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 November 11, 2024, 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 majority-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 provides administrative services to Aclara and performs exploration activities in Peru; (iv) Aclara Resources Mineracao Ltda., a wholly-owned Brazilian subsidiary that holds the Carina Project (as defined below) and performs exploration activities in Brazil; (v) Fundacion de Beneficencia Publica, Medioambiental, Científica, Cultural y Social Queule, a wholly-owned indirect Chilean subsidiary that performs charitable work through implementing, promoting and supporting initiatives and projects pertaining to environmental conservation and heritage rescue, as well as Chilean cultural, social and scientific development; (vi) Aclara Technologies Inc. ("Aclara Technologies"), a wholly-owned U.S. subsidiary with the objective of developing a project for the separation of mixed rare earth carbonates ("MREC") from the Carina Project and the Penco Module into individual rare earth oxides ("REO"); and (vii) REE Alloys SpA, a 50%-owned Chilean subsidiary with the objective of developing a project for the conversion of individual REOs to metals and alloys for the manufacture of rare earth permanent magnets.

This MD&A provides information concerning the Company's interim consolidated financial condition and results of operations for the nine months ended September 30, 2024 and September 30, 2023. This MD&A should be read in conjunction with the Company's interim consolidated financial statements and the notes thereto for the nine months ended September 30, 2024 and 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.

As used in this MD&A, references to "Q1", "Q2", "Q3" and "Q4" are to the three months ended March 31, June 30, September 30, and December 31, respectively, of the applicable fiscal year, references to "H1" and "H2" are to the six months ended June 30 and six months ended December 31, respectively, of the applicable fiscal year, and references to "FY" are to the 12 months ended December 31 of the applicable fiscal year. Unless otherwise specified, the financial information contained in this MD&A is reported in 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 focused on the development of a vertically integrated supply chain for rare earths alloys used in permanent magnets, and it is listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "ARA".

Aclara's business strategy is supported by its ion-absorption clay ("ionic clay") deposits in Brazil and Chile, which feature large concentrations of heavy rare earths ("HREE"), which provides the Company with unique access to a reliable, long-term source of these critical minerals. Aclara has also developed and patented an innovative technology to extract rare earths from ionic clay deposits through recycling and circular economy processes, which results in low water consumption and minimal carbon emissions.

Aclara's flagship project is the Carina Project (the "Carina Project"), a 6,011-hectare HREE ionic clay project located in Nova Roma, Goiás, Brazil. The Company is also advancing the Penco Module project (the "Penco Module"), a 600-hectare HREE ionic clay project located in Biobío, Chile. The Company has successfully completed its preliminary economic assessment ("PEA") for the Penco Module and Carina Project, the results of which are respectively detailed in the following technical reports:

- "NI 43-101 Technical Report – Preliminary Economic Assessment Update for Carina Rare Earth Element Project", dated effective May 3, 2024 (the "Carina Project Technical Report").
- "Amended and Restated NI 43-101 Technical Report – Preliminary Economic Assessment for Penco Module Project", dated effective September 15, 2021 (the "Penco Module Technical Report").

The Company holds an aggregate of approximately: (i) 83,785 hectares of mining rights in Chile, distributed in the regions of Maule, Ñuble and Biobío; (ii) 68,788 hectares of mining rights in Brazil, distributed in the states of Goiás, Minas Gerais and Paraná; and (iii) 30,100 hectares of mining rights in Peru. The Company aims to identify additional opportunities to enhance potential future HREE production through its greenfield exploration programs in Chile, Brazil and Peru, alongside the development of further project "modules" within its mining concessions.

Aclara, through its wholly-owned U.S.-based subsidiary, Aclara Technologies, is focused on enhancing product value through the development of a rare earths separation plant in the United States. Aclara Technologies aims to source high purity MREC from Aclara's mining projects for separation into individual REOs. Additionally, Aclara is in the process of developing rare earths alloy-making capabilities to convert refined oxides into the alloys needed for fabricating permanent magnets. The Company's vertical integration strategy seeks to address the demand for a geopolitically independent supply chain for permanent magnets, focused on traceability, high environmental standards throughout the value chain, cost-competitiveness and expedited access to market. Aclara is well-positioned to become the first vertically integrated HREE company outside of Asia.

BUSINESS DEVELOPMENT AND OVERALL PERFORMANCE HIGHLIGHTS

Mining Projects Development

During Q3 2024, the Company continued to advance the development of the Penco Module and the Carina Project and made consistent investments in respect of evaluation and exploration assets ("E&E") and property, plant and equipment assets ("PP&E").

During Q3 2024, the Company invested $4.253 million and $0.195 million in E&E and PP&E, respectively. Comparatively, in Q3 2023, the Company invested $5.042 million and $0.179 million in E&E and PP&E, respectively. Aggregate expenditure for E&E and PP&E as of Q3 2024 totaled $10.999 million and $0.290 million, respectively, compared to the aggregate expenditure as of Q3 2023 of $12.428 million and $1.528 million. Aggregate expenditure for E&E and PP&E in FY 2023 totaled $15.506 million and $11.464 million, respectively.

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

On August 9, 2024, the Company announced an updated mineral resource estimate for the Carina Project, which reported an increase to inferred mineral resources of 77%, from 168 million tonnes ("Mt") to 298 Mt, and an extension to the life-of-mine from 17 years to 22 years. The update also highlighted a 69% increase in key magnetic elements (Dysprosium ("Dy"), Terbium ("Tb"), Neodymium and Praseodymium) as compared to the previously announced mineral resource statement in 2023.

On August 16, 2024, Aclara signed a Memorandum of Understanding ("MoU") with the state of Goiás and the municipality of Nova Roma, recognizing the strategic nature of the Carina Project. This strategic relationship aims to accelerate the analysis and evaluation of the permitting process and support the execution, implementation and development of the Carina Project. The Company has also committed to hiring and developing the local workforce, as well as local suppliers. As a result of these efforts, the Company will reinforce its positive impact on the social and economic development of Nova Roma and Goiás regions, further positioning Brazil as a key player in the sustainable supply of critical minerals.

On September 5, 2024, the Company delivered an updated PEA for the Carina Project, reporting robust economic feasibility including the following: (i) net present value at an 8% discount rate of ~$1.5 billion; (ii) estimated internal return rate of 27% over the 22-year life-of-mine and payback period of 4.2 years; (iii) average annual net revenue and EBITDA of $505 million and $366 million, respectively (excluding the first year of ramp-up and last year of ramp-down); and (iv) average of net smelter return of $52.0 per tonne processed, compared to an average production cost of $13.6 per tonne processed.

Following the positive results obtained at the Carina Project, and in an effort to move the project towards an investment decision, the Company has advanced or is advancing the following activities in parallel:

- *Drilling Campaigns.* During June 2024, the Company initiated its Phase 2 reverse circulation ("RC") drilling campaign, which is currently in progress and encompasses a total of 15,200 meters within 760 drill holes. The primary objective of the Phase 2 drilling campaign is to convert the reported inferred mineral resources into a measured and indicated resource category.

- *Metallurgical Tests.* The Company intends to conduct and complete metallurgical tests on samples obtained from the Carina Project during H2 2024 and H1 2025. Sample collections will be obtained through sonic drilling and sent to SGS Lakefield for mineralogical and recovery characterization, which will serve as an input for the pre-feasibility study ("Carina PFS"), as well as form the basis for a new semi-industrial scale piloting operation scheduled to occur in 2025.

- *Pilot Test Campaign.* During Q3 2024, the Company relocated its pilot plant facility from Concepción, Chile to Aparecida de Goiania, Brazil with the objective to conduct a new semi-industrial scale pilot operation with ionic clays obtained from the Carina Project. The piloting campaign will be a continuous operation including the optimized configuration of the Company's circular mineral harvesting process and will be aimed at: (i) confirming the processing parameters and final process flowsheet design for the Carina PFS and feasibility study ("Carina FS"); (ii) generating high purity MREC for separation trials in support of future off-take agreements; and (iii) demonstrating to relevant stakeholders the environmental sustainability of the process design. The pilot operation is expected to begin in Q2 2025 and will take approximately three (3) months to complete.

- *Technical Development.* During Q1 2024, the Company awarded the Carina PFS to Hatch Ltd. ("Hatch Brazil"). The Company began Carina PFS-related activities during Q2 2024 and expects to deliver a technical report pursuant to National Instrument 43-101 *Standard of Disclosure for Mineral Projects* ("NI 43-101") during the first half of 2025. The Carina PFS will include an internal pre-feasibility evaluation of the Carina Project, which is expected to be completed during Q1 2025, however the Company does not expect to issue a technical report pursuant to NI 43-101 for purposes of the internal pre-feasibility evaluation.

- *Environmental Baselines and EIA Development.* In January 2024, the Company began the development of environmental baseline studies for the Carina Project. The Company expects to complete these baseline studies and deliver an environmental impact assessment ("EIA") study during Q1 2025.

- *Commercial Efforts.* The discovery of the Carina Project complements the Company's existing commercial discussions and efforts to develop a HREE value chain outside of China.

- *Carina Project Schedule.* The Company previously announced the following short-term milestones and/or targets in respect of the Carina Project:

- Complete Phase 2 Drilling Campaign: Q1 2025
- Complete Environmental Baseline: Q1 2025
- Pilot Plant Operation in Aparecida de Goiania, Goiás, Brazil: Q2 2025
- Complete Carina PFS: Q2 2025
- Complete Carina FS: Q1 2026

Penco Module and Future Outlook

- *EIA Application.* On September 25, 2023, the Company revised its permitting strategy with the primary aim of addressing concerns associated with native forests located within the Penco Module project site, while minimizing substantial impacts to the Penco Module's development timeline. To effectively implement the revised permitting strategy, the Company decided to prepare and submit two (2) EIAs, which will collectively cover the full life-of-mine of the Penco Module. On June 10, 2024, the Company filed the first EIA ("EIA 1"), which encompasses the first six (6) years of the full life-of-mine of the Penco Module. The evaluation of EIA 1 by the Environmental Assessment Service ("SEA") is expected to take approximately between 18 and 24 months. On August 19, 2024, the Company informed that the evaluation process on EIA 1 proceeded to the next stage as none of the evaluating government agencies requested, within the applicable timeline, termination of the review process. The Company has formally received from SEA a total of 394 observations to EIA 1, which are expected to be answered by the end Q1 2025.

- *Social License.* The Company continued ongoing efforts from the preceding year to strengthen its relationship with the local community through a continuous engagement at "Casa Aclara", (a community center located in the central Penco community), and through several social initiatives including education, technical training, reforestation and sports programs. The Company will continue maintaining open dialogue and incorporating community feedback into its plans for the Penco Module.

- *Technical Development.* In light of the revised permitting strategy, the Company has decided to postpone the completion of the feasibility study technical report in respect of the Penco Module pursuant to the requirements of NI 43-101 and use the additional time to further refine the engineering aspects of the Penco Module by incorporating certain enhancements that are expected to result in a reorganization of operating and capital costs focused on improving operational efficiency. Such proposed engineering enhancements are a result of the Company's piloting work and research and development initiatives.

- *Commercial Efforts.* The Company is in commercial discussions with potential counterparties in respect of offtake agreements for the purchase and sale of MREC anticipated to be produced from the Penco Module. The Company has shipped high-purity MREC samples produced in the Company's pilot plant in Chile to more than fifteen (15) separation firms located within the United States, Europe and Asia, in an effort to validate product specifications and assess suitability for their respective separation technologies. Commercial efforts shall continue with the end-goal of supplying traceable, clean and responsible rare earth elements ("REE") to the market.

- *Updated Penco Module Schedule.* As a result of its updated permitting and development strategy, the Company is working to achieve the following proposed milestones and/or targets in respect of the Penco Module:

  - Anticipated EIA 1 Approval: Q4 2025
  - Feasibility Study Filing: Q4 2025
  - Construction: H1 2026
  - Production: 2028

General Administrative Expenses and Cash Balance

In Q3 2024, the Company incurred $2.348 million in administrative expenses, which was primarily comprised of: (i) management compensation; (ii) continuous public disclosure and marketing activities; and (iii) ancillary activities undertaken for the development of the Penco Module, the Carina Project, greenfield exploration and the vertical integration projects. In comparison, in Q3 2023, the Company incurred $1.141 million in administrative expenses.

As at Q3 2024, the Company's cash balance totaled $25.421 million. Comparatively, as at Q3 2023, the Company's cash and cash equivalents were $45.674 million. The Company's cash and cash equivalents totaled $33.246 million as at FY 2023.

The Q3 2024 cash balance of $25.421 million will serve to finance contemplated capital and operating expenditures, including, among other things, permitting and environmental activities, the development of a Carina FS, corporate expenses, and the Company's rare earths separation project.

<u>Corporate Development</u>

On March 13, 2024, the Company entered into a strategic investment agreement (the "CAP Investment Agreement") with CAP S.A. ("CAP"), a publicly listed company on the Chilean Stock Exchange, providing for, amongst other things: (i) a $29.1 million capital contribution to be made by CAP in REE Uno in exchange for a 20% equity ownership interest, which will be payable in three tranches upon closing and subsequently in January 2025 and January 2026; (ii) the grant of an option to invest an additional $50 million by CAP in REE Uno for an additional 20% equity ownership interest upon the Company obtaining the requisite environmental permit in respect of the Penco Module; (iii) the grant of an option exercisable by CAP to acquire up to 19.9% of the outstanding common shares of the Company in any private placement or public offering of shares made by the Company within the 36 month period following the effective date of the CAP Investment Agreement, including a residual top-up right to maintain pro-rata voting rights; (iv) a demand subscription right for up to an aggregate of 19.9% of the outstanding common shares of the Company exercisable upon the satisfaction of certain conditions and continuing for a maximum period of 18 months beginning on the third anniversary of the CAP Investment Agreement; and (v) the terms on which CAP and the Company will form a joint venture to develop metals and alloys for the rare earths permanent magnet industry and contemplates an investment of $3 million in consideration for 50% of the ownership interests in such joint venture entity. On April 17, 2024, the Company announced the successful closing of the acquisition by CAP and receipt by the Company of the initial payment of approximately $9.7 million in connection with such acquisition.

Assuming completion of all investments by CAP pursuant to the terms of the CAP Investment Agreement, REE Uno is expected to be fully funded for at least the next three (3) years with respect to contemplated capital and operating expenditures, including, among other things, permitting and environmental activities and the development of a Penco Module feasibility study (the "Penco FS").

<u>Separation of Mixed Rare Earths Carbonates to Individual Oxides and Future Outlook</u>

On April 3, 2024, following the announcement of the CAP Investment Agreement, the Company announced that it had incorporated a wholly owned U.S. based subsidiary, Aclara Technologies, to develop its rare earths separation capabilities in the United States. The Company's efforts through Aclara Technologies are intended to better position the Company and develop the necessary expertise required to carry out all stages of processing leading up to the production of rare earth alloys for high performance permanent magnets. Aclara Technologies is expected to source high purity MREC from the Company's extraction modules in Chile and Brazil. These carbonates will then be converted into individual rare earths oxides in the separation facility.

On October 15, 2024, the Company completed an initial conceptual engineering study for its rare earths separation project. The separation flowsheet concept, based on solvent extraction, was developed in collaboration with the Saskatchewan Research Council. The conceptual engineering study is intended to support a Class 5-AACE CAPEX and OPEX estimate to be completed by Hatch Ltd. ("Hatch Canada"), while also incorporating robust environmental features such as significant waste reduction and zero liquid discharge. Highlights from the technical study include:

- *Separation of Key REE.* Contemplates the separation of MREC to be produced by the Company's Carina Project and Penco Module in order to obtain high-purity didymium ("NdPr"), Dy and Tb.

- *Proven Technology.* The flowsheet process employs solvent extraction technology with hydrochloric acid chemistry.

- *High Purity.* Achieves over 99.5% purity for all separated REEs.

- *Strong Metallurgical Recoveries.* Expected metallurgical recoveries of 94% for NdPr, 92% for Dy and 91% for Tb.

- *Environmental Features.* Incorporates full water recirculation, achieving no liquid discharge.

- *Unoptimized CAPEX and OPEX.* Initial CAPEX is estimated at US$354 million, which includes US$244 million for the solvent extraction plant and US$110 million to significantly reduce waste and achieve zero liquid discharges. OPEX is estimated at US$12 per kg of REO.

- *Synergies with Circular Mineral Harvesting Process.* The development of the separation project has resulted in potential significant synergies with Aclara's proprietary circular mineral harvesting process, including the potential for: (i) reducing CAPEX and OPEX at both mine and separation stages; (ii) minimizing waste management costs; and (iii) maximizing the quality of MREC output from the Carina Project and Penco Module.

The Company has begun advancing the following activities as part of the next stage of development of its separation project:

- *Trade-off Chemistry.* Trade-off study comparing the base case of hydrochloric acid chemistry to a nitrate-based chemistry for the separation flowsheet process.

- *Location Study.* Analysis within the United States to identify an optimal site for the contemplated industrial separation facility, with the goal of maximizing efficiency and minimizing cost and development timeline.

- *Metallurgical Testing and Optimization.* Execution of bench scale and mini-pilot testing to optimize the separation flowsheet, CAPEX and OPEX.

Commercial Update

On July 9, 2024, the Company announced that it has signed a MoU with VACUUMSCHMELZE GmbH & Co. KG ("VAC"), which establishes a preliminary agreement to jointly approach potential clients as a "mine-to-magnets" solution for the production of ESG compliant permanent magnets. VAC is considered the largest producer of rare earths magnets outside of Asia, with more than 40 years' experience in magnet-making technology. VAC, whose main permanent magnet facility is located in Hanau, Germany, recently executed a contract with General Motors ("GM") to supply GM with permanent magnets by building a new magnet plant in the state of South Carolina, United States. Pursuant to the MoU, each of the parties will engage in collaborative efforts, through a preferred supplier-purchaser relationship with cooperative marketing, customer relations and related matters.

Greenfield Exploration and Future Outlook

During Q3 2024, the Company continued to advance its greenfield exploration activities in order to identify REE mineralization and potential new modules for further development. The Company incurred total expenses of $0.082 million in Q3 2024, as compared to $0.798 million incurred in Q3 2023.

The Company intends to continue 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 2024

The Company's updated budget forecasted for FY 2024 is $31.8 million, which is comprised of estimated costs relating to the development of the Penco Module, development of the Carina Project, development of Aclara Technologies and exploration activities aimed at identifying potential new modules. Key aspects of the FY 2024 budget include, among others: (i) $4.1 million in expenses related to the development of the Penco Module, which is comprised of permitting and community relations expenses ($2.6 million), purchase of surface land ($1.3 million) and expenses related to the maintenance of concessions ($0.2 million); (ii) $15.2 million in expenses related to the development of the Carina Project, which is comprised of mineral resource drilling works ($6.9 million), purchase of surface land ($1.2 million), engineering activities and piloting works ($4.9 million) and acquisition and maintenance of mining concessions ($2.2 million); (iii) $1.0 million in mining concession maintenance costs; and (iv) $11.5 million in administrative expenses, personnel and for general corporate and working capital purposes.

DISCUSSION OF RESULTS AND OPERATIONS UPDATE

Exploration Activities

Infill Drilling - Carina Project

Based on the initial auger drilling campaign results, the Company planned a two-phased RC drilling campaign at greater depths, which is expected to include 17,200 meters within 383 drill holes and is aimed at converting inferred mineral resource estimates to a measured and indicated mineral resource category. The Phase 1 drilling campaign was completed during Q1 2024 and comprised a total of 1,998 meters of drilling within 80 drill holes. This initial phase confirmed that the mineralization extended through the full depth of the regolith to the bedrock and provided a greater level of certainty regarding the geological interpretation of the deposit and the existence of REE throughout the full cross-section of the regolith.

During Q2 2024, the Company initiated Phase 2 of its RC drilling campaign and executed 579 meters across 29 drill holes. In Q3 2024, the Company continued drilling and completed 5,820 meters within 321 drill holes. The Phase 2 drilling campaign will continue during Q4 2024 and is expected to be completed during Q1 2025.

Comparatively, during Q3 2023, the Company completed its initial auger drilling campaign for the Carina Project, totaling 1,693 meters within 236 auger drill holes. The results further supported the significance of the Carina Project, as evidenced by the presence of REE hosted in ionic clays. Additionally, the Phase 1 results revealed an extensive mineralized area characterized by promising desorbible grades and a notable distribution of HREE and light rare earth elements within the REE basket. Furthermore, these results demonstrated metallurgical compatibility with the Penco Module's ammonium sulfate leaching solution.

Greenfield Exploration - Brazil

During Q3 2024, the Company continued its exploration efforts in Brazil. The focus remains on delineating potential areas for REE prospectivity through comprehensive surface mapping and sample collection. The objective is to identify regions of similar size and quality to the Carina Project, which will provide a strong foundation for the Company's proposed exploration drilling campaigns in 2025. The Company continues to evaluate the potential for further developing its mineral projects in Brazil on the basis of the results from its greenfield exploration programs in the region.

Brownfield Exploration - Penco Module

During Q3 2024 and Q3 2023, the Company did not report any brownfield exploration activities within the Penco Module.

Greenfield and Brownfield Exploration - Chile

During Q3 2024 and Q3 2023, the Company did not report any greenfield or brownfield exploration activities in Chile.

Project Development Activities

Carina Project

General Engineering

During Q3 2024, the Company focused its efforts on the Carina PFS, which included site visits by Hatch Brazil to review potential locations for the processing plant and disposition zones, as well as potential water and power supply intakes and the completion of a trade-off analysis for the dry stacking facility.

Comparatively, during Q3 2023, the Company commenced the estimation of an initial mineral resource estimate and the development of the Carina Project Technical Report.

Mining Study

In Q3 2024, the first stage of the Carina PFS was successfully completed, which included a gap analysis of available mine engineering products, trade-off studies for the mine fleet and a geotechnical assessment with the definition of fieldwork requirements.

Process Design

During Q3 2024, the Company conducted metallurgical tests, which resulted in valuable insights for the second stage of the Carina PFS and the subsequent Carina FS. Additionally, the Company relocated its pilot plant from its warehouse in San Pedro de la Paz, Chile, to a new warehouse in Aparecida de Goiania, Goiás, Brazil. In connection with the strategic relocation, the Company intends to demonstrate further optimization of its circular mineral harvesting process through a continuous operation cycle with the objective of: (i) confirming the processing parameters and final process flowsheet design for the Carina PFS and Carina FS; (ii) generating a high purity MREC for separation trials in support of future off-take agreements; and (iii) demonstrating to relevant stakeholders the environmental sustainability of the process design.

Comparatively, during Q3 2023, piloting works were successfully completed for the Penco Module. 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 were dispatched to 15 separation firms located across North America, Europe and Asia in order to validate product specifications and to assess their suitability for their respective separation technologies.

Penco Module

General Engineering

During Q3 2024, the Company's engineering team focused its efforts on advancing the Company's EIA 1 filing requirements including attending community meetings organized by the SEA and reviewing technical questions received from various Chilean governmental entities. Additionally, a site visit was conducted by Penco's recycled water (treated sewage water) supplier, Essbio S.A., to review the detailed engineering study for water intake infrastructure in respect of the Penco Module.

Comparatively, during Q3 2023, the Company, in collaboration with Pares & Alvarez, focused on completing certain 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 the exploration of access points to the Itata Route Highway and the identification of potential new disposition zones for the Penco Module. On September 25, 2023, and in light of the revised permitting strategy, the Company decided to delay the completion of the Penco FS 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.

Mining Study

During Q3 2024, the Company focused on the development of a conceptual design for the Neptuno deposition zone and conducted hydrogeological fieldwork, coinciding with the high rainfall season. This work involved assessing six (6) drill holes of interest to measure depth and physicochemical parameters. During the same period, a geostatistical analysis of granulometry was performed and results were used for adequate mine scheduling.

Comparatively, during Q3 2023, the Company progressed in developing the feasibility-level design for rainfall water management in the Victoria Norte, Maite, and Luna initial extraction zones.

<u>Aclara Technologies - Separation</u>

During Q3 2024, the Company completed an initial conceptual engineering study for its rare earths separation project. The separation flowsheet concept, based on solvent extraction, was developed in collaboration with the Saskatchewan Research Council. The conceptual engineering study is intended to support a Class 5-AACE CAPEX and OPEX estimate to be completed by Hatch Canada, while also incorporating robust environmental features such as significant waste reduction and zero liquid discharge.

Comparatively, during Q3 2023, the Company had no process design activities in relation to its separation process design project.

Environmental, Social and Governance

<u>Penco Module</u>

Environment and Permits

On July 8, 2024, the Company held its first technical meeting with various stakeholders at the SEA offices, followed by a technical field visit on July 9, 2024. During this visit, the SEA and other agencies evaluated the project site and conducted a preliminary assessment of potential environmental impact by the Penco Module. Between July and September 2024, the technical services team provided their observations on the EIA 1, which were comprised in a consolidated clarification report (“ICSARA”) submitted by the SEA on September 12, 2024. The Company is in the process of addressing the 394 observations made by the SEA and preparing its response, which is expected to be filed towards the end of Q1 2025 and is fully committed to working with the SEA throughout the assessment and review process.

On September 24, 2024, the SEA concluded the “Citizen Participation Process” that began on July 8, 2024. During this period, the Company participated in three (3) assemblies and four (4) town hall meetings, engaging nearly 300 participants who provided feedback on the EIA 1. The Company anticipates that the SEA will publish the citizen-informed ICSARA during Q4 2024.

Comparatively, during Q3 2023, the Company revised its permitting strategy with the primary aim of addressing concerns associated with native forests located within the Penco Module project site, whilst minimizing substantial impacts to the Penco Module’s development timeline. To effectively implement the revised strategy, the Company decided to prepare and submit two (2) EIAs, which collectively cover the full life-of-mine of the Penco Module. EIA 1 encompassed approximately the first six (6) years of the Penco Module's life and included three (3) extraction zones (Victoria Norte, Luna and Maite), along with one (1) deposition zone (Neptuno) and the associated production facilities.

Social License

During Q3 2024, the Company made significant progress on its social investment programs for the local Penco community related to education, technical training, reforestation and athletics, among others. The Company trained 75 individuals in various technical aspects and supported over 120 children in a range of activities. Additionally, workshops on agriculture and reforestation were conducted for community leaders, resulting in the introduction of more than 1,800 native species in areas of Penco, located in the Bio Bio Region, that were affected by wildfires.

Comparatively, in Q3 2023, the Corporate Affairs & Social Value team continued to engage the local Penco community through guided tours of the Penco Module pilot plant, successfully attracting over 220 visitors including community leaders, local universities, media representatives, authorities, business leaders and residents. Q3 2023 also saw an increase in national media coverage highlighting the significance of rare earth minerals as strategic resources for Chile.

Carina Project

Environment and Permits

During Q3 2024, the Company continued to progress its environmental baseline studies required for the Carina Project EIA, with the objective of applying for a preliminary environmental license in Q1 2025. The Company also obtained the necessary license to proceed with its Phase 2 drilling campaign in support of its overall geological drilling program.

Comparatively, during Q3 2023, the Company did not undertake any environmental or permitting activities in relation to the Carina Project.

Social License

On August 16, 2024, the Company signed a MoU with the state of Goiás and the municipality of Nova Roma, recognizing the strategic nature of the Carina Project. This strategic relationship aims to accelerate the analysis and evaluation of the permitting process and support the execution, implementation and development of the Carina Project.

During September 2024, the Company completed the first stage of its social communication plan in Nova Roma. From January to September 2024, 51 activities were conducted, reaching a total of 789 local residents.

Comparatively, during Q3 2023, the Company did not undertake any social license activities pertaining to the Carina Project.

Occupational Health and Safety

Throughout Q3 2024, the Company reported one lost time injury accident in Brazil. Comparatively, during Q3 2023, the Company had no events with lost workdays.

OPERATIONAL PERFORMANCE

Unless otherwise specified, the financial information contained in this section of the MD&A entitled "*Operational Performance*" and the subsections thereunder, is reported in thousands of United States dollars.

As of Q3 2024, the Company's expenditures in respect of exploration, technical development, environmental, social and governance and administration activities were $17.435 million, which were partially offset by CAP's capital contribution of $9.595 million, totaling a net cash outflow of $7.825 million and a total cash balance of $25.421 million. Comparatively, as at the end of FY 2023, the Company's net cash outflow was $30.228 million, and the total cash balance was $33.246 million.

Overview of Operating Expenditure and Costs

The Company incurred an aggregate of $1.947 million in losses from continuing operations before income tax during Q3 2024, as compared to an aggregate of $1.442 million in losses during Q3 2023.

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Exploration expenses	82	798	295	3,378
Administration expenses	2,348	1,141	6,460	4,055
Other (expenses) income	-	(2)	(135)	(35)
Share of loss of a joint venture	21	-	31	-
Financial costs	10	10	40	23
Financial income	(485)	(570)	(1,331)	(2,030)
Exchange differences	(29)	65	51	(22)
Loss from continuing operations before income tax	**1,947**	**1,442**	**5,411**	**5,369**
Attributable to:				
Equity shareholders of the Parent	**1,890**	**1,442**	**5,308**	**5,369**
Non-controlling interests	**57**	**-**	**103**	**-**

Exploration Expenses

The breakdown of exploration expenses incurred by the Company for the periods Q3 2024 and Q3 2023, and nine months ended September 30, 2024, and September 30, 2023, are as follows:

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Personnel expenses	42	269	82	1,122
Professional fees	-	103	3	321
Rental	21	87	107	302
Subscriptions	-	5	-	5
Repair and maintenance	-	1	4	11
Analysis & technical	-	101	-	281
Studies	-	1	4	184
Technology and system	-	-	-	36
Contractors and services	-	147	16	665
Travel expenses	12	45	35	260
Freight	1	-	14	-
Laboratory supplies and materials	5	-	7	-
Other	1	39	22	191
Total	**82**	**798**	**295**	**3,378**

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 surface mapping works, geophysics and topographic studies, among others.

During Q3 2024, the decrease in greenfield exploration expenses was primarily due to the decrease of related activities as part of the Company’s strategic focus on the development of the Carina Project and Penco Module. During Q3 2024, the Company focused on identifying exploration targets in Brazil and conducting surface mapping and soil sampling, resulting in personnel expenses of $42 and costs related to the leasing of geology equipment of $21. Comparatively, during Q3 2023, the Company focused on the discovery of the Carina Project and incurred personnel expenses of $269, professional fees of $103, equipment leasing of $87, repair and maintenance costs of $1, chemical assays of $101 and other exploration studies of $1. In addition, during Q3 2024, the Company incurred travel expenses of $12 and other related expenses of $7, as compared to contractors and services expenses of $147, and travel and other related expenses of $84 in Q3 2023.

Other Income (Expenses)

The breakdown of other income (expenses) incurred by the Company for Q3 2024 and Q3 2023, and nine months ended September 30, 2024, and September 30, 2023, are as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Contractors and services	-	-	(135)	-
Gain on sale of property, plant and equipment	-	(2)	-	(35)
Total	**-**	**(2)**	**(135)**	**(35)**

For the nine months ended September 30, 2024, the Company incurred other income (expenses) due to a reversal of an exploration expense provision of $135 in 2023. The provision included expenses related to contractors and services such as equipment leasing, drilling, and topography which were overestimated at the time of provisioning the expenses.

Administration Expenses

The breakdown of administration expenses incurred by the Company for the periods Q3 2024 and Q3 2023, and nine months ended September 30, 2024, and September 30, 2023, are as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Personnel expenses	779	502	2,645	1,833
Professional fees	209	138	883	588
Depreciation and amortization	303	301	972	676
Contractors and services	795	179	1,198	641
Permit	-	(105)	-	(103)
Travel expenses	125	67	391	227
Marketing expenses	60	-	201	-
Other expenses	79	59	170	193
Total	**2,348**	**1,141**	**6,460**	**4,055**

In Q3 2024, the Company incurred personnel expenses of $779 as compared to $502 in Q3 2023. These expenses were incurred by the Company to support its management and administration team, which includes the addition of a new Executive Vice President as of June 2024. During the nine-month period ended September 30, 2024, the Company experienced an increase in personnel expenses compared to the nine-month period ended September 30, 2023, primarily due to bonuses paid in 2024 exceeding the 2023 bonus provision by a total of $250.

Professional fees of $209 incurred during Q3 2024 comprised accounting, tax, and legal expenses for the Company's annual tax and legal processes, as compared to professional fees rendered for a similar purpose of $138 incurred by the Company in Q3 2023. In addition, during Q3 2024, the Company incurred travel expenses of $125, marketing expenses of $60, subscriptions and other expenses of $77, as compared to $67 in travel expenses and other expenses of $59 incurred in Q3 2023.

In Q3 2024, the Company incurred depreciation and amortization expenses of $303, as compared to $301 in Q3 2023. This increase is largely driven by the amortization of exploration mining concessions from the Brazilian and Chilean subsidiaries. In addition, during Q3 2024, the Company incurred contractor and services expenses of $795. These expenses were in relation to the Company's board of directors of $103, expenses related to the issuance of restricted stock units to the board of directors of 594, consulting expenses of $43, subscriptions of $29 and other expenses of $26. Comparatively, during Q3 2023, the Company incurred board fees of $93, consulting fees of $35, market surveillance $26, expenses related to information technology services of $23 and other related expenses of $2.

Financial Income and Costs

In Q3 2024, the Company's net financial income and costs amounted to $475 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 $560 in Q3 2023.

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Financial costs	10	10	40	23
Loss from continuing operations before income tax	**10**	**10**	**40**	**23**

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of US$)	**2024**	**2023**	**2024**	**2023**
Financial income	(485)	(570)	(1,331)	(2,030)
Loss from continuing operations before income tax	**(485)**	**(570)**	**(1,331)**	**(2,030)**

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 Q3 2024, the Company's principal business included the development of the Penco Module and Carina Project. 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, 2023	**83,424**
Additions	12,428,
Foreign exchange effect	(4,686)
Balance at September 30, 2023	**91,166**
Additions	2,078
Foreign exchange effect	1,908
Balance at December 31, 2023	**95,152**
Additions	10,999
Foreign exchange effect	(1,820)
Balance at September 30, 2024	**104,331**
Accumulated amortisation and impairment	
Balance at January 1, 2023	**439**
Additions	448
Foreign exchange effect	(45)
Balance at September 30, 2023	**842**
Additions	248
Foreign exchange effect	21
Balance at December 31, 2023	**1,111**
Additions	343
Foreign exchange effect	(22)
Balance at September 30, 2024	**1,432**
Net book value as at September 30, 2023	**90,324**
Net book value as at December 31, 2023	**94,041**
Net book value as at September 30, 2024	**102,899**

The total investments in the Penco Module and Carina Project capitalized as E&E as at nine months ended September 30, 2024, and 2023 and FY 2023 are as follows:

(in thousands of US$)	Nine months ended September 30 2024	2023	Year ended December 31 2023
Personnel expenses	3,212	2,432	2,926
Professional fees	2,482	3,353	4,125
Environmental impact study	940	1,018	1,557
Drilling services	-	130	-
Engineering services	-	7	7
Mining rights	461	652	667
Rent building, vehicles, others	857	417	433
Analysis & technical	963	629	763
Contractors and Services	1,091	2,592	2,677
Other	993	1,198	1,351
Total	**10,999**	**12,428**	**14,506**

As at nine months ended September 30, 2024, the Company incurred personnel expenses of $3,212, as compared to the same period in 2023, in which the Company incurred personnel expenses of $2,432. The increase in personnel expenses is attributed to the capitalization of costs associated with the Carina Project starting in 2024. For purposes of calculating the Company's personnel expenses under its E&E asset balance sheet, the Company's employee headcount as at Q3 2024 is 68, as compared to 64 in Q3 2023.

Each category of the Company's costs in relation to its investment in the Penco Module and Carina Project in Q3 2024 has been discussed elsewhere in this MD&A. In Q3 2024, expenses related to the technical development of the Penco Module and Carina Project were comprised of costs related to engineering services, feasibility studies, professional fees, rent building and vehicle expenses, analysis and technical, contractor services and other related expenses, each of which are discussed under the sections of this MD&A entitled "*Project Development Activities*" and "*Exploration Activities*" above. Comparatively, in Q3 2023, expenses related to the Penco Module comprised the aforementioned categories of costs as well as costs related to geochemical study and diamond drilling, which were carried out for the purposes of developing the Penco Module Technical Report.

As at Q3 2024, 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 incurred by the Company totaled $940 as at Q3 2024, as compared to the same period in 2023, in which the Company incurred environmental impact study expenses of $1,018. Expenses related to mining rights, which consisted of costs relating to exploration and exploitation of the Company's concessions, totaled $461 as at the nine months ended September 30, 2024, as compared to the same period in 2023, in which the Company incurred mining rights expenses of $652. As at Q3 2024, the Company's concessions were comprised of 83,785 hectares in respect of the Penco Module, 68,788 hectares in respect of the Carina Project and 30,100 hectares in relation to other concessions, as compared to Q3 2023, in which the Company's concessions were comprised of 180,285 hectares in respect of the Penco Module.

Properties, Plants and Equipment

The breakdown of PP&E capitalized by the Company as at nine months ended September 30, 2024 and FY 2023 are as follows:

(in thousands of US$)	Land	Plant and equipment	Total
Balance at January 1, 2023	**575**	**1,793**	**2,368**
Additions	9,984	1,480	11,464
Disposals	-	(327)	(327)
Foreign exchange effect	(1,325)	(69)	(1,394)
Balance at December 31, 2023	**9,234**	**2,877**	**12,111**
Additions	-	290	290
Foreign exchange effect	(211)	35	(176)
Balance at September 30, 2024	**9,023**	**3,202**	**12,225**
Accumulated amortisation and impairment			
Balance at January 1, 2023	**-**	**481**	**481**
Additions	-	596	596
Depreciation - Disposals	-	(268)	(268)
Foreign exchange effect	-	12	12
Balance at December 31, 2023	**-**	**821**	**821**
Additions	-	591	591
Foreign exchange effect	-	(1)	(1)
Balance at September 30, 2024	**-**	**1,411**	**1,411**
Net book value as at December 31, 2023	**9,234**	**2,056**	**11,290**
Net book value as at September 30, 2024	**9,023**	**1,791**	**10,814**

As at nine months ended September 30, 2024, the Company incurred expenses of $290 due to equipment purchases. Comparatively, during FY 2023, the company incurred expenses of $1,480 which were primarily associated with the construction of its pilot plant.

During Q3, 2024 the Company incurred nil in relation to land purchases. Comparatively, during FY 2023, the Company capitalized the purchase of land located in Concepcion, Chile, due to the payment made of the fourth installment of an agreement with Forestal Arauco SA. The total value paid during FY 2023 was $5,107 million Chilean pesos, equivalent to $5.823 million. The Company intends to continue to satisfy its payment obligations as of the date hereof, which contemplate annual payments of $1,300 from 2024 through 2026.

SUMMARY OF QUARTERLY RESULTS

(in thousands of US$)	September 30, 2024 US$000	June 30, 2024 US$000	March 31, 2024 US$000	December 31, 2023 US$000
Revenues	-	-	-	-
Net income (loss) from continuing operations	(1,947)	(2,101)	(1,363)	(6,015)
Net income (loss) and comprehensive income (loss)	(1,947)	(2,101)	(1,363)	(6,015)
Basic and diluted net income (loss) (per share)	(0.01)	(0.01)	(0.01)	(0.04)

	September 30, 2023 US$000	June 30, 2023 US$000	March 31, 2023 US$000	December 31, 2022 US$000
Revenues	-	-	-	-
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)

During Q3 2024, the Company incurred lower net losses from continuing operations compared to the previous quarter, primarily due to a decrease in exploration expenses of $36, an increase in financial income of $135, a decrease in exchange rate expenses of $32, an increase in share of loss of a joint venture of $10, a decrease in financial costs of $4 and an increase in administrative expenses of $44, primarily due to higher personnel expenses.

During Q2 2024, the Company incurred higher net losses from continuing operations compared to the previous quarter, primarily due to an increase in administrative expenses of $496, a decrease in financial income of $146, a decrease in exchange rate expenses of $69, an increase in exploration expenses of $24, and an increase in share of loss of a joint venture of $10, partially offset by a decrease in other (expenses) income of $135 and a decrease in financial costs of $2. The increase in administrative expenses was as a result of higher personnel expenses of $440, higher legal and professional expenses of $132 and other expenses of $63, partially offset by lower depreciation and amortization expenses of $139.

During Q1 2024, the Company incurred lower net losses from continuing operations compared to the previous quarter, primarily due to a decrease in administrative expenses of $952, a decrease in exploration expenses of $3,517, an increase in exchange rate expenses of $136, an increase in other (expenses) income of $135, a decrease in other income of $24 and an increase in financial income of $208. The decrease in administrative expenses was as a result of lower legal and professional expenses of $32, personnel expenses of $487, permit expenses of $369, depreciation expenses of $211 and marketing expenses of $77. The decrease in exploration expenses was as a result of the capitalization of expenses related to the Carina Project, resulting in lower chemical assays and drilling services of $2,802, personnel expenses of $529, travel expenses of $120, and other expenses of $67.

During Q4 2023, the Company incurred higher net losses from continuing operations compared to the previous quarter, primarily due to an increase in administrative expenses of $1,619, exploration expenses of $2,814, financial cost of $26, other income of $22, and a decrease in financial income of $262 and lower exchange rate expenses of $126. The increase in administrative expenses was primarily as a result of expenses related to the exploration in the Carina Project and the incorporation of the local administrative team to support operations carried out in Brazil, resulting in higher legal and professional expenses of $165, personnel expenses of $698, concessions and related permit expenses of $474, marketing expenses of $139 and depreciation and amortization expenses of $314. In addition, the decrease in administrative expenses was as a result of travel expenses of $29, contractor services expenses of $91 and other expenses of $51. The increase in exploration expenses relates to additional exploration works in the regions of Minas Gerais and Goiás, Brazil, and the preparation of preliminary economic assessments, which resulted in higher chemical assays of $246, personnel expenses of $260, geophysical and topographic studies, laboratory and related services of $1,602, travel expenses of $85, legal and professional expenses of $267, rental expenses of $303 which includes vehicles for transporting staff, warehouses and offices, and other expenses of $51.

During 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, a decrease in exploration expenses of $659, an increase in exchange rate expenses of $140 and a decrease in financial income of $122. The decrease in administrative expenses was as a result of 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 was as a result of the capitalization of expenses related to the Carina Project, resulting in lower chemical assays and drilling services of $492, travel expenses of $116, and other expenses of $51.

During 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 was due to higher legal and professional expenses of $306, personnel expenses of $214, board of directors' expenses of $158, and other expenses of $50. The increase in exploration expenses was as a result of additional drilling and chemical assays of $137, travel expenses related to exploration activities of $194 and other expenses of $3.

During 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 a decrease in exploration expenses of $501, an increase in financial income of $510, an increase in other income of $33, partially offset by an increase in exchange rate expenses of $132. The decrease in administrative expenses was due to 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 was primarily as a result of a reduction in the scope of 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 was primarily explained by higher interest received from short-term investments of $510.

During 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, an increase in exploration expenses of $233, a decrease in financial income of $28, partially offset lower expense due to an exchange rate difference of $339. The increase in administrative expenses was as a result of 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 was as a result of drilling works in the Verónica exploration project in Chile, resulting in higher chemical assays and drilling services of $233.

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 September 30, 2024, and September 30, 2023, and FY 2023 are as follows:

	Nine months ended September 30		Year ended December 31
	2024	**2023**	**2023**
Cash and cash equivalents			
Current demand deposit accounts	25,421	45,674	33,246
Total Cash and cash equivalents	**25,421**	**45,674**	**33,246**

Financial Instrument Risks

The Company manages risks to minimize potential losses by investing cash in the short term to reduce inflationary risks. The terms of the Company's short-term financial instruments are on arm's length terms and entered into with banks and institutional lenders. 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.

<u>Foreign Currency Risk</u>

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.

<u>Credit Risk</u>

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.

<u>Liquidity Risk</u>

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 $2.416 million as at the end of Q3 2024, and the Company's cash and cash equivalent position as at the end of Q3 2024 is $25.421 million.

Off-Balance Sheet Commitments

The Company has no off-balance sheet commitments.

A summary of the Company's contractual obligations that must be satisfied with cash, and their approximate timing of payment, is as follows:

(in thousands of US $)	Q4 2024	FY 2025	FY 2026	FY 2027	FY 2028	After 2029
Operating Leases (1)	69	87	-	-	-	-
Other Obligations (2)	1,300	1,300	1,300	-	-	-
Total Contractual Obligations	**1,369**	**1,387**	**1,300**	**-**	**-**	**-**

(1) Operating leases include office, warehouse and vehicle leases.
(2) Other obligations include land acquisitions.

Cash and Liquidity

The Company did not have any commercial debt as at the end of Q3 2024. As at the end of Q3 2024, the Company had a cash and cash equivalent balance of $25.421 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 FY 2024 is the continued advancement and development of the Penco Module, Carina Project and any potential future modules located in the concessions beneficially held by the Company.

The primary use of capital resources in 2024 are expected to include:

(in thousands of US $)	2024
Activities in connection with the Penco Module	**4,127**
Permitting and community engagement expenditures	2,664
Surface land purchase and mining concessions	1,463
Activities in connection with the Carina Project	**15,242**
Drilling and related exploration expenses	6,865
Engineering and piloting	4,895
Community relations engagement	79
Surface land purchase and mining concessions	3,403
Maintenance of mining concessions in connection with potential new modules	**944**
Administrative expenses and general corporate purposes	**11,514**
TOTAL	**31,827**

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, Carina Project and any potential future modules, to the extent necessary.

RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel include those people who have authority and responsibility for planning, directing, and controlling the activities of the Company.

As at the nine months ended 2024, the remuneration of the Company's key management totaled $3,660 million, as compared to the same period in 2023 in which remuneration of the Company's key management totaled $2.551 million. The increase in the Company's key management remuneration is a result of the annual bonus payment made in April 2024, and the increase in the value of common shares issued to the Company's key management during the same period.

	Nine months ended September 30		Year ended December 31
(in thousands of US$)	**2024**	**2023**	**2023**
Shared-based payments (1)	1,051	297	902
Short-term employee benefits	2,609	2,254	2,491
Total compensation paid to key management personnel	**3,660**	**2,551**	**3,393**

(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, 2024 and September 30, 2023, and FY 2023:

	Accounts payable Nine months ended September 30		Accounts payable Year ended December 31
(in thousands of US$)	**2024**	**2023**	**2023**
Hochschild Mining PLC	-	-	13
Compañia Minera Ares S.A.C.	2	11	1
Total	**2**	**11**	**14**

	Accounts receivable Nine months ended September 30		Accounts receivable Year ended December 31
(in thousands of US$)	**2024**	**2023**	**2023**
Ree Alloys SpA - Joint venture	11	-	-
CAP S.A.	19,417	-	-
Total	**19,428**	**-**	**-**

Hochschild Mining PLC and Compañia Minera Ares S.A.C., as a member of Hochschild Mining Holding, are related parties and provide intercompany administrative services pursuant to the terms of a transition services agreement that continues to date.

CAP S.A., a related party and investor in REE Uno, has made a capital contribution to REE Uno in exchange for 20% of the issued and outstanding share capital of REE Uno. As a result, the Company currently has an accounts receivable for two (2) of the three (3) installments of this contribution.

Accounts payable with Compañia Minera Ares S.A.C. amounted to $2 as during the nine months ended September 30, 2024, compared to accounts payable of $11 and $1 during the nine months ended September 30, 2023, and FY 2023, respectively.

Accounts payable with Hochschild Mining PLC amounted to nil during the nine months ended September 30, 2024, compared to accounts payable of nil and $13 for the nine months ended September 30, 2023, and FY 2023, respectively.

Accounts receivable with Ree Alloys SpA amounted to $11 during the nine months ended September 30, 2024, compared to accounts receivable of nil during the nine months ended September 30, 2023, and FY 2023.

Accounts receivable with CAP S.A. amounted to $19,417 during the nine months ended September 30, 2024, compared to accounts receivable of nil during the nine months ended September 30, 2023 and FY 2023.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's issued and outstanding securities comprised of an aggregate of 166,409,223 common shares and 4,614,811 restricted share units, which were issued in accordance with the terms of the Company's long-term incentive plan.

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 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") that is 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", "will occur" or "will be achieved". All statements other than statements of historical fact are forward-looking statements and, in particular, any statements that refer to expectations, intentions, estimations, 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); continued compliance with applicable laws and regulations; 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; actual production, capital and operating costs differing from those anticipated; 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 the Carina Project, including in relation to geology, metallurgy, engineering, title, and environmental matters; expected costs and timing of development of the Penco Module and Carina Project; costs, location and timing of potential future exploration and drilling and the uncertain nature of such exploration and drilling 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; continued availability of required expertise and manpower; continued access to capital markets; future trends that may affect the Company's business and results of operations; possible emergence of new global pandemics and their impact on Aclara's operations; continued qualification for listing on the TSX; Aclara having further potential through exploration at the Penco Module and the Carina Project, 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 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.

The mineral resource estimates noted in this MD&A are preliminary in nature and include inferred mineral resources that at present are considered too geologically speculative in nature to enable categorization as mineral reserves. There is no certainty that such preliminary economic assessments will be realized.

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.