in Brazil. The Company is focused on the development and on the future construction and operation of the Penco Module project (the "Penco Module"), which covers a surface area of approximately 600 hectares in the Biobío region of Chile and contains ionic clays rich in rare earth elements ("REEs"). The Company expects the Penco Module to benefit from low estimated initial capital expenditures as a result of accessibility to nearby key infrastructure, including, among others, power, motorways, port and airport access, and a local professional workforce. The Company achieved a positive preliminary economic assessment of the Penco Module's potential for REEs development, the results of which are detailed in the technical report entitled "Amended and Restated NI 43-101 Technical Report – Preliminary Economic Assessment for Penco Module Project", dated effective September 15, 2021 (the "Technical Report").

In addition to developing the Penco Module, the Company intends to identify additional opportunities to increase potential future REE production through its intensive greenfield exploration programmes in Chile, Brazil, Colombia and Peru and the development of additional project "modules" within the Company's mining concessions.

Going Public Transaction

On December 10, 2021, the Company completed its initial public offering (the "IPO") and concurrent private placement, which raised approximate net proceeds of C$117.7 million (together with the IPO, the "Going Public Transaction"). In conjunction with the completion of the Going Public Transaction, the Company qualified the distribution by Hochschild Mining Plc ("Hochschild Mining") of approximately 80% of pre-IPO common shares of the Company by way of an in-specie dividend to the holders of ordinary shares in the capital of Hochschild Mining. Immediately following the Going Public Transaction, Hochschild Mining and Pelham Investment Corporation (an investment company controlled by Eduardo Hochschild) held approximately 20.0% and 37.7% of the issued and outstanding common shares of the Company, respectively.

BUSINESS DEVELOPMENT AND OVERALL PERFORMANCE

Penco Module and Future Outlook

On May 10, 2022, the Company announced an updated corporate strategy which highlighted the following objectives: (i) delivering a more robust Environmental Impact Assessment (the "Revised EIA") for the Penco Module, (ii) strengthening and expanding relationships with local stakeholders, and (iii) prioritizing exploration activities to define new potential modules. Key items of the Company's updated corporate strategy are described in greater detail below.

- *Revised EIA Application*. During FY 2022, the Company was primarily focused on completing additional seasonal baselines studies relating to flora and fauna, which was an issue raised by the Environmental Assessment Authority (the "SEA") during the Company's initial Environmental Impact Assessment application process (the "Original EIA"). As of the date of this annual MD&A, the Company has completed the contemplated baseline studies and intends to file its Revised EIA with the SEA in the second quarter of 2023. The filing of the Revised EIA will be followed by an evaluation period, during which time the Company will address comments and questions from the regulatory authorities (regarding the technical assessment) and the local community.

- *Social License.* In 2023, the Company intends to continue its dialogue with the local Penco community and plans to incorporate the feedback and requirements from the community into its future plans for the Penco Module. The Company is committed to transparency and open communication with all stakeholders and encourages consistent engagement of the community throughout the development of the Penco Module.

- *Feasibility Study and Pilot Plant.* The Company is still in the process of constructing its pilot plant and expects the plant to be operational in the third quarter of 2023. The pilot plant will be used for the following purposes: (i) to validate the process design at a semi-industrial scale, (ii) to produce concentrate samples for offtake negotiations, and (iii) to demonstrate the innovative features of the Company's flowsheet process to the community, authorities and other project stakeholders. In addition, the Company is in the early stages of developing a feasibility study for the Penco Module. The feasibility study is intended to be incorporated into an updated technical report, to be issued in the first half of 2024, in accordance with NI 43-101.

- *Exploration.* The Company intends to advance its greenfield exploration strategy, which has been expanded to include exploration targets in Brazil, Colombia and Peru, in addition to Chile. This expansion aligns with the Company's overarching objective of accelerating the development of additional project modules in order to achieve future growth of the Company.

- *Commercial.* The Company is in commercial discussions with potential counterparties in respect of offtake agreements for the heavy rare earth concentrates projected to be produced from the Penco Module. Commercial efforts will continue during 2023 with the end-goal of supplying REEs in a market currently monopolized by Chinese suppliers.

Estimated Budget for 2023

The Company's forecasted budget for fiscal year 2023 is $27.0 million, which amount is comprised of estimated costs relating to the development of the Penco Module and exploration activities to identify potential new modules. Key aspects of the 2023 budget include approximately (i) $10.0 million allocated to engineering and piloting activities ($6.8 million), permitting and ESG-related expenditures ($2.9 million), and surface land purchase and mining concession expenses ($0.4 million) in respect of the Penco Module, (ii) $7.8 million allocated to exploration and mining concessions in connection with potential new modules, and (iii) $9.2 million in administrative expenses, personnel and for general corporate and working capital purposes.

Comparative Financial and Performance Highlights

In FY 2022, the Company continued to advance its development of the Penco Module by making investments in evaluation and exploration assets ("E&E") and property, plant and equipment assets ("PP&E"). In Q4 2022, the Company invested $3.053 million and $0.970 million in E&E and PP&E, respectively. Comparatively, in Q4 2021, the Company invested $2.591 million and $0.234 million in E&E and PP&E, respectively. Aggregate expenditure for E&E and PP&E in FY 2022 totalled $14.145 million and $1.242 million, respectively, as compared to $11.661 million and $0.343 million, respectively, in FY 2021.

Penco Module – Environmental Impact Assessment

As part of the Original EIA, the Company filed an application and three supplementary submissions to the SEA in the form of addendums to the application (each, an "Addendum") and engaged in several productive discussions with the regulator. The Company addressed many of the issues raised with respect to the Penco Module, however the Company was unable to satisfy the SEA on two technical aspects relating to the protection of local flora and fauna, within the required timeframe for the Original EIA. In light of the follow-up discussions between Aclara and the SEA regarding the outstanding issues and consultations with technical and other advisors, on March 24, 2022, the Company withdrew its application for the Original EIA in order to allocate its efforts and resources to address the issues raised in the late stages of the application process.

During FY 2022, in response to the technical queries raised by the SEA in connection with the Original EIA, Aclara completed additional seasonal baselines studies and collected updated on-site measurements in respect of flora, fauna and water. Furthermore, on January 31, 2023, the Company signed a contract with the water utility company of Concepcion and successfully secured an industrial recycled water source for the 100% water requirement for the Project´s operation. This represented a major milestone in improving environmental sustainability for the Penco Module and strengthens the Company's position in preparation for filing its Revised EIA for the Penco Module in the second quarter of 2023.

During FY 2021, the Company worked to maintain an open and meaningful dialogue with the community, with the aim of highlighting the benefits of the Penco Module and addressing concerns from the local Penco community. Despite its efforts, the desired level of community engagement and enthusiasm for the Penco Module was not achieved. On February 27, 2022, the Municipality of Penco held a non-binding consultation to poll local residents on the development of the Penco Module and, of the 42,186 eligible registered voters, 7,548 people turned out to vote (representing a turnout of 17.89%) in the said consultation of which 7,474 people voted against the installation of the proposed project.

In response to the poll results, the Company developed and announced on May 10, 2022 its plan to strengthen its relationship with the community and local stakeholders during FY 2022. The Company appointed a Public Affairs Manager and formed a social value management team that led efforts aimed to: (i) expand and strengthen relationships with stakeholders in the Biobío region; (ii) educate the communities about the sustainability aspects of the Penco Module; and (iii) manage social contribution initiatives aimed at the community. Moreover, the Company actively participated in several local conferences, seminars and workshops as part of its campaign to educate the local community on the Penco Module's benefits. The education campaign succeeded in capturing the interest of the central government, and the Company was invited to present the Penco Module to both the Mining and Energy Commission of the Senate and the Mining Commission of the Chamber of Deputies in Santiago.

Penco Module - Project Development

Throughout FY 2021 and FY 2022, the Company made efforts to advance its brownfield exploration and infill drilling activities. Based on its drilling results, on December 1, 2022, the Company announced the addition of measured, indicated and inferred mineral resources at Alexandra Poniente, a new area within the Penco Module area to the north-west of Alexandra Oriente. The drilling also resulted in the conversion of inferred mineral resources from Luna, Victoria Norte, Alexandra Oriente, Victoria Sur, and Maite into measured and indicated resources.

During FY 2021, the Company focused on defining an economic business case for the Penco Module, which included preparing an initial mineral resource estimate, mining study, process design, waste disposal facility review, costs estimation and economic analysis, which was incorporated into, the Technical Report.

During FY 2022, the Company completed a comprehensive testing program to validate recoveries at SGS Lakefield, Canada ("SGS"). The results showed an improvement in dysprosium and terbium metallurgical recoveries and confirmed recovery estimates for other REEs presented in the Technical Report. In addition, with the support of BQE Water in Vancouver, Canada, laboratory test work using actual process solution was carried out to validate the efficacy of the closed-circuit process design. The results confirmed the chemical stability of spent clays and demonstrated the process plant's ability to recirculate 95% of the water used resulting in a zero liquid discharge process design. In light of the sustainable parameters achieved, the process was named "Circular Mineral Harvesting". On September 6, 2022, the Company received the Sustainable Initiative of the Year award by the Business Intelligence Group in recognition of the Penco Module environmentally friendly design.

During the same period, the Company continued to advance its engineering design, equipment procurement and fabrication in connection with the Penco Module's pilot plant, which is undergoing construction in Concepción, Chile and is expected to be completed in second quarter of 2023. In addition, after having initiated a request for proposal process, on March 13, 2023, the Company announced that it had awarded the Penco Module feasibility study contract to Pares & Alvarez, a local Chilean engineering firm with 28 years of experience in the design and construction of similar mining and industrial projects, located in both Chile and abroad.

Greenfield and Brownfield Exploration Activities

During Q4 2022, the Company continued advancing its greenfield exploration activities in efforts to identify REE mineralization and potential new modules. The Company incurred total expenses of $1.624 million in Q4 2022 in connection with its greenfield exploration activities, as compared to $0.531 million incurred in Q4 2021. Expenses incurred in connection with such activities totalled $3.488 million in FY 2022, as compared to $0.514 million in FY 2021.

During FY 2021, the Company conducted ongoing surface mapping, geophysics radiometry and magnetometry fly-over in the Veronica, Catalina, Josefa, Amparito and Petronila districts to identify the presence of regolith formations and REE ionic clay mineralization. During FY 2022, slightly over 40,000 hectares were assessed for mineralization in the Petronila and Veronica districts, which resulted in 28 proposed targets for sonic drilling. The first drilling target was in Veronica Norte, and results of such drilling revealed the following: (i) the presence of REE mineralization, occurring mainly in the first 15 metres below surface with an economic horizon of approximately 7 metres; (ii) that REEs are highly absorbed into the ionic clays located in Veronica Norte, resulting in a high percentage of REE exchangeable fraction recovery; and (iii) the attractive recoverable values of dysprosium and terbium (heavy REEs) and neodymium and praseodymium (light REEs). The drilling results from Veronica Norte indicate that mineralization remains open on its lateral extents at different topographic levels, providing new drilling target zones which will be explored in 2023.

The Company recently decided to initiate ionic clay prospectivity and exploration activities in other countries within South America, including Brazil, Colombia and Peru, which will be assessed in 2023 for future drilling campaigns. The Company has already made significant progress since the start of its prospectivity efforts in Brazil, including (i) engaging in superficial mapping and sampling in different regions of Brazil, (ii) staking an aggregate of 369,410 hectares of mining concessions, (iii) entering into an earn-in agreement with a Brazilian mining company to acquire additional mineral concessions, and (iv) identifying seven (7) high-priority exploration drilling targets, one in which the Company has already begun its Phase 1 auger drilling campaign.

In Q4 2022, the Company incurred $1.939 million in administrative expenses mainly related to (i) management compensation, (ii) continuous public disclosure and marketing activities, and (iii) ancillary activities undertaken to further the development of the Penco Module and greenfield exploration. In comparison, the Company incurred $0.410 million in administrative expenses during Q4 2021. In the aggregate, the Company's administrative expenses totalled $5.386 million for FY 2022, as compared to $0.498 million for FY 2021.

SELECTED ANNUAL INFORMATION

Financial Performance

Aclara is a mining company engaged in the exploration and development of rare earth mineral resources and, as such, has not earned any revenues to date. The majority of activities undertaken in FY 2022 were related to, among other things, engineering studies in respect of the Penco Module, exploration activities, permit-related studies, community outreach, and mine and process engineering and design. The following table sets out selected aspects of the Company's income statement as at FY 2022, FY 2021 and the fiscal year ended December 31, 2020 ("FY 2020").

(in thousands of US$)	FY 2022	FY 2021	FY 2020
Income statement			
Loss for the year from continuing operations	**(8,355)**	**(1,508)**	**(791)**
Basic loss per share	(0.05)	(0.02)	(0.01)
Diluted loss per share	(0.05)	(0.02)	(0.01)

In FY 2022, loss from continuing operations totalled $8.355 million, which was primarily comprised of administrative expenses of $5.386 million, greenfield exploration expenses of $3.488 million, financial income in the form of cash account and term deposit interest of $0.648 million, financial cost in the form of banking commissions of $0.018 million and an exchange rate loss of $0.111 million.

Comparatively, in FY 2021, loss from continuing operations totalled $1.508 million, which was primarily comprised of administrative expenses of $0.498 million, greenfield exploration expenses of $0.514 million, financial costs of $0.017 million and exchange rate loss of $0.479 million. In FY 2020, loss from continuing operations totalled $0.791 million, which was primarily comprised of administrative expenses of $0.237 million and greenfield exploration expenses of $0.554 million. The annual increase in administrative expenses is mainly due to increasing personnel expenses incurred by the Company's efforts to achieve its corporative objectives.

Financial Position

The following table sets out selected aspects of the Company's consolidated statement of financial position as at FY 2022, FY 2021 and FY 2020.

(in thousands of US$)	FY 2022	FY 2021	FY 2020
Statement of financial position			
Total assets	**156,817**	**164,817**	**75,162**
Cash and cash equivalents	66,886	64,185	1,265
Short term investment	-	27,000	-
Property, plant and equipment	1,887	704	536
Evaluation and exploration assets	82,985	70,125	70,921
Account receivable current assets	367	136	247
Account receivable non-current assets	4,692	2,667	2,193
Total liabilities	**3,630**	**3,050**	**6,032**
Current liabilities	3,630	3,050	6,032
Total equity	**153,187**	**161,767**	**69,130**

The Company's financial position in respect of its E&E assets includes capitalized expenses related to the development of the Penco Module. Capitalized expenses were mainly comprised of expenses incurred in relation to the Company's brownfield exploration, engineering activities, permitting expenses and management expenses. See "*Discussion of Results and Operations Update*" below for greater detail.

As at FY 2022, the Company had $66.886 million in cash and cash equivalents and nil term deposits denominated as short-term investments. Comparatively, as at FY 2021, the Company had $64.185 million in cash and cash equivalents and $27.000 million in term deposits denominated as short-term investments. As at FY 2020, the

Company had $1.265 million in cash and cash equivalents and nil term deposits denominated as short-term investments.
Cash Flows

The following table sets out selected aspects of the Company's statement of cash flows as at FY 2022, FY 2021 and FY 2020.

(in thousands of US$)	**FY 2022**	**FY 2021**	**FY 2020**
Statement of cash flows			
Cash flows from/(used in) operating activities	(8,441)	(4,024)	2,511
Cash flows from/(used in) investing activities	11,613	(39,004)	(8,591)
Cash flows generated from financing activities	(471)	105,948	7,000

As at FY 2022, cash flows used in operating activities totalled $8.441 million and were comprised of a profit loss of $8.355 million, a negative change in working capital of $2.325 million, an inflow of interests received of $0.648 million and a positive adjustment of non-cash flow concepts (i.e., depreciation and others) of $1.591 million. Comparatively, as at FY 2021, cash flows used in operating activities totalled $4.024 million and were comprised of a profit loss of $1.508 million, a negative change in working capital of $0.834 million, outflow due to interests paid of $0.011 million and a negative adjustment of non-cash flow concepts of $1.671 million. As at FY 2020, cash flows from operating activities totalled $2.511 million and were comprised of a profit loss of $0.791 million, positive change in working capital of $3.242 million, an inflow of interests received of $0.002 million and a positive adjustment of non-cash flow concepts of $0.058 million.

As at FY 2022, cash flows from investing activities totalled $11.613 million and were comprised of investments in E&E assets of $14.145 million and in PP&E assets of $1.242 million, and a positive inflow of $27.000 million to cash and cash equivalents coming from a change in the length of a six-month term deposit to monthly term deposit. Comparatively, as at FY 2021, cash flows used in investing activities totalled $39.004 million and were comprised of short-term investments in a six-month term deposit of $27.000 million, investments in E&E assets of $11.661 million and in PP&E assets of $0.343 million. As at FY 2020, cash flows used in investing activities totalled $8.591 million and were comprised of investments in E&E assets of $8.297 million and in PP&E assets of $0.294 million.

As at FY 2022, cash flows used in financing activities totalled $0.471 million from the Going Public Transaction. Comparatively, as at FY 2021, cash flows generated from financing activities totalled $105.948 million and were comprised of capital contributions of $11.250 million from Hochschild Mining Holdings Limited, and a capital raise of $94.698 million from the Going Public Transaction (IPO expenses of $1.544 million were still pending to be paid as at December 31, 2021). As at FY 2020, cash flows generated from financing activities were comprised of capital contributions by Hochschild Mining Holdings Limited of $7.000 million.

DISCUSSION OF RESULTS AND OPERATIONS UPDATE

<u>Exploration Activities</u>

Brownfield Exploration

From December 2020 to March 2021, the Company carried out a new brownfield and infill exploration programme to extend the known mineralized orebodies, add new resources to the Penco Module and increase its life of mine. Pursuant to the brownfield and infill exploration programme, 6,418 metres in 259 sonic drill holes were completed and studied for resource estimation in the Technical Report. In the second half of 2021, the Company further completed 697 metres in 28 drill holes. Drilling results indicated the presence of a western extension to the existing Alexandra Oriente orebody, which was named "Alexandra Poniente". During the Q4 2021 and Q1 2022, the Company completed its drilling campaign in Alexandra Poniente, which totalled 100 drill holes and 3,011.5 metres. Results from the drilling campaign (i) confirmed the hypothesis that Alexandra Poniente is an extension of the Alexandra Oriente mineralization, (ii) extended known mineralization at similar grades and widths to the north and west of Alexandra Poniente, (iii) extended the depth of known mineralization in the center of Alexandra Poniente, and (iv) confirmed the continuity and thickness of the Alexandra Poniente orebody.

In addition, the Company completed an infill drilling campaign of 75 drill holes and 2,286 metres aimed to convert the approximately 2Mt of inferred mineral resources from Luna, Victoria Norte, Alexandra Oriente, Victoria Sur, and Maite into measured and indicated mineral resources.

In Q4 2022, the Company announced an updated mineral resource estimate for the Penco Module, which will be used to support the development of the Penco Module's feasibility study. A comparison of the updated mineral resource estimate, as at October 13, 2022, and values disclosed in the Technical Report, as at September 15, 2021, is presented below:

	As at Sept 15, 2021		As at Oct 13, 2022		Variation			
Category	**Tonnage**	**Contained TREO**	**Tonnage**	**Contained TREO**	**Tonnage**		**Contained TREO**	
	(Mt)	**(kt)**	**(Mt)**	**(kt)**	**(Mt)**	**(%)**	**(kt)**	**(%)**
Measured	15.4	37.9	21.3	49.3	5.9	38.2%	11.4	30.0%
Indicated	5.3	12.3	6.2	13.7	0.9	16.5%	1.4	11.1%
Measured and Indicated	**20.7**	**50.2**	**27.5**	**62.9**	**6.8**	**32.6%**	**12.7**	**25.3%**
Inferred	2.1	4.8	1.7	3.4	-0.4	-19.3%	-1.4	-29.5%

Notes:

1. TREO = Total Rare Earth Oxides (La_2O_3, CeO_2, Pr_6O_{11}, Nd_2O_3, Sm_2O_3, Eu_2O_3, Gd_2O_3, Tb_4O_7, Dy_2O_3, Ho_2O_3, Er_2O_3, Tm_2O_3, Yb_2O_3, Lu_2O_3) + Yttrium (Y_2O_3).
2. Totals may not balance due to rounding of figures.
3. Net smelter rate cut-off values: US$13/t (Oct 31, 2022) and US$ 9.79/t (Sept 15, 2021).

Greenfield Exploration - Chile

During FY 2021, ongoing surface mapping across the Veronica, Catalina, and Petronila districts was carried out to identify the presence of regolith formations and REE mineralization within these zones. The initial success of this mapping provided the basis for conducting a multi-element geophysics radiometry and magnetometry fly-over that covered 6,017 km^2 in surface area. The survey was conducted over the districts identified as being potentially viable REE mineralization zones, and the objective was to create a ternary Red-Green-Blue map by linking elements (such as uranium, thorium, and potassium) to radiometry for the purposes of identifying structural controls in geomorphology and regolith formation. Results from this survey, delivered at the end of the first quarter of 2022, assisted the Company for target generation planning.

During FY 2022, further mapping and sampling was carried out in the Petronila and Veronica districts and resulted in 28 new proposed targets for sonic drilling. The first target drilled was Veronica Norte, with a total of 125 holes and 2,905 metres completed. On February 28, 2023, the Company announced Veronica exploration results which revealed the following: (i) the presence of REE mineralization, occurring mainly in the first 15 metres below surface with an economic horizon of approximately 7 metres, (ii) that REE are highly absorbed into ionic clays, resulting in a high percentage of REE exchangeable fraction recovery, and (iii) the attractive recoverable values of dysprosium and terbium (heavy REEs) and neodymium and praseodymium (light REEs). The results from Veronica Norte indicate that mineralization remains open on its lateral extents at different topographic levels, providing new drilling target zones which will be explored in 2023.

New targets were also identified in the Petronila and Amparito districts and have been proposed for a drilling campaign commencing the second quarter of 2023. Notably, the mapping and sampling in the Veronica district led the Company to identify a preferred mineralization corridor extending from the southwest to the northeast, reaching the Josefa district, in which new areas with evidence of ionic clays enriched with REEs were recognized. The Company intends to execute on these new drilling targets during 2023.

In the second half of 2022 and first quarter of 2023, based on mapping and sampling results, the Company discarded 198,700 hectares from its portfolio of mineral concessions due to evidence of low potential for the presence of ionic clays or REEs. As a result, the Company's current portfolio of concessions in Chile total 253,285 hectares.

Greenfield Exploration - Brazil

During FY 2022, the Company decided to initiate ionic clays prospectivity exploration in other countries within South America, including Brazil, Colombia, and Peru, which will be assessed in 2023 for future drilling campaigns. The Company has already made significant progress in Brazil since the start of its exploration activities, including (i) superficial mapping and sampling in different regions of Brazil, (ii) staking an aggregate of 369,410 hectares of mining concessions, (iii) entering into an earn-in agreement with a Brazilian mining company to acquire additional concessions, and (iv) identifying seven high-priority exploration drilling targets.

The Company has developed drilling campaigns for two high-priority targets in respect of the concessions subject to the Company's earn-in agreement entered into with the Brazilian mining company. The first target has a Phase 1 drilling campaign of 640 metres, comprised of 54 auger drillholes. As of the date of this MD&A, the Phase 1 drilling campaign is already in progress. The Company may commence a Phase 2 drilling campaign for the first target, comprised of approximately 8,280 metres over 276 reverse circulation drillholes, conditional upon receiving positive results from the Phase 1 work. The second target has a Phase 1 drilling campaign of 460 metres, comprised of 46 auger drillholes. Drilling work is expected to begin in the first quarter of 2023 and to be completed in the second quarter of 2023. The Company may commence a Phase 2 drilling campaign for the second target, comprised of 5,100 metres over 200 reverse circulation drillholes, also conditional upon receiving positive results from the Phase 1 work.

The Company is in the process of developing drilling campaigns for five other high-priority targets within its concession's areas. Drilling work will follow the same methodology as above (a Phase 1 drilling campaign with an auger drilling machine, followed by a Phase 2 drilling campaign with a reverse circulation drilling machine). The Company expects to start drilling these targets during the second quarter of 2023.

Development Activities

The following section of this MD&A provides an overview of the activities carried out in FY 2022 in furtherance of the development of the Penco Module.

<u>General Engineering</u>

During FY 2021, Ausenco Engineering Chile Limitada ("Ausenco") was selected as the engineering consultant responsible for issuing the Technical Report of the Penco Module. The initial work allocated to Ausenco included a review of the information and studies provided by the Company, preliminary engineering of the production process, and the development of a class 5 capital expenditure estimate. The main materials utilized for the capex estimation were the process design and the mining study in connection with the geological exploration campaign conducted in FY 2020. In preparing the Technical Report, Ausenco's scope of work included optimizing the process plant design and analyzing the incremental results obtain from the Company's exploration campaigns conducted in FY 2021. Additional work completed by Ausenco in preparing the Technical Report included a mineral resource estimate, mining study, process design, waste disposal facility review, costs estimation and economic analysis. Ausenco delivered the Technical Report in accordance with the guidelines of applicable Canadian securities laws during the fourth quarter of 2021.

In FY 2022, Ausenco was engaged again to develop the prefeasibility study, which would assist in defining the layout and engineering of the contemplated processing plant. In the first quarter of 2022, Ausenco carried out engineering activities, including selecting process plant equipment, developing the civil, mechanical, structural, electrical and control engineering, and reducing the layout surface area. Studies and geotechnical test work were also conducted to determine fresh water and power supply alternatives, and to confirm the structural stability of spent clay deposition zones. During the second and third quarter of 2022, the Company continued to advance engineering works in connection with water and electrical supply, and infrastructure design associated with the Penco Module mine and processing plant for the purposes of the Revised EIA. These activities were carried out by Ausenco, CDM Smith and Reich, and included studies associated with the operation, construction, and closure phases of the Penco Module. In the same period, the Company initiated a geotechnical drilling campaign. The results of such campaign revealed additional information which assisted the Company in characterizing extraction zones and updating certain mine design criteria, including slope and bench considerations.

Also in FY 2022, the Company continued assessment of new and viable water sources for the Penco Module's process plant in efforts to improve the current design of the plant. Following positive results on the quality and availability of recycled water, the Company incorporated conceptual engineering designs into the current design of the plant to make use of this alternative water source. Further, on January 31, 2023, the Company signed an agreement with the water utility company of Concepción, pursuant to which it secured sufficient treated industrial water to supply 100% of the water required for the Penco Module. This represented a major milestone in achieving sustainability for the Penco Module and strengthens the Company's position in preparation for filing its Revised EIA. Engineering in respect of the Penco Module is expected to develop further during the feasibility study phase.

During Q4 2022, the Company initiated a request for proposal process for the commissioning of a feasibility study in respect of the Penco Module. Several engineering companies, both local and international, were invited to participate in the bidding process. On March 13, 2023, the Company announced that it has awarded the Penco Module feasibility study contract to Pares & Alvarez, a Chilean engineering company with 28 years of experience in the design and construction of similar mining and industrial projects, located in Chile and abroad. The scope of work includes feasibility engineering for the process plant, mine infrastructure and mine services and the preparation of a new NI 43-101 compliant technical report relating to the Penco Module, which is expected to be issued during the first half of 2024.

Mining Study

In FY 2020, the Company conducted a preliminary resource estimation and mining study, which including design criteria, trade-off studies, pit and phase selection, and production schedules. The mining study report was updated in 2021 to include additional drilling information, technical definitions, an estimation of block models and revised design criteria provided by Ausenco. The latest mining study included in the Technical Report was comprised of revised design criteria, economic envelope analysis and mining phase selection.

In FY 2022, the Company prepared a plan for further development of the geotechnical aspects of the Penco Module and drafted preliminary pit designs and a refined mine cost model. The Company also completed a conceptual design for the backfilling of the Victoria Norte pit, with a focus on reducing haulage cost and environmental impact. Further, the Company developed a discrete event simulation model, which is supposed to represent some of the distinctive operational characteristics of the Penco Module. The model has been used to provide a probabilistic characterization of expected weather events and their intensity and frequency by analyzing local historic rainfall data and has also been used to develop a ranking of the different road segments based on their predicted impact on mine productivity. The Company expects the discrete event simulation model to be useful in the development of the feasibility study, which will, in turn, determine the allocation of resources on road segments scoring the highest negative impact on productivity.

Process Design

In FY 2021, the Company conducted a trade-off study for the leaching circuit and included four alternative solutions. The Company selected a counter current decantation leaching system as the most economically attractive option and began modifying the process design and engaging vendors to conduct performance testing prior to initiating commercial scale construction. Additionally, the Company continued to advance pre-feasibility engineering process with the purpose of finalizing a preliminary design. These activities included the development of criterion related to project process design, mass balance accounting for treated water recirculation in the processing plant, identifying material process equipment, the trade-off assessments in respect of the leaching and water treatment system, the, operating costs, analysis and review of potential vendors and laboratory tests and meetings with equipment suppliers.

In FY 2022, metallurgical recoveries validation was carried out through an extensive and comprehensive testing program at SGS. This program began in the fourth quarter of 2021 and was completed at the end of the second quarter of 2022. The testing program design was based on a series of geo-metallurgical criteria which assessed 119 representative samples from different extraction zones within the Penco Module. Through mineralogical and chemical analyses, the behaviour of clays was assessed against various leaching solutions. The results validated the Company's current recovery metrics and provided support for the economic indicators of the Penco Module. Furthermore, metallurgical testing and management of impurities were assessed by AGS Laboratories in La Serena, Chile with the support of BQE Water in Vancouver, Canada, where a closed-circuit flowsheet was proven to be successful. The flowsheet design demonstrated the chemical stability of residues, no liquid or solid discharge in respect of the flowsheet process, recirculates up to 95% of water and 99% of the main process reagent (ammonium sulphate). Remaining water lost in the process are returned to the field in the form of filtered and washed clays. In addition, the flowsheet process incorporates ion exchange resin technologies, purification with greensand filters, the use of nanofiltration membranes and reverse osmosis, among other technologies. In light of the sustainable parameters achieved, the process was named "Circular Mineral Harvesting". On September 6, 2022, the Company received the Sustainable Initiative of the Year award by the Business Intelligence Group in recognition of the Penco Module environmentally friendly design including the absence of use of explosives, no crushing and milling processes, no radioactivity and the complete revegetation of impacted areas with native forests after completion of mining activities. The Company considers its intellectual property critical to its business and has filed a new patent of its ionic clays production flowsheet in Chile and aims to register its patent in those countries where ionic clays may be found. The Company has already been granted a patent that protects its flowsheet process design in Chile, Brazil, US, and China.

During Q4 2022, the Company continued to advance engineering design, equipment procurement and fabrication in connection with the Penco Module's pilot plant, with the objective of demonstrating flowsheet at an up-sized scale. The design and operation of the pilot plant is being supported by Promet101, BQE Water, the University of Concepción, the University of Toronto and SGS, as well as other companies associated with the Penco Module. The pilot plant, which is currently under construction in Concepción, Chile, is expected to operate all process units continuously in an effort to demonstrate that the proposed recovery method is metallurgically robust, environmentally robust and viable at scale. The resulting residue is expected to provide support to the revegetation of the spent clay.

Environmental, Social and Governance

<u>Environment and Permits</u>

As part of the Original EIA of the Penco Module initiated in 2018, the Company filed an initial application and three supplementary submissions to the SEA by way of addendums (each, an "Addendum") and engaged in several productive discussions with the relevant authorities relating to the Penco Module. During FY 2021, the Company engaged in a Citizen Participation Process ("PAC") at the request of the SEA, which included hosting virtual meetings and conducting door-to-door field activity. At the end of February 2021, the SEA issued a Complementary Consolidated Report on Clarifications, Rectifications or Extensions ("ICSARA"), which included 136 supplemental questions from the SEA in respect of environmental responsibilities relating to the Penco Module. In late April 2021, an additional Citizen ICSARA was issued pursuant to the PAC process, which included approximately 1,150 questions. The Company prepared the Addendum N°2 answering both the technical and citizen questions and submitted it to the SEA on October 29, 2021. On December 16, 2021, the SEA issued a third complementary Addendum requesting responses by February 25, 2022. The Company completed and submitted Addendum N°3 to the SEA on January 31, 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 the 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 in 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 additional time to fully understand and resolve the remaining issues and to resubmit a Revised EIA relating to the Penco Module.

During FY 2022, the Company undertook new baselines studies in the field, starting in April 2022, to address the flora and fauna issues, in particular, raised by the SEA. The field studies were led by consultants specializing in flora identification using "plots" methodology and direct observation, fauna observation using "trap cameras", and water flow rate estimation by whirligig. In terms of flora, specifically in relation to the Queule and Pitao native preservation trees habitat, the University of Chile also conducted a study which confirmed that the Penco Module will not generate any impact to the Queule and Pitao species which are native to the surrounding habitat. As of the date of this MD&A, the Company has already completed the baselines studies, of which three of the four seasons (autumn, winter and spring campaigns) were completed as of December 31, 2022 and the last season (the summer campaign) was finalized during the first quarter of 2023.

In February of 2023, the Company opened an information house in the Municipality of Penco to foster interaction with the local community and to provide the community with an opportunity to learn specific details about the Penco Module, the Revised EIA and the REE industry. This opening pre-empts the open house that the SEA will eventually request during the PAC phase of the evaluation period after the filing of the Revised EIA.

Occupational Health and Safety

In FY 2021, the Company reported safety key performance indicators ("KPIs"), including a frequency index and severity index of 10 and 62,248, respectively. The KPIs were impacted as a result of one (1) fatal accident that was reported to the Company on November 15, 2021 involving a hydraulic connection failure on a compactor-roller machine. Following the incident, the Company underwent a thorough review and overhaul of its safety management protocol which included: (i) a review of the organizational structure of the Company's safety department; (ii) the strengthening of all safety procedures relating to equipment condition and maintenance; (iii) the implementation of mandatory pre-use inspections by a third-party inspection authority; and (iv) the redrafting of all construction contracts to clarify the obligations of both the Company and its contractors with respect to safety compliance.

In FY 2022, safety KPIs, including frequency and severity indices, reported nil values as a result of nil recorded accidents. The main activities during FY 2022 that contributed to this positive report included training, site visits, and climate alerts management, all of which ensured optimal field conditions for the ongoing greenfield drilling campaigns and other field activities being engaged by the engineering and sustainability teams. Furthermore, as part of the preliminary tasks in relation to the construction of the pilot plant, the Company prioritized the development of a risk management system and the accreditation of its contractors.

Social License

In FY 2021, the Company worked to maintain an open and meaningful dialogue with the community, with the aim of highlighting the benefits of the Penco Module and addressing concerns. Efforts to maintain interaction with the community entailed monthly meetings ("Juntas de Participación Ciudadana"), site visits to the project area, and targeted meetings with community organizations. In FY 2021, a total of 14 meetings were held with various community organizations. Despite its efforts, the desired level of community engagement and enthusiasm for the Penco Module was not achieved and the development of the Penco Module experienced some local opposition from certain groups and social organizations. On February 27, 2022, the Municipality of Penco held a non-binding consultation to poll local residents on the development of the Penco Module. Of the 42,186 eligible registered voters of Penco and Lirquen, 7,548 people turned out to vote (representing a turnout of 17.89%) in the said consultation of which 7,474 people voted against the installation of the proposed project.

In FY 2022, the Company executed a robust local community outreach program. The Company appointed a Public Affairs Manager and formed a social value management team with the following mandates: (i) to expand and strengthen relationships with stakeholders in the Biobío region, (ii) to educate the communities on the sustainability aspects of the Penco Module, and (iii) to manage social contribution initiatives developed for the community. In addition, the Company conducted a perception study to gain a deeper understanding of their stakeholders, their level of knowledge of the Penco Module and their main interests and necessities. The main findings of the perception study indicated that negative opinions primarily stemmed from being unaware of the attributes of the Penco Module as compared to traditional mining. In response, during the second half of 2022, the Company initiated a thorough digital communication campaign which highlighted the aspects of the Penco Module that contributed to, and aligned with, the Chilean government's shift towards sustainable projects in Chile. The campaign emphasized not only the efforts undertaken by the Company, but also the technical advantages of the Penco Module over traditional mining and the resulting added value to nearby communities. The Company also actively responded and clarified false and inaccurate information promulgated by the opposition.

During Q4 2022, the Company's community relations team visited 7,750 households in the Penco community to share in-person information about the Penco Module and to address potential concerns. Moreover, in February of 2023, the Company opened an information house in the Municipality of Penco, in which the community can directly engage with Aclara's representatives on a daily basis. The main objectives of the house in Penco are: (i) to provide information about the Penco Module and the REE industry, (ii) to engage in a constant dialogue with the community to resolve concerns, and (iii) to provide a space for the community to organize collective activities. The Company is currently receiving feedback and ultimately seeks to co-develop the Penco Module with the community.

In FY 2022, the Company actively participated and sponsored several local conferences and seminars, including IRADE, UdeC REE workshop, EREDE, MIT Sustainability, Mining & Energy, and "Congreso Futuro", as part of its educational campaign. The Company has maintained constant communication with regional and local stakeholders, including business guilds, universities, and other organizations. The Company's education campaign succeeded in capturing the interest of the central government, and the Company was invited to present about the Penco Module, the REE market, and the potential benefits to Chile, to the Mining and Energy Commission of the Senate and the Mining Commission of the Chamber of Deputies in Santiago. Following the Company's presentations, the President of the Mining and Energy Commission of the Senate congratulated Aclara on its accomplishments and the Chamber of Deputies demonstrated notable interest and willingness to engage with Aclara in further discussions.

OPERATIONAL PERFORMANCE

Source of Funds

On December 10, 2021, the Company raised net proceeds of $93.154 million (approximately C$117.696 million) through its Going Public Transaction, resulting in a total cash balance of $91.185 million as at FY 2021. In FY 2022, the expenditures related to exploration, technical development, environmental, social and governance and administration activities amounted to $24.261 million, resulting in a total cash balance of $66.886 million as at FY 2022.

Overview of Operating Expenditure and Costs

During Q4 2022, the Company incurred $3,1 64 in losses in connection with exploration expenses, administration expenses, finance costs, finance income and loss/gain resulting from exchange rate fluctuations, as compared to Q4 2021, in which the Company incurred losses of $1,432. On aggregate, the Company incurred aggregate losses of $8,355 in FY 2022, as compared to losses of $1,508 in FY 2021.

(in thousands of US$)	**Q4 2022**	**Q4 2021**	**FY 2022**	**FY 2021**
Exploration expenses	1,624	531	3.488	514
Administration expenses	1,939	410	5.386	498
Other income	-	-	-	-
Financial costs	5	13	18	17
Financial income	(261)	-	(648)	-
Exchange differences	(143)	478	111	479
Loss from continuing operations before income tax	**3,164**	**1,432**	**8,355**	**1,508**

<u>Exploration Expenses</u>

The breakdown of exploration expenses incurred by the Company for the Q4 2022, Q4 2021, FY 2022 and FY 2021 periods are as follows:

(in thousands of US$)	**Q4 2022**	**Q4 2021**	**FY 2022**	**FY 2021**
Personnel expenses	198	22	367	68
Professional fees	126	-	149	-
Mining rights	-	-	50	-
Rental	-	21	6	15
Repair and maintenance	5	5	5	5
Analysis & technical	273	387	642	195
Studies	6	26	145	51
Surveillance	-	3	-	3
Technology and system	(20)	30	-	42
Exploration Supplies	1	5	1	28
Contractors and Services	961	34	2,011	86
Other	74	(2)	112	21
Total	**1,624**	**531**	**3,488**	**514**

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

During Q4 2022, the Company conducted superficial mapping and soil sampling, which resulted in the following expenses: personnel expenses of $198; professional fees of $126; nil in rental; repair and maintenance of $5; analysis and technical costs (chemical assays) of $273; nil in surveillance; a decrease in technology and system of $20; exploration supplies of $1; and other costs of $74. Comparatively, during Q4 2021, the Company incurred the following expenses: personnel expenses of $22; nil in professional fees; rental of $21; repair and maintenance of $5; analysis and technical costs (chemical assays) of $387; technology and system of $30; surveillance of $3; exploration supplies of $5; and a decrease in other costs of $2. In addition, the Company carried out socio-environmental screening studies of the Petronila and Catalina concessions, resulting in $6 in studies expenses, as compared to $26 in Q4 2021. Finally, in Q4 2022, the Company incurred contractors and services expenses of $961, which was comprised of $804 in drilling expenses and sample analyses, $21 studies and permits, and $136 in other expenses, as compared to $34 in Q4 2021.

Administrative Expenses

The breakdown of administration expenses incurred by the Company for the Q4 2022, Q4 2021, FY 2022 and FY 2021 periods are as follows:

(in thousands of US$)	**Q4 2022**	**Q4 2021**	**FY 2022**	**FY 2021**
Personnel expenses	802	161	2,644	161
Professional fees	194	11	389	40
Depreciation and amortization	363	23	570	82
Contractors and services	458	190	1,488	190
Permit	52	-	152	-
Other expenses	70	25	143	25
Total	**1,939**	**410**	**5,386**	**498**

The increase in overall administration expenses is primarily the result of expenses incurred in connection with the Going Public Transaction, as the Company now operates as an independent entity. Personnel expenses of $802 were incurred by the Company as a result of its new management team, which includes the Company's current Chief Executive Officer and his assistant, Chief Operating Officer and Chief Financial Officer. Professional fees of $194 incurred during Q4 2022 corresponded to accounting services and auditing services rendered for the Company's 2021 annual audit, as compared to accounting expenses of $11 incurred by the Company in Q4 2021.

In Q4 2022, the Company incurred depreciation and amortization expenses of $363, as compared to $23 in Q4 2021. This increase is largely driven by the amortization of exploration mining concessions following the expiration schedule of each concession. The comparative increase in amortization expenses resulted from the contribution of certain exploration concessions from REE Uno to Prospecciones Greenfield SpA and accordingly, for the purposes of accounting, Prospecciones Greenfield SpA was required to amortize the capitalized expenses as it does not otherwise operate a corresponding mining project.

In Q4 2022, the Company incurred contractor and services expenses of $458, which was comprised of $65 in director fees and expenses, $28 in investor communication, $34 in accounting and consulting, $107 in legal expenses to comply with continued disclosure obligations as a Canadian reporting issuer and TSX-listed company, $146 D&O insurance and $78 in other expenses, as compared to $190 in Q4 2021.

In Q4 2022, the Company incurred permit expenses of $52 and other expenses of $70, principally comprised of administrative costs for renewal of current concessions and miscellaneous expenses related to offices, marketing, lease contracts, communication, auditing, and transportation, respectively.

Financial Income and Costs

In Q4 2022, the Company's net financial income and costs amounted to $261, and $5 was associated with the Company's investments in short-term deposits, interest-bearing bank accounts and bank commissions, as compared to net financial costs of $13 in Q4 2021.

(in thousands of US$)	Q4 2022	Q4 2021	FY 2022	FY 2021
Financial costs	5	13	18	17
Loss from continuing operations before income tax	**5**	**13**	**18**	**17**
(in thousands of US$)	**2022**	**2021**	**2022**	**2021**
Financial income	(261)	-	(648)	-
Loss from continuing operations before income tax	**(261)**	**-**	**(648)**	**-**

Evaluation and Exploration Assets

In accordance with IFRS accounting principles regarding capitalization of E&E assets, costs of mineral properties are capitalized on a project-by-project basis. As at FY 2022 and FY 2021, the Company's principal business was the development of the Penco Module. The Company capitalizes expenses related to brownfield exploration and infill drilling, metallurgical testing and process design, engineering of the mine, processing plant and project infrastructure, permitting and administration activities and services. The following table sets out an overview of the Company's capitalized E&E asset balance as follows:

(in thousands of US$)	Totals
Balance at January 1, 2021	**70,929**
Additions	11,661
Foreign exchange effect	(12,458)
Balance at December 31, 2021	**70,132**
Additions	11,092
Foreign exchange effect	(9,739)
Balance at September 30, 2022	**71,485**
Additions	3,053
Foreign exchange effect	8,886
Balance at December 31, 2022	**83,424**
Accumulated amortisation and impairment	
Balance at January 1, 2021	**8**
Foreign exchange effect	(1)
Balance at December 31, 2021	**7**
Additions	142
Foreign exchange effect	(14)
Balance at September 30, 2022	**135**
Additions	142
Foreign exchange effect	162
Balance at December 31, 2022	**439**
Net book value as at December 31, 2021	**70,125**
Net book value as at September 30, 2022	**71,350**
Net book value as at December 31, 2022	**82,985**

The total investments in the Penco Module capitalized as E&E assets as at Q4 2022, Q4 2021, FY 2022 and FY 2021 are as detailed below:

(in thousands of US$)	Q4 2022	Q4 2021	FY 2022	FY 2021
Personnel expenses	612	887	2,694	2,530
Professional fees	466	(70)	596	933
Environmental impact study	378	525	1,445	997
Geochemical study	-	29	-	192
Diamond drilling	-	60	-	867
Engineering services	97	208	455	1,003
Mining rights	(52)	152	457	493
Feasibility studies	-	173	7	1,693
Rent building, vehicles, others	112	109	405	349
Analysis & technical	212	224	1,678	830
Contractors and Services	812	130	5,565	1,317
Other	416	164	843	457
Total	**3,053**	**2,591**	**14,145**	**11,661**

In FY 2022, the Company incurred personnel expenses of $2.694 million, as compared to FY 2021, in which the Company incurred personnel expenses of $2.530 million. The increase in personnel expenses is the result of an increased employment of 2 staff members. The headcount as at FY 2022 was 59, compared to 46 as at FY 2021.

Each category of the Company's costs in relation to its investment in the Penco Module in FY 2022 have been discussed elsewhere in this MD&A. In particular, in FY 2022, expenses related to the technical development of the Penco Module were comprised of costs related to engineering services, feasibility studies, analysis and technical and contractor and services, each of which are discussed under the sections entitled "*Brownfield Exploration*" and "*Development Activities*" above. Comparatively, in FY 2021, expenses related to the Penco Module were comprised of the above-mentioned categories of costs as well as costs related to geochemical study and diamond drilling, which were carried out for the purpose of developing the Technical Report.

During FY 2022, expenses relating to permit-related activities were comprised of costs associated with the environmental impact study and are described in greater detail under the section entitled "*Environmental, Social and Governance*" above. The environmental impact study expenses totalled $1,445 as at FY 2022, as compared to $997 as at FY 2021.

Expenses related to mining rights, which consisted of costs relating to exploration and exploitation of the Company's concessions, totalled $457 as at FY 2022, as compared to $493 as at FY 2021. As at FY 2022, the Company's concessions were comprised of 281,985 hectares, as compared to FY 2021, in which the Company's concessions were comprised of 451,985 hectares.

Fixed expenses related to professional fees, rent, building, vehicles, and other costs totalled $1,844 as at FY 2022, compared to $1,739 as at FY 2021.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US$)	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Net income (loss) from continuing operations	(3,164)	(2,436)	(1,758)	(997)
Net income (loss) and comprehensive income (loss)	**(3,164)**	**(2,436)**	**(1,758)**	**(997)**

(in thousands of US$)	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Net income (loss) from continuing operations	(1,432)	(173)	(110)	207
Net income (loss) and comprehensive income (loss)	**(1,432)**	**(173)**	**(110)**	**207**

During Q4 2022, the Company incurred higher net losses from continuing operations compared to the three previous quarters, primarily due to an increase in exploration activities, including geological surveys, chemical analyses and drilling expenses. The increase in net loss from continuing operations since Q$ 2021 is as a result of the Going Public Transaction, which assumed increasing expenses related to the management team and administration activities to run a publicly-traded company.

FINANCIAL INSTRUMENTS

Nature and Extent

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

The Company's consolidated financial instruments for FY 2022 and FY 2021 are as follows:

(in thousands of US$)	FY 2022	FY 2021
Cash and cash equivalents		
Current demand deposit accounts	66,886	64,185
Total Cash and cash equivalents	**66,886**	**64,185**

As at FY 2021, the Company held a six-month term deposit in the amount of $27.000 million as an investment in Scotiabank.

Financial Instrument Risks

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

Foreign Currency Risk

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

Credit Risk

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

Liquidity Risk

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

LIQUIDITY AND CAPITAL RESOURCES

Working Capital Requirements

The Company has working capital needs of $3.263 million as at FY 2022. This requirement will be largely covered by its current cash and cash equivalent position of $66.886 million.

Off-Balance Sheet Commitments

The Company has no off-balance sheet commitments.

The Company's contractual obligations as at FY 2022 that must be satisfied with cash, and its approximate timing of payment, are as follows:

(in thousands of US$)	Fiscal year 2023	Fiscal year 2024	Fiscal year 2025	Fiscal year 2026
Office leases	185	109	24	-
Vehicle leases	87	60	34	-
Warehouse leases	281	104	-	-
Land acquisition	6,000	1,300	1,300	1,300
Total Contractual Obligations	**6,553**	**1,572**	**1,359**	**1,300**

Cash and Liquidity

The Company did not have any commercial debt as at FY 2022. As at FY 2021, the Company had a cash balance of $66,886 million. The Company's present cash resources are sufficient to meet all its current liabilities and administrative and overhead expenses for the next 18 months.

Capital Resources

The Company's focus in fiscal year 2023 is the continued advancement and development of the Penco Module and any potential future modules located in the concessions beneficially held by the Company.

The primary use of capital resources in 2023 are expected to include:

(in thousands of US$)	2023
Activities in connection with the Penco Module	**10,022**
Feasibility study and piloting	**6,757**
Permitting and ESG-related expenditures	**2,868**
Surface land purchase and mining concessions	**397**
Exploration, permitting processes and engineering activities in connection with potential new modules	**7,771**
Administrative expenses and general corporate purposes	**9,224**
TOTAL	**27,017**

As the Company does not currently generate cash flow from operating activities, the Company will be relying on further equity and/or debt financing, or a strategic partnership, as the most likely sources of additional funds for the development of the Penco Module and any potential future modules, to the extent necessary.

RELATED PARTY TRANSACTIONS

Key Management Compensation

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

For FY 2022, the remuneration of the Company's key management totalled $2.438 million, as compared to FY 2021 in which remuneration of the Company's key management totalled $0.643 million. The increase in the Company's key management remuneration is a result of the establishment of an independent management team in connection with the Going Public Transaction, including hiring costs incurred in respect of the Company's current Chief Executive Officer and Chief Operating Officer.

(in thousands of US$)	FY 2022	FY 2021
Shared-based payments	696	-
Short-term employee benefits	1,742	643
Total compensation paid to key management personnel	**2,438**	**643**

Related Party Transactions

The Company was subject to the following related-party balances and transactions for FY 2022 and FY 2021:

	Accounts payable	
(in thousands of US$)	**FY 2022**	**FY 2021**
Compañia Minera Ares S.A.C.	25	-
Minera Hochschild Chile SCM	-	6
Total	**25**	**6**

	Accounts receivable	
(in thousands of US$)	**FY 2022**	**FY 2021**
Hochschild Mining Holdings Limited	-	12
Total	**-**	**12**

Minera Hochschild Chile SCM and Compañía Minera Ares S.A.C., as members of Hochschild Mining, are both related parties and have provided intercompany administrative services since 2019.

During the first quarter of 2022, account payables with the related parties were incurred pursuant to a transitional service agreement dated as of December 10, 2021 between Hochschild Mining and the Company. The services agreement contemplates the provision of services by Hochschild Mining to the Company for a period of 12 months, including information technology, technical advice, accounting advice, and ad hoc services such as legal, sustainability, internal auditing and human resources. These services were provided by Compañía Minera Ares S.A.C. and Minera Hochschild Chile SCM on behalf of Hochschild Mining. For a more fulsome description of the Transitional Services Agreement, please see Aclara's filings with securities and regulatory authorities, which are available on SEDAR at www.sedar.com.

Accounts payables with Compañía Minera Ares S.A.C. amounted to $25 for FY 2022, compared to accounts payables of nil for FY 2021. In addition, accounts payables with Compañía Minera Hochschild Chile SCM for FY 2022 were nil, compared to $6 for FY 2021. These accounts payables were related to the administrative support of Hochschild Mining.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's issued and outstanding share capital comprised of an aggregate of 163,223,177 common shares.

During December 2022, an aggregate of 624,015 restricted share units of the Company ("RSUs") vested in the ordinary course. Of the total, 250,075 common shares were issued from treasury to members of the Company's management and 373,940 common shares were issued from treasury to the directors of the Company on January 9, 2023 and January 12, 2023, respectively.

As of the date of this MD&A, the Company's issued and outstanding convertible share capital is comprised of an aggregate of 500,153 RSUs which are issued and outstanding in accordance with the terms of the Company's omnibus long-term incentive plan.

	FY 2022
RSUs (Management)	
Vesting Period	
December 10, 2023	250,076
December 10, 2024	250,077
Total RSUs issued	**500,153**

SIGNIFICANT ACCOUNTING POLICIES

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

SIGNIFICANT EQUITY INVESTEE

Disclosure related to the Company's significant equity investee is provided under notes 2 and 16 to the Consolidated Financial Statements.

APPROVAL

The Board of Directors of Aclara has approved the disclosure contained in this MD&A.

CAUTIONARY STATEMENTS AND READER ADVISORIES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

Readers are cautioned that the foregoing list of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

CAUTIONARY NOTE REGARDING MINERAL RESERVES AND MINERAL RESOURCES

This M&DA was prepared in accordance with Canadian standards for reporting of mineral resource estimates and the requirements of the securities laws in effect in Canada. In particular, and without limiting the generality of the foregoing, the terms "mineral reserve", "proven mineral reserve", "probably mineral reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" as may be used or referenced in this MD&A are Canadian mineral disclosure terms as defined in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves (the "CIM Standards"), adopted by the CIM Council, as amended. Such terms used but are not otherwise defined herein have the meanings ascribed to them in the CIM Standards.

ADDITIONAL INFORMATION

Additional information relating to the Company and its other continuous disclosure materials, including the annual information form, annual management's discussion and analysis and audited annual financial statements, consolidated financial statements, and notice of annual meeting of shareholders and management information circular is available on Aclara's website at www.aclara-re.com and on SEDAR at www.sedar.com.