ACLARA RESOURCES INC.

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

The following management's discussion and analysis ("MD&A") has been prepared as of September 30, 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); (ii) Prospecciones Greenfield SpA, a wholly owned indirect 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., a wholly owned indirect Brazilian subsidiary that holds the Carina Module (as defined below) and performs exploration activities in Brazil; and (v) Fundacion de Beneficencia Publica, Medioambiental, Científica, Cultural y Social Queule, a wholly owned indirect Chilean subsidiary that performs charitable work through the implementation, promotion and support of initiatives and projects pertaining to environmental conservation and 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 and nine months ended September 30, 2023, September 30, 2022 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 and nine months ended September 30, 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 "Q3 2023" are to the three months ended September 30 of the referenced calendar year; references to "Q3 2022" are to the three months ended September 30, 2022; references to "Q2 2023" are to the three months ended June 30, 2023; references to "Q1 2023" are to the three months ended March 31, 2023; references to "YTD 2023" are to the nine months ended September 30, 2023, and "YTD 2022" are to the nine months ended September 30, 2022; and references to "FY 2022" are to the twelve months ended December 31, 2022. Unless 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 development-stage 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 in Chile, distributed in the regions of Maule, Ñuble, and Biobío, (ii) 397,862 hectares of mining rights in Brazil, distributed in the states of Goiás, Minas Gerais, and Paraná, and (iii) 3,000 hectares of mining rights in Peru. The Company is focused on the development and 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 ("REE"). The Company expects the Penco Module to benefit from low estimated initial capital expenditures as a result of accessibility to nearby key infrastructure, including, in part, power, motorways, port and airport access, and a local professional workforce. The Company has 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 has announced the development of a new Heavy Rare Earths ("HREE") ionic clays project, titled the Carina Module, located in the state of Goiás, Brazil (the "Carina Module"). The Carina Module presented encouraging exploration results, which despite the shallowness of the initial auger drilling campaign, with an average depth of 7.2 meters, has unveiled a potential for expansion, both laterally and at depth, accompanied by the prospect of enhancing HREE grades.

The Company aims to identify additional opportunities to enhance potential future HREE production through its greenfield exploration programmes in Chile, Brazil, and Peru, alongside the development of further project 'modules' within its mining concessions.

BUSINESS DEVELOPMENT AND OVERALL PERFORMANCE

Penco Module and Future Outlook

- *EIA Application*. On July 3, 2023 the Company announced receipt of notice from the Environmental Service Assessment ("SEA") of its decision to terminate the review of the Company´s application for an environmental impact assessment ("EIA") of the Penco Module based on the identification of six (6) previously undisclosed "naranjillo" trees, considered "vulnerable species", within the Penco Module area. Five (5) of these naranjillo trees were found near an existing access road that would require modification and one was found in a local "native forest" within the deposition zone known as Jupiter.

  The Company has revised its permitting strategy with the primary aim of addressing concerns associated with native forests, while expecting to minimize any substantial impact on the Penco Module's development timeline. To effectively implement the revised strategy, the Company is proposing to undertake the preparation and submission of two EIAs, which will collectively cover the full life of mine of the Penco Module.

- *Social Licence*. During Q3 2023, the Company continued its efforts to strengthen its relationship with the local community by maintaining an open dialogue and incorporating community feedback into its plans for the Penco Module. The Company advanced these efforts by facilitating visits to the pilot plant and conducting various meetings between the Company and the community, building on established relationships and mutual understanding. The Company intends to continue pursuing this strategy, with a focus on objectives that aim to foster strong connections with all stakeholders throughout the development of the Penco Module.

- *Technical Development*. In light of the revised permitting strategy, the Company has decided to delay the completion of the feasibility study technical report in respect of the Penco Module (the "Feasibility Study") pursuant to the requirements of National Instrument 43-101 "*Standard of Disclosure for Mineral Projects*" ("NI 43-101") and use the additional time to further refine the engineering aspects of the Penco Module by incorporating enhancements that are expected to result in reduced capital and operating costs and improved operational efficiency. These enhancements are the direct result of insights gained from recent piloting work and ongoing research and development initiatives.

- *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. The Company has shipped high-purity HREE concentrate samples produced in the pilot plant to more than ten separation firms located across the United States, Europe, and Asia. This initiative aims to validate product specifications and assess its suitability for the respective separation technologies. Commercial efforts will continue during 2023 with the end-goal of supplying REE to a market which is currently monopolized by Chinese suppliers.

- *Updated Penco Module Schedule*. As a result of its updated permitting and development strategy, the Company has also updated the proposed milestones and/or targets relating to the Penco Module, which are as presented below:

    - EIA 1 Filing: Q1 2024
    - Anticipated EIA 1 Approval: Q4 2025
    - Feasibility Study Filing: Q3 2025
    - Construction: Q1 2026
    - Production: Q2 2027

<u>Carina Module and Future Outlook</u>

On October 11, 2023, the Company announced the discovery of a new deposit of ionic clays HREE, named Carina Module, in the State of Goiás, Brazil. This new module is aligned with the Company's strategy of development of further project 'modules' within its mining concessions. The main objectives for the Carina Module include: (i) the issuance of a maiden mineral resource estimate during Q4 2023; (ii) the issuance of a NI 43-101 Preliminary Economic Assessment during Q1 2024; (iii) the execution of a 1,500-meter reverse circulation drill campaign at the end of October 2023 to confirm the mineralized potential at depth, followed by a reverse circulation campaign of 7,590 meters within 253 drillholes to convert the full potential of the deposit to an inferred mineral resource category; and (iv) the execution of a pilot test campaign during Q1 2024 in our fully-owned pilot plant in Chile, which aims to demonstrate on a semi-industrial scale the feasibility of processing the ionic clays extracted from the Carina Module, to serve the purpose of producing commercial samples and further enhance the value chain development efforts that were initiated with the Penco Module samples.

<u>Greenfield Exploration and Future Outlook</u>

The Company intends to advance its greenfield exploration strategy and objectives, which have been expanded to include additional exploration targets in Brazil and Peru. This expansion aligns with the Company's overarching objective of accelerating the development of additional project modules to achieve future growth of the Company.

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 Q3 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 $5.042 million and $0.179 million in E&E and PP&E, respectively. For comparison, the Company invested $2.795 million and $0.231 million in E&E and PP&E, respectively, in Q3 2022 and $12.428 million and $1.528 million in E&E and PP&E, respectively, in FY 2022.

Penco Module Development

<u>Environmental and Social License</u>

On April 28, 2023, the Company filed a revised EIA study with the SEA (the "Revised EIA"). The Revised EIA included new seasonal baseline studies related to flora and fauna, a 100% recycled water source for the entire

Penco Module operation, as well as contributions including revegetating over 200 hectares with native species, and establishing a recreational park for the Penco community and a breeding center for the Pudu (a local deer), among others. Despite the efforts made to deliver an improved EIA study, on July 3, 2023, the SEA decided to terminate the environmental impact assessment of the Penco Module following the request for termination from the National Forest Corporation (“CONAF”). The request was based on findings that there are six (6) undisclosed citronella mucronate, popularly known as “naranjillo” trees, located in the area of the Penco Module. Naranjillo trees are considered “vulnerable species”. Specifically, the Revised EIA did not include information relating to the naranjillo trees in question, of which five (5) were found near the location of an existing access road that would require modification, and one (1) was found within a local “native forest” in the area of the Penco Module. Given the presence of such vulnerable species within the native forest, the forest would be considered a “preservation forest”, restricting such trees from being cut down and thus requiring a change to the contemplated disposal area of the project.

On September 25, 2023, the Company announced its new permitting strategy, which aims to address concerns associated with native forests. The new strategy is expected to minimize any substantial impact on the Penco Module's development timeline. To effectively implement the revised strategy, the Company is proposing to undertake the preparation and submission of two EIAs, which will collectively cover the full life of mine of the Penco Module. The Company is currently preparing an initial EIA (“EIA 1”), which will cover approximately the first five (5) years of life of mine of the Penco Module and will encompass three (3) extraction zones (Victoria Norte, Luna and Maite), one (1) deposition zone (Neptuno) and the production facilities. The production of these three (3) zones will be operationally balanced with the deposition zone and EIA 1 is expected to cover the payback period of the initial capex of the Penco Module. EIA 1 aims to largely reduce the project´s exposure to native forests as well as address the observations received from the evaluation services. The Company expects to file EIA 1 during Q1 2024.

The second EIA (“EIA 2”) will be prepared when the Company is ready to expand its production at the Penco Module to zones not covered by EIA 1 (namely, Victoria Sur, Alexandra Oriente, and Alexandra Poniente) based on the availability of new deposition zones. The Company will present a permit application to reactivate the Jupiter deposition zone as well as evaluate new deposition zones. Furthermore, EIA 2 will consider an increase to the production plant’s throughput capacity. Such an increase will be studied at a conceptual level during 2024.

Despite the termination of the Revised EIA evaluation process, the Company has continued its communication activities, including several digital communication campaigns, maintaining an open dialogue with the Penco community, and expanding its social relationships in the Biobío region. This communication was primarily focused around the sustainability aspects inherent in our Circular Mineral Harvesting process showcased through the operation of the pilot plant. The Company had the privilege of hosting over two hundred visitors, with more than half of them being community leaders, and the remainder comprised of investors, authorities, academic institutions, private enterprises, media representatives, and business associations.

Technical Development

During Q3 2023, the Company successfully completed the beginning of operation of its pilot plant. The pilot plant operation fulfilled 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 light of the revised permitting strategy, the Company has decided to delay the completion of its Feasibility Study and use the additional time to further refine the engineering aspects of the Penco Module by incorporating enhancements that are expected to result in reduced capital and operating costs and improved operational efficiency. These enhancements are the direct result of insights gained from recent piloting work and ongoing research and development initiatives.

Greenfield and Brownfield Exploration Activities

During Q3 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 $0.798 million in Q3 2023 in connection with its greenfield exploration activities, as compared to $1.391 million incurred in Q3 2022.

Carina Module Development

During Q3, 2023, the Company completed its phase 1 drilling campaign for the Carina Module, which involved 1,013 meters of drilling across 109 auger drill holes, totalling 1,693 meters of drilling within 236 auger drill holes. The results from the phase 1 drilling campaign were utilized to confirm the relevance of the Carina Module, which is supported by presence of REE hosted in ionic clays. The Carina Module phase 1 drilling results show an extensive mineralized area, promising desorbable grades with an outstanding distribution of HREE and light rare earths ("LREE") within the REE basket distribution, and metallurgical compatibility with Penco Module's ammonium sulfate leaching solution. The phase 1 drilling results will also serve to support an initial maiden resource statement report scheduled for Q4 2023, which will be the basis for the preparation of an NI 43-101 preliminary economic assessment ("PEA") during Q1 2024. Finally, the average drill depth of the auger drilling campaign was only 7.2 meters, which did not allow the Company to consistently reach the bottom limits of the lower Pedolith and Saprolite. Over 70% of drillholes indicate a high anomalous exchangeable fraction in the last interval, suggesting that the deposit remains open at depth. To unlock the full potential of the Carina Module, the Company has reconfigured the phase 2 drilling campaign, which will include 9,090 meters of drilling within 303 reverse circulation drill holes.

Greenfield Exploration

Furthermore, the Company's commitment to greenfield exploration continued in the State of Minas Gerais, Brazil, focusing on additional high-priority areas. This effort included the collection of superficial samples to identify REE indications and detailed mapping, combined with regional geological interpretations. These activities successfully targeted two (2) specific areas with high REE prospectivity suitable for scouting drilling. The Company is currently executing a detailed community and stakeholder engagement plan to obtain exploration authorization of superficial owners. The Company has initiated communication activities and land access arrangements in preparation for an auger drilling campaign scheduled for execution in Q4 2023.

General Administrative Expenses and Cash Balance

In Q3 2023, the Company incurred $1.141 million in administrative expenses, which mainly comprised (i) management compensation, (ii) continuous public disclosure and marketing activities, and (iii) ancillary activities undertaken to further the development of the Penco Module, the Carina Module and greenfield exploration. In comparison, in Q3 2022, the Company incurred $1.133 million in administrative expenses.

As at September 30, 2023, the Company's cash balance totaled $45.674 million. In comparison, the Company's cash and cash equivalents and short-term investments in term deposits were $45.884 million and $27.158 million, respectively, in Q3 2022, totaling an overall cash availability of $73.042 million in that quarter. The Company's cash and cash equivalents totaled $66.886 million as at 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

Carina Module

During Q1 2023, the Company explored 723 meters across 127 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.

During Q2 2023, assay results from the drilling campaign were received and analyzed, with the bulk geochemistry integrated with geological mapping. This comprehensive dataset facilitated the redefinition of geological domains, which were subsequently modeled using 3-D geological software. This preliminary exercise identified a regolith mineralized with REE absorbed in ionic clays. The auger drilling campaign was insufficient in depth to intercept the entire mineralized body, suggesting that the mineralization remains open to depth and extends laterally. The entire regolith profile was recognized in a relevant part of the area, indicating that the mineralized body, rich in REE-absorbed ionic clay, is preserved.

During Q3 2023, the Company continued its phase 1 drilling campaign and executed 1,013 meters within 109 auger drill holes, completing a total of 1,693 meters of drilling within auger 236 drill holes. On October 11, 2023, the Company announced the phase 1 campaign drilling results and emphasized the discovery of the Carina Module. The highlights of the Carina Module drilling results include: (i) size potential of the mineralized area covering approximately 1,400 hectares, which is ten (10) times larger than the size of the Penco Module mineralized area; (ii) prospective REE desorbable grades at 449 ppm, which is slightly lower than the Penco Module at 496 ppm; (iii) interesting HREE and LREE contents, which include 4.8% for Dysprosium and Terbium content and 27.5% for Neodymium and Praseodymium content within the REE basket distribution, compared to 6.3% for Dysprosium and Terbium content and 14.9% Neodymium and Praseodymium content within the Penco Module´s REE basket distribution; (iv) metallurgical compatibility with the Penco Module process flowsheet; and (v) depth potential as over 70% of drillholes indicate a high anomalous exchangeable fraction in the last interval, suggesting that the deposit remains open at depth. The extensive geological information collected now supports the creation of 3-D geological models for resource estimations and geostatistical variograms. The auger drilling campaign results are aimed at supporting an initial maiden resource statement report for the Carina Module scheduled for Q4 2023, which will be the basis for the preparation of a NI 43-101 PEA during Q1 2024.

Based on the initial auger drilling campaign results, the Company has reconfigured the phase 2 drilling campaign, which will include 9,090 meters of drilling within 303 reverse circulation drill holes. The phase 2 drilling campaign is expected to start at the beginning of November, 2023, with a first stage of 1,500 meters within 50 reverse circulation drill holes. This first stage campaign will serve to confirm the mineralized potential at depth and, if positive, will be followed by a stage 2, which will include 7,590 meters within 253 drillholes and will be aimed at converting the full potential of the deposit to an inferred mineral resource category.

Greenfield Exploration - Brazil

The Company continued advancing its greenfield exploration activities in other high-priority areas in the Minas Gerais and Paraná states, which involved the collection of superficial samples for HREE indications and mapping, intertwined with regional geology interpretations. This information has served to target two (2) additional areas for scouting drilling. The Company is currently engaging with the surrounding communities as well as superficial landowners of the area to obtain access for the execution of the phase 1 auger drilling campaign. The Company expects to start the phase 1 drilling campaign in the two (2) selected targets during the fourth quarter of 2023.

Penco Module

During Q3 2023, the Company did not report any brownfield exploration activities within the Penco Module. In comparison, during Q3 2022, the Company continued to integrate analytical results and quality assurance and quality control validation from the brownfield drilling campaigns executed during Q1 2022, in order to provide an updated geological model for the purposes of updating the Penco mineral resource statement.

Greenfield Exploration - Chile

During Q3 2023, the Company did not report any greenfield exploration activities in Chile. In comparison, during Q3 2022, the Company continued mapping exploration works within its mining concessions in order to discard areas that did not evidence potential for ionic clays generation or attractive rare earths content.

Penco Module: Development Activities

General Engineering

During Q1 2023, the company awarded a contract involving the proposed commissioning of a Feasibility Study in respect of the Penco Module to Pares & Alvarez ("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 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.

During Q2 2023, the Company, in collaboration with P&A, made significant strides in the development of the Penco Feasibility Study. The focus was primarily on the creation of process and mechanical discipline-related documents and drawings, including process flow diagrams, equipment dimensions, layouts, and piping and instrumentation diagrams. Simultaneously, the engineering team dedicated their efforts to the design of operational roads for mining and the exploration of potential access points to the Itata Route Highway. The Company also completed the conceptual engineering for the mine infrastructure and oil pipeline, laying a solid foundation for the upcoming feasibility design.

The development of Penco Module Feasibility Study also focused on mechanical and oil pipeline layouts, electrical discipline-related documents, and drawings including power demand study and electrical single line diagrams. Simultaneously, the engineering team continued exploring access points to the Itata Route Highway and identifying potential new disposition zones for the project. On September 25, 2023, in light of the revised permitting strategy, the Company decided to delay the completion of the Penco Feasibility Study and use the additional time to further refine the engineering aspects of the Penco Module by incorporating enhancements that are expected to result in reduced capital and operating costs and improved operational efficiency. These enhancements are the direct result of insights gained from recent piloting work and ongoing research and development initiatives.

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

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

Mining Study

During Q1 and Q2 2023, two (2) hydrogeology holes were planned and executed in Victoria Sur and Victoria Norte to enhance the geotechnical study. The results of the field campaign to measure phreatic levels led to the development of hydrogeological models for Victoria Sur, Victoria Norte, Luna, and Maite and served as inputs for geotechnical stability analysis, in conjunction with the current detailed pit designs. In addition, the Company is in the process of developing the feasibility level design of rainfall water management for Victoria Norte, Maite, and Luna (initial extraction zones), which is expected to be completed during Q4 2023.

During Q1 2023, 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. 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 Chile Limitada's supervision.

During Q2 2023, the Company initiated the mining studies for the Penco Feasibility Study and completed key activities such as:

- the estimation of economic pit shells for all six (6) extraction zones, incorporating surface constraints such as the "Native Preservation Forest";
- the selection of mining pushbacks;
- the execution of detailed pit design;
- the definition of the mining sequence; and
- the formulation of the mine schedule.

During the same period, as part of the pilot plant program, the Company developed geostatistical estimation of grade block models, for both total and desorbable grades, for each of the 15 REE. Based on these models, an operative excavation was designed and executed for Victoria Sur and Victoria Norte.

During Q3 2022, the Company continued with the Penco Module Feasibility Study development, which included an improved design of the drainage infrastructure of the extraction zones, and resulted in detailed drawings comprising pushback designs with access, main ramps, benches, berms, and seepage channels for Victoria Norte, Luna, and Maite extraction zones, with the rest of the study delayed to further refine the engineering aspects of the Penco Module.

In comparison, during Q3 2022, the mining studies conducted by the Company included the completion of (i) a discrete event simulation model focused on mine haulage operations; (ii) new block models for all six (6) deposits defined as part of the Penco Module (Victoria Norte and Sur, Alexandra Oriente and Poniente, Maite and Luna) to update the mineral resource information contained in the Technical Report; and (iii) pit optimization analyses to verify the reasonableness of and prospects for eventual extraction. The Company published an updated mineral resources statement in the Q4 2022. In addition, the Company completed scoping-level mining studies, including pit optimization, sequencing, mine design, mine scheduling, fleet size estimates, geotechnical stability analysis, and the design of roads and general layout for inclusion in the Revised EIA application.

Process Design

During Q1 2023, the Company made significant progress with respect to the construction and future operation of the pilot plant located in Concepcion, Chile. All equipment was successfully installed and the electrical implementation and piping connection process began. Furthermore, the employees responsible for the operation of the plant were hired and trained for the process operation.

During Q2 2023, the Company achieved a significant milestone through completion of the pilot plant construction, after successfully commissioning the process with water and clays from the Penco Module. At the beginning of June 2023, the operation officially began with material from the Victoria Sur pit. The plant has garnered positive feedback from a diverse range of visitors, including potential customers, investors, academics, Penco residents, students, and authorities. The main commentaries centered around the plant's clean performance, the absence of disruptive noise, the lack of high-temperature processes, and the production of high-purity osmosis water that is recirculated back to the process.

During Q3 2023, the piloting works were successfully completed after finalizing the processing of Victoria Norte ore. A total of 120 tonnes of wet clay from Victoria Norte and Victoria Sur were processed, yielding 107 kilograms of mixed REE carbonates. Samples of this material have been dispatched to fifteen (15) separation firms located across North America, Europe, and Asia. This initiative aims to validate product specifications and assess its suitability for their respective separation technologies.

The Feasibility Study progress within the process design stream has reached 90% completion, including process flow diagrams, mass balances, design criteria, and P&ID, among others. The focus of the process design area will be to further refine the engineering aspects of the Penco Module by incorporating enhancements that are expected to result in reduced capital and operating costs and to improve operational efficiency. These enhancements are the direct result of insights gained from recent piloting work and ongoing research and development initiatives.

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

Aiming to demonstrate (improved) flowsheet at an up-sized scale, the Company continued to advance engineering design, equipment procurement, and fabrication in connection with the Penco Module’s pilot plant. The design and operation of the pilot plant was supported by Promet101, BQE Water, University of Concepción, University of Toronto, SGS, as well as other companies associated with the Penco Module. The plant ran continuously for three months during the Q2 2023 and Q3 2023, with an aim to demonstrate that the proposed recovery method is metallurgically sound and environmentally friendly.

Carina Module: Development Activities

<u>Process Design</u>

During Q3 2023, the Company commenced development of a NI 43-101 PEA technical report in Brazil. As of the date of this MD&A, a 38% advancement rate has been achieved in process conceptualization. The plant design is expected to be finalized by Q4 2023 based on “Circular Mineral Harvesting”, which is the Penco Module’s sustainable approach to REE recovery. In this regard, the Company will execute a pilot test campaign during Q1 2024 in its fully-owned pilot plant in Chile, utilizing a 25-tonne sample of clay extracted from the project area. This campaign aims to demonstrate on a semi-industrial scale the feasibility of processing the ionic clays extracted from the Carina Module. Additionally, it will serve the purpose of producing commercial samples and further enhancing the value chain development efforts that were initiated with the Penco Module samples.

During Q3 2022, the Company had no engineering activities in relation to the Carina Module.

Penco Module: Environmental, Social and Governance

<u>Environment and Permits</u>

During Q1 2023, the Company completed the environmental baseline studies for the Revised EIA application. The Company also focused on addressing other critical issues, including chemical stability, indigenous baseline studies, and new guidelines in the EIA, such as climate change, biodiversity, and noise and vibrations in relation to fauna. The Revised EIA was submitted on April 28, 2023. The Revised EIA included a 100% recycled water source for the entire Penco Module operation, revegetation of over 200 hectares with native species, a recreational park for the Penco community, and a reproduction center for the Pudu (a local deer), among other features. At the end of Q1 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 to the community on the Penco Module and key topics forming the Company’s submissions to the SEA. The presentations received positive responses and addressed questions related to the process and crucial issues of the project, including those related to flora, fauna, and water supply.

On April 28, 2023, the Company submitted the Revised EIA and the SEA declared it admissible, officially initiating the evaluation process on May 8, 2023. On June 1, 2023, a comprehensive technical visit to the project field was conducted, involving multiple evaluation services and stakeholders. The main discussions involved water supply, management of spent clays, and physical and chemical stability. At the end of June, nineteen (19) evaluation services had submitted their observations to the Revised EIA.

On July 3, 2023, the SEA elected to terminate the environmental impact assessment of the Penco Module. The termination resulted from a request submitted by CONAF based on its findings that there are six (6) undisclosed citronella mucronate, popularly known as “naranjillo” trees, located in the area of the Penco Module. Naranjillo trees are considered “vulnerable species”. Specifically, the Revised EIA did not include information relating to the naranjillo trees in question, of which five (5) were found near the location of an existing access road that would require modification, and one (1) was found in a local “native forest” within the deposition zone known as Jupiter. Given the presence of such vulnerable species within the native forest, the forest would be considered a “preservation forest”, restricting such trees from being cut down and thus requiring a change to the contemplated disposal area of the project.

During Q3 2023, the Company announced an updated permitting strategy with the primary aim of addressing concerns associated with native forests, whilst expecting to minimize any substantial impact on the Penco Module’s development timeline. To effectively implement the revised strategy, the Company has proposed to undertake the preparation and submission of two EIAs, which will collectively cover the full life of mine of the project. The Company is currently preparing EIA 1 which will cover approximately the first five (5) years of life of mine of the project, and will encompass three (3) extraction zones (Victoria Norte, Luna, and Maite), one (1) deposition zone (Neptuno) and the production facilities. The production of these three (3) zones will be operationally balanced with the deposition zone and EIA 1 is expected to cover the payback period of the initial capex of the Penco Module. EIA 1 aims to largely reduce the Penco Module’s exposure to native forests, as well as address the observations received from the evaluation services. The Company expects to file EIA 1 during Q1 2024.

The technical team is actively developing the necessary technical requirements for the new project description, including mine and road design, mine sequence, mineral waste management, and emissions inventory. Baseline studies in various fields, such as flora, fauna, archaeology, limnology, hydrology, hydrogeology, and human factors are being enhanced during the winter and spring seasons. The objective for Q4 2023 is to compile essential chapters of the EIA, encompassing the project description, area of influence, baseline data, impact assessment, and sector-specific permits.

The EIA 2 will be prepared when the Company is ready to expand its production at the Penco Module to zones not covered by EIA 1 (namely, Victoria Sur, Alexandra Oriente, and Alexandra Poniente) based on the availability of new deposition zones. The Company will present a permit application to reactivate the Jupiter deposition zone as well as evaluate new deposition zones. Furthermore, EIA 2 will consider an increase to the production plant’s throughput capacity. Such an increase will be studied at a conceptual level during 2024.

In comparison, during Q3 2022, the Company conducted seasonal baseline field studies focusing on flora and fauna identification, water quality, and hydrology to meet legal requirements for the Revised EIA application. These studies involved specialist consultants and aimed to ensure compliance and strengthen the Company’s application, with ongoing engagement with the local community to explore voluntary measures.

Social License

During 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 Penco community. These engagements improved communication and assisted the Company in gaining a deeper understanding of the concerns and aspirations of the local community.

During Q2 2023, the Company's communication efforts aimed to highlight the positive attributes of the Revised EIA application, with an emphasis on recycled water use and community co-design. They also focused on explaining major changes from the Original EIA. The Company partnered with INACAP for technical training of local residents, and hired 60 employees from Penco and Concepcion to operate the pilot plant. During this quarter, the Company’s Corporate Affairs & Social Value team showcased the pilot plant's "Circular Mineral Harvesting" process to various stakeholders, strengthened collaborations with local universities, and drove innovation challenges for repurposing spent clays.

During Q3 2023, the Corporate Affairs & Social Value team continued to engage the community by conducting visits to the Penco Module pilot plant. These efforts successfully attracted over 220 visitors, including community leaders, local universities, media, authorities, business leaders, and residents. Various community meetings culminated in a joint celebration on September 18, 2023, with more than sixty (60) neighborhood leaders from Penco in attendance. The quarter also saw increased national media coverage of the significance of REE minerals as strategic resources for Chile.

In comparison, during Q3 2022, the Company undertook a comprehensive plan to strengthen community relations. This involved forming a team of communication consultants and launching a digital campaign to educate the community about the project. Furthermore, a perception study, primarily through focus groups, provided insight into the community's opinions and motivations, shaping the Company's social contributions.

Additionally, the Company aimed to integrate the project with local communities by hiring a Corporate Affairs and Social Value Manager, emphasizing open communication, diversity, and local engagement.

Occupational Health and Safety

As at the end of Q3 2023, the Company maintained a strong focus on occupational health and safety, resulting in no events with lost workdays. Consequently, key performance indicators relating to safety, such as frequency and severity indices, reported nil values.

Similarly, at the end of Q3 2022, key performance indicators relating to safety, including frequency and severity, reported nil values, with no accidents recorded during the period.

Overview of Operating Expenditure and Costs

During Q3 2023, the Company incurred $1.442 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 Q3 2022, in which the Company incurred losses of $2.436 million.

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2023**	**2022**	**2023**	**2022**
Exploration expenses	798	1,391	3,378	1,864
Administration expenses	1,141	1,133	4,055	3,447
Other income	(2)	-	(35)	-
Financial costs	10	4	23	13
Financial income	(570)	(288)	(2,030)	(387)
Exchange differences	65	196	(22)	254
Loss from continuing operations before income tax	**1,442**	**2,436**	**5,369**	**5,191**

Exploration Expenses

The breakdown of exploration expenses incurred by the Company for the periods Q3 2023, Q3 2022, YTD 2023, and YTD 2022 are as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands of US$)	**2023**	**2022**	**2023**	**2022**
Personnel expenses	269	147	1,122	169
Professional fees	103	23	321	23
Mining rights	-	-	-	50
Subscriptions	5	-	5	-
Rentals	87	-	302	6
Repair and maintenance	1	-	11	-
Analysis & technical	101	276	281	369
Studies	1	35	184	139
Technology and system	-	-	36	20
Contractors and Services	147	878	665	1,050
Travel expenses	45	-	260	-
Other	39	31	191	37
Total	**798**	**1,391**	**3,378**	**1,864**

Exploration expenses comprise all activities related to, and arising from, greenfield exploration. The purpose of 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 Q3 2023, the Company conducted superficial mapping and soil sampling, resulting in personnel expenses of $269, professional fees of $103, nil in mining rights, costs related to renting of geology equipment of $87, costs related to repair and maintenance of $1, chemical assays resulting in analysis and technical costs of $101, nil in expenses related to technology and systems, and other study-related expenses of $39. In comparison, during Q3 2022, the Company incurred personnel expenses of $147, nil in professional fees and mining rights, nil in rentals, nil in repair and maintenance costs, chemical assays resulting in analysis and technical costs of $276, nil in expenses related to technology and systems, and other study-related expenses of $31.

In addition, the Company carried out socio-environmental screening studies of the Petronila and Catalina concessions, resulting in $1 in study-related expenses, as compared to $35 in Q3 2022. Finally, in Q3 2023, the Company incurred contractors and services expenses of $147, which comprised $21 in warehouses expenses, $102 in drilling and related services, and $24 in exploration licenses expenses, as compared to $878 in Q3 2022.

Administration Expenses

The breakdown of administration expenses incurred by the Company for the periods Q3 2023, Q3 2022, YTD 2023, and YTD 2022 are as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands of US$)	**2023**	**2022**	**2023**	**2022**
Personnel expenses	502	613	1,833	1,842
Professional fees	138	90	588	195
Depreciation and amortization	301	59	676	207
Contractors and services	179	292	641	1,030
Permit	(105)	55	(103)	100
Travel expenses	67	-	227	-
Other	59	24	193	73
Total	**1,141**	**1,133**	**4,055**	**3,447**

In Q3 2023, the Company incurred personnel expenses of $502, as compared to $613 in Q3 2022. These expenses were incurred by the Company to support its management and administration team.

In Q3 2023, the Company incurred professional fees of $138,000, comprised of accounting, legal, and auditing services hired for the Company's annual auditing process, as compared $90,000 in professional fees rendered for a similar purpose in Q3 2022.

In Q3 2023, the Company incurred depreciation and amortization expenses of $301, as compared to $59 in Q3 2022. This increase is largely driven by the amortization of exploration mining concessions following the expiration schedule of each concession.

In Q3 2023, the Company incurred contractor and services expenses of $179. These expenses comprise, in part, $93 in Board of Directors expenses, $35 in consulting fees, $26 in market surveillance, $23 related to information technology services, $9 in digital campaigns, and $38 in other related expenses, as compared to $292 in contractor and services expenses incurred in Q3 2022.

In Q3 2023, the Company incurred travel expenses of $67 and other expenses of $59, which principally comprise 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 Q3 2023, the Company's net financial income and costs amounted to $560 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 $284 in Q3 2022.

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2023**	**2022**	**2023**	**2022**
Financial costs	10	4	23	13
Loss from continuing operations before income tax	**10**	**4**	**23**	**13**

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2023**	**2022**	**2023**	**2022**
Financial income	(570)	(288)	(2,030)	(387)
Loss from continuing operations before income tax	**(570)**	**(288)**	**(2,030)**	**(387)**

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 September 30, 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:

(in thousands of US$)	**Total**
Balance at January 1, 2022	**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**
Additions	12,428
Foreign exchange effect	(4,686)
Balance at September 30, 2023	**91,166**
Accumulated amortization and impairment	
Balance at January 1, 2022	**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**
Additions	448
Foreign exchange effect	(45)
Balance at September 30, 2023	**842**
Net book value as at September 30, 2022	**71,350**
Net book value as at December 31, 2022	**82,985**
Net book value as at September 30, 2023	**90,324**

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

	Nine months ended September 30		**Year ended December 31**
(in thousands of US$)	**2023**	**2022**	**2022**
Personnel expenses	2,432	2,082	2,694
Professional fees	3,353	130	596
Environmental impact study	1,018	1,067	1,445
Drilling services	130	-	-
Engineering services	7	358	455
Mining rights	652	509	457
Feasibility studies	-	7	7
Rent building, vehicles, others	417	293	405
Analysis & technical	629	1,466	1,678
Contractors and Services	2,592	4,753	5,565
Other	1,198	426	843
Total	**12,428**	**11,092**	**14,145**

As at nine months ended September 30, 2023, the Company incurred personnel expenses of $2,432, as compared to the same period in 2022, in which the Company incurred personnel expenses of $2,082. The Company's employee headcount as at Q3 2023 is 64, as compared to 59 in Q3 2022.
Each category of the Company's costs in relation to its investment in the Penco Module in the first half of 2023 has been discussed elsewhere in this MD&A. As at September 2023, expenses related to the technical development of the Penco Module comprised costs related to engineering services, feasibility studies, and analysis, technical and contractor services, each of which is discussed under the sections entitled "*Development Activities*" and "*Exploration Activities*" above. In comparison, as at September 2022, expenses related to the Penco Module comprised the above-mentioned categories of costs as well as costs related to geochemical study and diamond drilling, which were carried out for the purposes of developing the Technical Report.

As at Q3 2023, expenses relating to permit-related activities comprised 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 totaled $1,018 as at Q3 2023, as compared to $1,067 for the same period in 2022.

Expenses related to mining rights, consisting of costs relating to exploration and exploitation of the Company's concessions, totaled $652 as at the nine (9) months ended September 30, 2023, as compared to $509 for the same period in 2022. As at Q3 2023, the Company's concessions comprised 180,285 hectares, as compared to the same period in 2022, in which the Company's concessions comprised 441,985 hectares. Fixed expenses related to professional fees, office rent and buildings, Company vehicles, and other costs totaled $4,968 million as at the nine (9) months ended September 2023, compared to $849 for the same period in 2022. The primary reason for the increase relates to the construction of the pilot plan during 2023.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US$)	September 30, 2023 US$000	June 30, 2023 US$000	March 31, 2023 US$000	December 31, 2022 US$000
Revenue	-	-	-	-
Net income (loss) from continuing operations	(1,442)	(2,519)	(1,407)	(3,164)
Net income (loss) and comprehensive income (loss)	(1,442)	(2,519)	(1,407)	(3,164)
Basic and diluted net income (loss) (per share)	(0.01)	(0.02)	(0.01)	(0.02)

	September 30, 2022 US$000	June 30, 2022 US$000	March 31, 2022 US$000	December 31, 2021 US$000
Revenue	-	-	-	-
Net income (loss) from continuing operations	(2,436)	(1,758)	(997)	(1,432)
Net income (loss) and comprehensive income (loss)	(2,436)	(1,758)	(997)	(1,432)
Basic and diluted net income (loss) (per share)	(0.01)	(0.01)	(0.01)	(0.01)

In Q3 2023, the Company incurred lower net losses from continuing operations compared to the previous quarter, primarily due to a decrease in administrative expenses of $680, exploration expenses of $659, exchange rate expenses of $140, and an increase in financial income of $122. The decrease in administrative expenses is explained by lower legal and professional expenses of $222, personnel expenses of $270, permit expenses of $101, and other expenses of $87. The decrease in exploration expenses is explained by the capitalization of expenses related to the Carina Module, resulting in lower chemical assays and drilling services of $492, travel expenses of $116, and other expenses of $51.

In Q2 2023, the Company incurred higher net losses from continuing operations compared to the previous quarter, primarily due to an increase in administrative expenses of $728, exploration expenses of $334, and exchange rate expenses of $50. The increase in administrative expenses is explained by higher legal and professional expenses of $306, Board of Directors expenses of $158, personnel expenses of $214, and other expenses of $50. The increase in exploration expenses is explained by additional exploration works in Brazil resulting in higher chemical assays and drilling services of $137, travel expenses of $194, and other expenses of $3.

In Q1 2023, the Company incurred lower net losses from continuing operations compared to Q4 2022, primarily due to a decrease in administrative expenses of $846 and exploration expenses of $501, partially offset by an increase in financial income of $510. The decrease in administrative expenses is explained by lower legal and professional expenses of $207, Board of Directors expenses of $53, personnel expenses of $243, insurance expenses of $146, and depreciation and amortization of $197. The decrease in exploration expenses is primarily explained by a reduced scope in exploration works in Chile compared to the previous quarter, resulting in lower chemical assays of $195 and drilling services of $306. In addition, the increase in financial income is primarily explained by higher interests received from short-term investments of $510.

In Q4 2022, the Company incurred higher net losses from continuing operations compared to the previous quarter, primarily due to an increase in administrative expenses of $806 and exploration expenses of $233, partially offset by a positive exchange rate difference of $339. The increase in administrative expenses is explained by higher legal and professional expenses of $122, insurance expenses of $146, personnel expenses of $189, depreciation and amortization expenses of $304, and other expenses of $45. The increase in exploration expenses is explained by the drilling works in the Veronica exploration project in Chile, resulting in higher chemical assays and drilling services of $233.

In Q3 2022, the Company incurred higher net losses from continuing operations compared to Q2 2022, primarily due to an increase in exploration expenses of $1,154 and exchange rate expenses of $71, partially offset by a decrease in administration expenses of $347 and an increase in financial income of $200. The increase in exploration expenses is explained by the drilling works in the Veronica exploration project in Chile, resulting in higher chemical assays and drilling services of $807.

In Q2 2022, the Company incurred higher net losses from continuing operations compared to Q1 2022, primarily due to an increase in administrative expenses of $646 and exchange rate expenses of $115. The increase in administrative expenses is explained by higher legal and professional expenses of $172, personnel expenses of $149, recruitment expenses of $175, Board of Directors expenses of $53, investor relations expenses of $62, and other expenses of $35.

In Q1 2022, the Company incurred lower net losses from continuing operations compared to Q4 2021, primarily due to a decrease in exploration expenses of $295 and exchange rate expenses of $545, partially offset by an increase in administrative expenses of $424. The increase in administrative expenses is explained by higher personnel expenses of $379 and other expenses of $45.

In Q4 2021, the Company incurred higher net losses from continuing operations compared to Q3 2021, primarily due to an increase in administrative expenses of $379, exploration expenses of $392, and exchange rate expenses of $478. The increase in administrative expenses is explained by the expenses of the Going Public Transaction of $379. The increase in exploration expenses is explained by the start-up of the greenfield exploration program in Chile, totalling $392. The finance cost is explained by interest on the temporary loan from HM Holdings of $10 (the loan duration spanned from October to December, and was used as a bridge loan until the completion of the Going Public Transaction).

The Company is in the development phase of the Penco Module project, conducting exploration, feasibility, and technical studies discussed under the sections entitled "*Development Activities*" and "*Exploration Activities*", above. As a result, the Company has not generated any operating income as at September 30, 2023.

FINANCIAL INSTRUMENTS

Nature and Extent

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

The Company's consolidated financial instruments for the nine months ended 2023, nine months ended 2022, and FY 2022 are as follows:

	Nine months ended September 30		Year ended December 31
	2023	**2022**	**2022**
Cash and cash equivalents			
Current demand deposit accounts	45,674	73,042	66,886
Total Cash and cash equivalents	**45,674**	**73,042**	**66,886**

As at September 30, 2023, the Company held a one-month term deposit as an investment in Banco Scotiabank for a value of $27.158 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 engage in 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 $2.356 million as at Q3 2023. This requirement will be largely covered by its current cash and cash equivalent position of $45.674 million.

Off-Balance Sheet Commitments

The Company has no off-balance-sheet commitments.

The Company's contractual obligations as at Q3 2023 that must be satisfied with cash, and their approximate timing of payment, are as follows:

(in thousands of US$)	Q4 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	After 2028
Office leases	41	107	24	-	-	-	-
Vehicle leases	21	71	39	-	-	-	-
Warehouse leases	48	103	-	-	-	-	-
Land acquisition	6,000	1,300	1,300	1,300	-	-	-
Total Contractual Obligations	6,110	1,580	1,363	1,300	-	-	-

Cash and Liquidity

The Company did not have any commercial debt as at September 30, 2023. As at September 30, 2023, the Company had a cash balance of $45.674 million. The Company's present cash resources are sufficient to meet all its current liabilities and administrative and overhead expenses for the next eighteen (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.

As at the nine months ended 2023, the remuneration of the Company's key management totaled $2.551 million, as compared to the same period in 2022 in which remuneration of the Company's key management totaled $1.676 million.

	Nine months ended September 30		Year ended December 31
(in thousands of US$)	2023	2022	2022
Shares-based payments	297	548	696
Short-term employee benefits	2,254	1,128	1,742
Total compensation paid to key management personnel	**2,551**	**1,676**	**2,438**

(1) Amortized share-based payment expenses due to restricted stock units granted to management.

Related Party Transactions

The Company was subject to the following related-party balances and transactions as at September 30, 2023, September 30, 2022, and December 31, 2022:

	Accounts payable		
	Nine months ended September 30		Year ended December 31
(in thousands of US$)	2023	2022	2022
Compañia Minera Ares S.A.C.	11	42	25
Total	**11**	**42**	**25**

	Accounts receivable		
	Nine months ended September 30		Year ended December 31
(in thousands of US$)	2023	2022	2022
Compañia Minera Ares S.A.C.	-	-	-
Total	**-**	**-**	**-**

Compañía Minera Ares S.A.C., as a member of Hochschild Mining, is a related party and has provided intercompany administrative services since 2019, pursuant to the terms of a transition services agreement that has since expired.

Accounts payable with Compañía Minera Ares S.A.C. amounted to $11 as at September 2023, as compared to accounts payable of $42 and $25 as at September and December 2022, respectively.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's issued and outstanding share capital comprised 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 comprise an aggregate of 1,162,120 RSUs which are issued and outstanding in accordance with the terms of the Company's omnibus long-term incentive plan.

	As at September 30, 2023	As at December 31, 2022	Total
RSUs issued for the Management team	**750,228**	**411,890**	**1,162,118**
Vesting Period			
May 31, 2023	88,262		88,262
December 10, 2023	250,076	205,945	456,021
December 10, 2024	205,945	205,945	411,890
December 10, 2025	205,945	-	205,945

SIGNIFICANT ACCOUNTING POLICIES

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

SIGNIFICANT EQUITY INVESTEE

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

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 statements 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 licenses or to renew them; timing and requirements of permits and third party consents (as may be required); 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 and Carina Module, including as it relates to geology, metallurgy, engineering, title, and environmental matters; expected costs and timing of development of the Penco Module and Carina 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 Carina 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.sedarplus.ca.

Readers are cautioned that the foregoing list of risks, uncertainties and other factors is 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 those 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”, “probable 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 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 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.sedarplus.ca.