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 31, 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, (iv) Aclara Resources Mineracao Ltda., an indirect wholly owned Brazilian subsidiary that performs exploration activities in Brazil, and (v) Fundacion de Beneficencia Publica, Medioambiental, Científica, Cultural y Social Queule, an indirect wholly owned Chilean subsidiary that performs charitable work through the implementation, promotion and support of initiatives and projects pertaining to environmental conservation, heritage rescue as well as Chilean cultural, social and scientific development.

This MD&A provides information concerning the Company's interim consolidated financial condition and results of operations for the three (3) months ended March 31, 2022, March 31, 2023 and the fiscal year ended December 31, 2022. This MD&A should be read in conjunction with the Company's interim consolidated financial statements and the notes thereto for the three months ended March 31, 2022 and March 31, 2023 (collectively, the "Interim Consolidated Financial Statements"). The Interim Consolidated Financial Statements were prepared in accordance with IAS 34 "Interim Financial Reporting", International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

As used in this MD&A, references to "Q1 2023" and "Q1 2022" are to the three (3) months ended March 31, 2023 and three (3) months ended March 31, 2022, respectively, and references to "FY 2022" are to the twelve (12) months ended December 31, 2022. Unless as otherwise specified, the financial information contained in this MD&A is reported in thousands of United States 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 entitled "*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) 180,285 hectares of mining rights, distributed in the Maule, Ñuble, and Biobío regions of Chile, and (ii) 376,804 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 REE 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.

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 and the Company’s current efforts in meeting those strategic objectives are described in greater detail below.

- *Revised EIA.* During FY 2022 and Q1 2023, the Company focused on completing the seasonal baseline studies related to flora and fauna required to address the issues raised by the Environmental Assessment Authority (the "SEA") during the Company's initial Environmental Impact Assessment application process (the "Original EIA"). On January 31, 2023, the Company signed a contract with Essbio S.A., a Concepción water utility company, and successfully secured an industrial recycled water supply for 100% of the Penco Module’s water requirements. This represented a major milestone for the Penco Module as it not only supports a more robust Environmental Impact Assessment but also improves the environmental sustainability attributes of the Penco Module. On April 28, 2023, the Company filed the Revised EIA with the SEA. The evaluation process is expected to take approximately 18 months, during which the Company will address comments and questions from regulatory authorities (regarding the technical assessment) and the local Penco community.

- *Social Licence.* During Q1 2023, the Company continued its efforts from 2022 to strengthen its relationship with the local community by maintaining an open dialogue and incorporating community feedback into its future plans for the Penco Module. In emphasizing the positive attributes of the Penco Module, such as recycled water usage and community co-design opportunities, the Company strived to demonstrate its commitment to transparency and open communication. The Company intends to continue to pursue its strategy in 2023, focusing on objectives that aim to foster strong connections with all stakeholders throughout the development of the Penco Module.

- *Feasibility Study and Pilot Plant.* The Company is in the process of constructing its pilot plant and expects the plant to be operational in early June 2023, a month ahead of schedule. 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, regulatory authorities and other project stakeholders. In addition, the Company is in the early stages of developing a feasibility study for the Penco Module, which the Company intends to incorporate into an updated technical report, to be completed and issued in the first half of 2024, in accordance with NI 43-101 (as defined below).

- *Exploration.* The Company intends to advance its greenfield exploration strategy and objectives, which have been expanded to include additional 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 purchase and sale of 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 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.

OPERATIONAL AND FINANCIAL PERFORMANCE HIGHLIGHTS

During Q1 2023, the Company continued to advance the development of the Penco Module and made consistent investments in respect of evaluation and exploration assets ("E&E") and property, plant and equipment assets ("PP&E"). In the same quarter, the Company invested $3.944 million and $0.412 million in E&E and PP&E, respectively. Comparatively, the Company invested $4.498 million and $0.036 million in E&E and PP&E, respectively, in Q1 2022 and $14.145 million and $1.242 million in E&E and PP&E, respectively, in FY 2022.

Penco Module – Environmental Impact Assessment

During Q1 2023, the Company completed all seasonal baseline studies and principal engineering modifications related to the general engineering, mining, and process design for the Revised EIA. On January 31, 2023, the Company signed a contract with Essbio S.A., a Concepción water utility company, and successfully secured an industrial recycled water source for the 100% water requirement for the Penco Module's water requirements. This represented a major milestone for the Penco Module as it not only supports a more robust Environmental Impact Assessment but also improves the environmental sustainability attributes of the Penco Module. The Company has also included as part of the Revised EIA strategic measures and commitments such as: (i) building a conservation area of approximately 200 hectares of native flora species that will be donated to a foundation in Penco for posterity and protection; (ii) a reproduction center for pudu, a species of deer native to southern Chile, to contribute to research and aid in protection and reproduction efforts; and (iii) developing a recreational park for the benefit of the local Penco community, which will contain features such as walking trails, biking routes, playgrounds and picnic areas. On April 28, 2023, the Company filed the Revised EIA with the SEA and expects an evaluation period of approximately 18 months.

The Company's community relations efforts have focused on strengthening its relationship with the local community in anticipation of the citizen participation process as part of the SEA's review of the Revised EIA and maintaining the Company's ongoing digital communications campaign from the prior quarter. Through its Public Affairs Manager and social value management team, the Company intends to maintain an open dialogue with the Penco community, incorporate feedback from stakeholders, and expand its social relationships in the Biobío region. In FY 2022, the Company's community efforts were recognized by the central government of Chile, and the Company was invited to present on the Penco Module at key legislative commissions in Santiago and to various meetings held during Q1 2023 with Chilean ministries and government institutions including the Ministry of Mining, Energy, Environment, Agriculture, Economy and Treasury, the National Forest Corporation of Chile (CONAF) and InvestChile.

During the same quarter, the Company continued to progress the construction of its pilot plant and expects the plant to be operational in early June 2023, a month ahead of schedule. The Company is also in the process of developing a feasibility study for the Penco Module with Pares & Alvares ("P&A"), an engineering firm with 28 years of experience in the design and construction of similar mining and industrial projects, located in both Chile and abroad. An updated technical report is expected to be completed and issued in the first half of 2024, in accordance with NI 43-101.

Greenfield and Brownfield Exploration Activities

During Q1 2023, the Company continued to advance its greenfield exploration activities in efforts to identify REE mineralization and potential new modules for further development. The Company incurred total expenses of $1.123 million in Q1 2022 in connection with its greenfield exploration activities, as compared to $0.236 million incurred in Q1 2022.

In the same quarter, the Company revised its greenfield exploration strategy, broadening its geographical scope to include Brazil, Colombia and Peru in addition to Chile. This strategic expansion advances the Company's objective of accelerating the development of additional project modules and enhancing future growth.

The Company has made significant progress in Brazil, where it has completed superficial mapping, sampling, and the staking of 376,804 hectares of mining concessions. It has also entered into an earn-in agreement for additional mineral concessions and has identified seven (7) high-priority exploration drilling targets. The Company has started its phase 1 auger drilling campaign at one if its high-priority targets and has conducted preliminary work to initiate phase 1 drilling at another. Both high-priority targets are subject to the terms of the Company’s earn-in agreement with a third-party Brazilian mining company, which provides the Company with certain acquisition rights in respect of such targets. The Company intends to continue its superficial sampling and mapping activities across Brazil and Peru, which will inform any potential future drilling campaigns thereafter.

General Administrative Expenses and Cash Balance

In Q1 2023, the Company incurred $1.093 million in administrative expenses, which was mainly comprised of (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, in Q1 2022, the Company incurred $0.834 million in administrative expenses.

As at March 31, 2023, the Company’s cash balance totalled $59.129 million. Comparatively, the Company’s cash and cash equivalents and short-term investments in term deposits were $56.911 million and $27.00 million, respectively, in Q1 2022, totalling an overall cash availability of $83.911 million in Q1 2022. The Company’s cash and cash equivalents totalled 66.886 million as at year end FY 2022. The Company is fully funded in terms of contemplated capital and operating expenditures including, among other things, permitting and environmental activities, piloting and the development of a feasibility study in respect of the Penco Module, and preliminary exploration activities in connection with defining potential new modules.

DISCUSSION OF RESULTS AND OPERATIONS UPDATE

Exploration Activities

<u>Greenfield Exploration - Chile</u>

In Q1 2023, the Company announced drilling results following its recent drilling activities in the Verónica district (125 holes and 2,905 metres completed), which evidenced the following attributes: (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 the REEs sampled are highly adsorbed into ionic clays, which indicates a comparatively higher percentage of REE exchangeable fraction recovery, and (iii) attractive recovery rates of dysprosium and terbium (heavy REEs) and neodymium and praseodymium (light REEs). The results from Verónica 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. Following the release of these drilling results, the Company has made significant progress in completing the Verónica Norte geological model for the drilled areas.

The Company has acquired an auger drilling machine, which will be used to test prospective areas up to 10 meters in depth. Auger drilling is a method used to drill minor depths through loose rock or soils. The machine is versatile and can cross through poorly maintained roads. The Company expects to initiate its auger drilling campaign in the Petronila district during the second quarter of 2023. Once drilling is completed, the auger drilling machine will be used in Veronica Norte to further assess areas showing potential value following the previous sonic drilling campaign.

In the first quarter of 2023 and second half of 2022, based on mapping and sampling results, the Company discarded 198,700 hectares of mineral concessions from its portfolio due to factors indicating low potential for the presence of ionic clays or REEs. As at March 31, 2023, the Company’s current portfolio of mining concessions in Chile totalled 253,285 hectares. In April 2023, the Company further discarded an additional 73,000 hectares of mining concessions, thereby reducing the total held to 180,285 hectares.

In Q1 2022, the Company carried out surface mapping in the Veronica and Petronila districts. The mapping campaign focused on field recognition and collecting samples of fresh rock outcrops and structural domains from these areas. In order to conduct whole-rock geochemical analysis, the Company also carried out tests for zircon morphology and zircon uranium-lead dating. The Company intends to combine the geological factors of these zones with the information derived from the magnetometry and radiometry fly-over for the purposes of identifying future drilling targets with greater accuracy.

Greenfield Exploration – Brazil

In Q1 2023, the Company explored 700 metres across 130 auger drillholes in a high-priority target within the concessions contemplated in the Company's earn-in agreement with the Brazilian mining company. The phase 1 drilling campaign will serve to: (i) trace the high-grade domain of the ionic clays by providing information with respect to the lithological, analytical, and topographic controls of the orebody, (ii) provide additional information to define the drilling spacing for the phase 2 reverse circulation drilling campaign, and (iii) provide additional geological information to support the development of 3-D geological models for resource estimations and geostatistical variograms. Fieldwork is underway in other high-priority targets through superficial mapping and sample collection to prepare for future auger drilling campaigns.

Development Activities

The following section of this MD&A provides an overview of the activities carried out in support of the continued development of the Penco Module for the three (3) months ended March 31, 2023 and three (3) months ended March 31, 2022.

General Engineering

During Q1 2023, the company awarded a contract involving the proposed commissioning of a feasibility study in respect of the Penco Module (the "Penco Feasibility Study") to P&A. The scope of the Penco Feasibility Study contract is expected to encompass matters related to process plant, mine infrastructure and mine services. Pursuant to the contract, P&A will also be responsible for preparing the associated technical report in accordance with NI 43-101.

In the same period, Aclara secured a recycled water supply for the operation, which is expected to fulfill 100% of the water requirements of the Penco Module. The recycled water will be provided by Essbio S.A., which will collect and treat urban industrial water before discharging into the environment. The achievement of this sustainability milestone is a result of the collaborative efforts between Aclara and Essbio S.A. to preserve the area's hydric resources, and to develop the first fully-recycled water supply project in the Biobío region.

In Q1 2022, the Company carried out engineering activities relating to process plant equipment selection and layout optimization, which included the development of civil, mechanical, structural, electrical and instrumentation, control engineering, and the definition of a reduced layout surface area. In addition, the Company executed studies and geotechnical test work in efforts to discover fresh water and power supply alternatives and to confirm structural stability of spent clay deposition zones. Finally, the Company developed an updated, high resolution topography map of the Penco Module site through an aerial LIDAR survey, which was used to further define the mine waste quantities, road designs, deposition zone capacities and process plant bulk earthworks and concrete volumes.

Mining Study

During Q1 2023, two (2) hydrogeology holes were planned in Victoria Sur and Victoria Norte to enhance the geotechnical study. The first hole has been successfully drilled in Victoria Sur, and the second one is expected to be drilled in Veronica Norte in April of this year. The results of the field campaign to measure phreatic levels led to the development of the first hydrogeological model for Victoria Sur (which has since been completed) and for Victoria Norte and Maite (which are still in progress). The Company will continue to frequently monitor the hydrogeology holes to refine its modeling on the expected behaviour of the underground water in the pit areas.

As part of the pilot plant program, the Company has developed geostatistical estimation of grade block models, for both total and desorbable grades, for each of the 15 REEs. Based on these models, an operative excavation was designed for the southern piloting area. A second design for the northern piloting area is expected to be completed in the second quarter of 2023. The Company has performed other geostatistical works to support the Penco Feasibility Study, with a particular focus on defining the size of the drilling grid for short term block modelling.

In the same quarter, several mining studies were conducted (some of which are still in progress) to support the definition of the base case for the Penco Feasibility Study. These studies include:

- short term mine scheduling for Victoria Sur;
- trade-off study for pit design parameters (4-metre and 6-metre berm and bench height);
- conceptual study of organic soil stockpiles;
- analysis of organizational structure of mine technical services area;
- review of the operating cost estimate based on new detail mine scheduling;
- trade-off study for mine shift systems and haulage truck size; and
- estimation of mine productivity for different scheduled time.

At the end of Q1 2023, the contract in respect of the mining feasibility study was awarded to B Mining, a local engineering firm with previous experience working on the Penco Module and developing the mining engineering for the Technical Report under Ausenco's supervision.

During Q1 2022, mining studies carried out by the Company included the preparation of a roadmap for further development of the geotechnical aspects of the Penco Module as well as optimization studies for the purposes of scoping the starter pit, Victoria Sur and the waste management facilities. Based on the pit shells from the Technical Report, preliminary pit designs for the Penco Module were produced in the same period. To accommodate potential additional mineral resources, which could be included in future mine schedules, the delineation of a third waste management facility was undertaken. Similarly, aiming to reduce haulage cost and environmental impact, a conceptual design for the backfilling of the Victoria Norte pit was completed. A refined mine cost model was produced which is expected to be used for further mining studies. Finally, the preparation of a simulation model for mining haulage was undertaken, which will facilitate the optimization of the mine traffic network and the associated haulage operating costs.

<u>Process Design</u>

During Q1 2023, the Company made significant progress with respect to the construction and future operation of the pilot plant located in Concepcion, Chile. As at the date of this MD&A, all the equipment has been successfully installed and the electrical implementation and piping connection process is underway. Furthermore, the staff in charge of the plant's operation have been hired and are undergoing the training process. The Company expects the commissioning with water to begin in mid-April. Regarding the extraction of the clays, the design of the test pits has been delivered and approved by SERNEAGOMIN, and the material is expected to be extracted by mid-April to start the commissioning with clays in May. In the same period, the Company updated its process engineering criteria based on optimizations derived from the metallurgical tests performed throughout FY 2022.

During Q1 2022, the Company advanced its process engineering and design related to the Penco Module by synthesizing the new process data obtained from metallurgical test work undertaken at SGS Lakefield, University of Toronto, and results obtained from the AGS laboratory in La Serena. An updated set of process deliverables (process flow designs and process design documentation) were issued, providing additional information related to the water recovery system and updated information related to REE recovery and impurities precipitation, reagent dosage, and operating costs estimation. The new set of deliverables were part of a general update of process information aimed at feeding the feasibility study stage.

Environmental, Social and Governance

Environment and Permits

In Q1 2023, the Company made significant progress in its environmental baseline studies. By January 2023, all baseline studies were completed, except for the invertebrates and limnology components of such studies, which were finalized in February and March 2023, respectively. At the end of Q1 2023, the consultant team from the University of Chile completed a study focused on flora native species and its habitat, which provided scientific support that the Penco Module will not generate negative effects on such species.

The Company also focused on other critical issues, including chemical stability, indigenous baseline studies and new guidelines in the SEIA, such as climate change, biodiversity, and noise and vibrations in fauna. These efforts were led by the GAC team and other specialists. The EIA was completed at the end of April and was submitted on April 28, 2023.

During March 2023, the Company held Town Hall expositions to finalize the anticipated citizen participation process (PACA). These events were held in Penco, Lirquén, and Concepción, in which the Company presented on the Penco Module project and key EIA topics to the community. The presentations received positive responses from the communities and addressed questions related to the process and crucial issues of the project, including those related to flora, fauna, and water supply.

During Q1 2022, the Company completed and submitted a third addendum in respect of the Original EIA to the SEA. Despite addressing many key aspects relating to the Penco Module over the course of the Original EIA evaluation process, the Company was unable to satisfy the SEA on technical aspects related to the protection of local flora and fauna within the mandated regulatory timetable for the Original EIA. 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 subsequently began the development of new baseline studies for the Penco Module, which included flora and fauna studies to resolve the outstanding issues raised by the SEA.

Occupational Health and Safety

In Q1 2023, the Company maintained a strong focus on occupational health and safety, resulting in no events with lost workdays during this period. Consequently, safety key performance indicators, such as frequency and severity indices, reported nil values.

Throughout Q1 2023, the Company focused on advising and managing risks associated with baseline field activities, new exploration campaigns in Chile and Brazil, and the implementation process of the pilot plant.

During the first quarter of 2022, safety key performance indicators, including frequency and severity indices, reported nil values resulting from an absence of recorded accidents.

Social License

In Q1 2023, the Company's community relations team progressed with the third stage of the early citizen participation process, which focused on the collection and incorporation of community opinions. Throughout this period, nine (9) events were held in early February 2023 to promote open dialogue with the community. These engagements improved communication and assisted the Company in gaining a deeper understanding into the concerns and aspirations of the local community.

With respect to communication activities, the Company's efforts were concentrated on reinforcing the positive attributes of the Revised EIA application, such as the use of recycled water, and the emphasis on co-designing the application with the community. The Company has launched a new campaign based on "100% compliance" and reinforcing the voluntary commitments it communicated prior to filing the Revised EIA. In addition, the Company has circulated didactic material to explain major changes from the Original EIA to the one recently presented.

The Company also signed a contract with INACAP, the largest educational institution in Chile to provide technical training for 20 residents of the local Penco community. In addition, the Company has hired 60 employees from Penco and Concepcion to operate the pilot plant. These employees are currently being trained to start the commissioning process by the end of April 2023.

During Q1 2022, the dialogue with communities was supported by monthly meetings (known locally as “juntas de participación”), which were complemented by site visits to the project area and specific meetings in relevant neighbourhoods. 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 consultation, of which 7,474 people voted against the installation of the proposed project. As a response to this development, the Company undertook a local community outreach program, which was executed throughout 2022 and will continue in 2023.

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 initial public offering and concurrent private placement (the “Going Public Transaction”), resulting in a total cash balance of $91.185 million as at year end FY 2021. In Q1 2023 and FY 2022, the expenditures related to exploration, technical development, environmental, social and governance and administration activities amounted to $24.261 million and $6.539 million, respectively, resulting in a total cash balance of $66.886 million as at year end FY 2022 and $59.129 million as at the end of Q1 2023.

Overview of Operating Expenditure and Costs

During Q1 2023, the Company incurred US$0.912 million in losses in connection with exploration expenses, administration expenses, other income, finance costs, finance income and loss/gain resulting from exchange rate fluctuations, as compared to Q1 2022, in which the Company incurred losses of $0.997 million.

	Three months ended March 31,	
(in thousands of US$)	**2023**	**2022**
Exploration expenses	(1,123)	(236)
Administration expenses	(1,093)	(834)
Other income	33	-
Financial costs	(6)	(5)
Financial income	770	11
Exchange rates	12	67
Loss from continuing operations before income tax	**(1,407)**	**(997)**

<u>Exploration Expenses</u>

The breakdown of exploration expenses incurred by the Company for the Q1 2023 and Q1 2022 periods are as follows:

(in thousands of US$)	Three months ended March 31, 2023	2022
Personnel expenses	334	13
Professional fees	105	-
Mining rights	-	50
Rental	72	6
Repair and maintenance	5	-
Analysis & technical	78	42
Studies	181	61
Technology and system	28	20
Contractors and Services	201	43
Travel expenses	54	-
Other	65	1
Total	**1,123**	**236**

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 Q1 2023, the Company conducted superficial mapping and soil sampling, resulting in personnel expenses of $334, professional fees of $105, costs related to renting of geology equipment of $72, costs relating to repair and maintenance of $5, chemical assays resulting in analysis and technical costs of $78, expenses related to technology and systems of $28, and other study related expenses of $65. Comparatively, during Q1 2022, the Company incurred the following expenses: personnel expenses of $13; nil in professional fees; mining rights of $50; costs related to rentals of $6; nil in repair and maintenance; chemical assays resulting in analysis and technical costs of $42; expenses related to technology and systems of $20 and other study related expenses of $1.

In addition, the Company carried out socio-environmental screening studies of the Petronila and Catalina concessions, resulting in $181 in study-related expenses, as compared to $61 in Q1 2022. Finally, in Q1 2023, the Company incurred contractors and services expenses of $201, which was comprised of $116 in sample expenses and studies, $20 in office related expenses and $65 in additional study related expenses, as compared to $43 in Q1 2022.

Administration Expenses

The breakdown of administration expenses incurred by the Company for the Q1 2023 and Q1 2022 periods are as follows:

(in thousands of US$)	Three months ended March 31, 2023	2022
Personnel expenses	559	540
Professional fees	89	94
Depreciation and amortization	146	85
Contractors and services	141	115
Permit	6	-
Travel expenses	80	-
Other expenses	72	-
Total	**1,093**	**834**

In Q1 2023, the Company incurred personnel expenses of $559, as compared to $540 in Q1 2022. These expenses were incurred by the Company to support its management and administration team, which includes the Company's current Chief Executive Officer and his assistant, Chief Operating Officer, Chief Financial Officer, and administrative staff including, among others, personnel dedicated to treasury, legal, and human resources.

Professional fees of $89 thousand incurred during Q1 2023 were comprised of accounting services and auditing services hired for the Company's annual auditing process for the 2022 fiscal year, as compared to professional fees rendered for a similar purpose of $94 thousand incurred by the Company in Q1 2022.

In Q1 2023, the Company incurred depreciation and amortization expenses of $146, as compared to $85 in Q1 2022. This increase is largely driven by the amortization of exploration mining concessions following the expiration schedule of each concession.

In Q1 2023, the Company incurred contractor and services expenses of $141. These expenses are comprised of $25 in consulting fees, $28 towards acquiring necessary visual equipment, $18 in subscriptions, $20 which consists of monetary rentals of office building space and Company vehicles, $13 in digital campaign endeavours, and $20 in other related expenses. The Company also incurred $15 in legal expenses which are mainly explained by the Company's need to comply with continued disclosure obligations as a Canadian reporting issuer and TSX-listed company, as compared to $115 in contractor and services expenses incurred in Q1 2022.

In Q1 2023, the Company incurred permitting expenses of $6, travel expenses of $80 and other expenses of $72, which are principally comprised of administrative costs for the renewal of current concessions and miscellaneous expenses related to offices, marketing, lease contracts, communication, auditing, and transportation.

Financial Income and Costs

In Q1 2023, the Company's net financial income and costs amounted to $764 and were associated with the Company's investments in short-term deposits, interest-bearing bank accounts and bank commissions, as compared to net financial income and costs of $6 in Q1 2022.

	Three months ended March 31,	
(in thousands of US$)	**2023**	**2022**
Financial costs	6	5
Loss from continuing operations before income tax	**6**	**5**

	Three months ended March 31,	
(in thousands of US$)	**2023**	**2022**
Financial income	(770)	(11)
Loss from continuing operations before income tax	**(770)**	**(11)**

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 March 31, 2023, the Company's principal business included the development of the Penco Module. The Company capitalizes expenses related to brownfield exploration and infill drilling, metallurgical testing and process design, engineering of the mine, processing plant and project infrastructure, permitting and administration activities and services. The following table sets out an overview of the Company's capitalized E&E asset balance as follows:

(in thousands of US$)	Total
Balance at January 1, 2022	**70,132**
Additions	14,145
Foreign exchange effect	(853)
Balance at March 31, 2022	**79,754**
Additions	9,647
Foreign exchange effect	(5,977)
Balance at December 31, 2022	**83,424**
Additions	3,944
Foreign exchange effect	6,899
Balance at March 31, 2023	**94,267**
Accumulated amortisation and impairment	
Balance at January 1, 2022	**7**
Additions	284
Foreign exchange effect	148
Balance at March 31, 2022	**70**
Additions	222
Foreign exchange effect	147
Balance at December 31, 2022	**439**
Additions	74
Foreign exchange effect	36
Balance at March 31, 2023	**549**
Net book value as at March 31, 2022	**79,684**
Net book value as at December 31, 2022	**82,985**
Net book value as at March 31, 2023	**93,718**

The total investments in the Penco Module capitalized as E&E as at Q1 2023, Q1 2022 and FY 2022 are as detailed below:

		Three months ended March 31,	**Year ended December 31,**
(in thousands of US$)	**2023**	**2022**	**2022**
Personnel expenses	782	728	2,694
Professional fees	617	67	596
Environmental impact study	492	219	1,445
Engineering services	-	171	455
Mining rights	37	562	457
Feasibility studies	-	7	7
Rent building, vehicles, others	133	108	405
Analysis & technical	199	606	1,678
Contractors and Services	1,279	1,919	5,565
Other	404	111	843
Total	**3,944**	**4,498**	**14,145**

In Q1 2023, the Company incurred personnel expenses of $0.782 million, as compared to Q1 2022, in which the Company incurred personnel expenses of $0.728 million. The Company's employee headcount as at Q1 2023 is 59, as compared to 52 as at Q1 2022.

Each category of the Company's costs in relation to its investment in the Penco Module in Q1 2023 have been discussed elsewhere in this MD&A. In particular, in Q1 2023, expenses related to the technical development of the Penco Module were comprised of costs related to engineering services, feasibility studies, and analysis, technical and contractor services, each of which are discussed under the sections entitled "*Development Activities*" and "*Exploration Activities*" above. Comparatively, in Q1 2022, 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 Q1 2023, 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 $492 as at Q1 2023, as compared to $219 as at Q1 2022.

Expenses related to mining rights, which consisted of costs relating to exploration and exploitation of the Company's concessions, totalled $37 as at Q1 2023, as compared to $562 as at Q1 2022. As at Q1 2023, the Company's concessions were comprised of 253,285 hectares, as compared to Q1 2022, in which the Company's concessions were comprised of 451,985 hectares. Fixed expenses related to professional fees, office rent and buildings, Company vehicles, and other costs totalled $1,319 million as at Q1 2023, compared to $947 as at Q1 2022.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US$)	March 31, 2023	December 31, 2022	September 30 2022	June 30, 2022
Net income (loss) from continuing operations	(1,407)	(3,164)	(2,436)	(1,758)
Net income (loss) and comprehensive income (loss)	(1,407)	(3,164)	(2,436)	(1,758)

(in thousands of US$)	March 31 2022	December 31 2021	September 30 2021	June 30 2021
Net income (loss) from continuing operations	(997)	(1,432)	(173)	(110)
Net income (loss) and comprehensive income (loss)	(997)	(1,432)	(173)	(110)

During Q1 2023, the Company incurred lower net losses from continuing operations compared to the previous quarter, primarily due to decrease in exploration activities, including geological surveys, chemical analyses and drilling expenses. The increase in net loss from continuing operations since the fourth quarter of 2021 is as a result of the Going Public Transaction, which assumed increasing expenses related to having a complete management team to meet future objectives and administration activities necessary 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 Q1 2023, Q1 2022 and FY 2022 are as follows:

	Three months ended March 31,		**Year ended December 31,**
	2023	**2022**	**2022**
Cash and cash equivalents			
Current demand deposit accounts	59,129	56,911	66,886
Total Cash and cash equivalents	**59,129**	**56,911**	**66,886**

As at March 31, 2022, the Company held a six-month term deposit (with three months remaining) as an investment in Banco Scotiabank for a value of $27.00 million.

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 $1.816 million as at Q1 2023. This requirement will be largely covered by its current cash and cash equivalent position of $59.129 million.

Off-Balance Sheet Commitments

The Company has no off-balance sheet commitments.

The Company's contractual obligations as at Q1 2023 that must be satisfied with cash, and its approximate timing of payment, are as follows:

(in thousands of US$)	Q1 2023	Q2, Q3, Q4 2023	FY 2024	FY 2025	FY 2026	FY 2027	After 2027
Office leases	137	407	119	27	-	-	-
Vehicles lease	30	66	66	38	-	-	-
Warehouse leases	92	216	114	-	-	-	-
Land acquisition	-	6,000	1,300	1,300	1,300	-	-
Total Contractual Obligations	259	6,689	1,599	1,365	1,300	-	-

Cash and Liquidity

The Company did not have any commercial debt as at Q1 2023. As at Q1 2023, the Company had a cash balance of $59,129 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 Q1 2023, the remuneration of the Company's key management totalled $1.628 million, as compared to Q1 2022 in which remuneration of the Company's key management totalled $0.762 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$)	Q1 2023	Q1 2022
Shared-based payments	81	150
Short-term employee benefits	1,547	612
Total compensation paid to key management personnel	**1,628**	**762**

Related Party Transactions

The Company was subject to the following related-party balances and transactions as at March 31, 2023, as at March 31, 2022 and as at December 31, 2022:

	Accounts payable		
	Three months ended March 31,		Year ended December 31,
(in thousands of US$)	2023	2022	2022
Compañia Minera Ares S.A.C.	-	122	25
Minera Hochschild Chile SCM	-	27	-
Total	**-**	**149**	**25**

(in thousands of US$)	Accounts receivable Three months ended March 31, 2023	 2022	 Year ended December 31, 2022
Compañia Minera Ares S.A.C.	9	-	-
Hochschild Mining Holdings Ltd	-	13	-
Total	**9**	**-**	**-**

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 pursuant to the terms of a transition services agreement that has since expired.

Accounts payables with Compañía Minera Ares S.A.C. amounted to nil for Q1 2023, compared to accounts payables of $122 and $25 for Q1 2022 and FY 2022, respectively. In addition, accounts payables with Compañía Minera Hochschild Chile SCM for Q1 2023 were nil, compared to $27 and nil for Q1 2022 and FY2022, respectively. 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") were 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 1,250,382 RSUs which are issued and outstanding in accordance with the terms of the Company's omnibus long-term incentive plan.

	As at March 31, 2023	As at December 31, 2022	Total
RSUs issued for the Management team	**750,229**	**500,153**	**1,250,382**
Vesting Period			
May 31, 2023	88,262	-	88,262
December 10, 2023	250,077	250,076	500,153
December 10, 2024	205,945	250,077	456,022
December 10, 2025	205,945	-	205,945

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.

APPROVAL

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

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.