Canada Rare Earth Corp.

(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

Consolidated Financial Statements

For the years ended March 31, 2013 and 2012

(Stated in Canadian Dollars)

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

March 31, 2013 and 2012

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DeVISSER GRAY LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canada Rare Earth Corp.,

We have audited the accompanying consolidated financial statements of Canada Rare Earth Corp. and its subsidiary which comprise the consolidated statements of financial position as at March 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Rare Earth Corp. and its subsidiary as at March 31, 2013 and 2012 and their financial performance and their cash flows for the years ended March 31, 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has no current sources of revenue and is dependent upon its ability to secure new sources of financing. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

De Visser Gray LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
July 24, 2013

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in Canadian Dollars)

As at	**March 31, 2013 $**	March 31, 2012 $
ASSETS		
Current		
Cash	**117,793**	71,860
Short-term investments (Note 3)	**3,400,000**	2,169,517
Interest and other receivables	**47,882**	264,235
Prepaid expenses and deposits	**11,256**	28,722
	3,576,931	2,534,334
Exploration and evaluation assets (Note 4)	**3,286,409**	2,980,656
Property and equipment (Note 5)	**-**	132,825
Total assets	**6,863,340**	5,647,815
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**116,720**	163,102
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**14,340,194**	12,696,144
Reserves (Note 6)	**7,457,932**	5,941,673
Deficit	**(15,051,506)**	(13,153,104)
Total shareholders' equity	**6,746,620**	5,484,713
Total liabilities and shareholders' equity	**6,863,340**	5,647,815

Nature and Continuance of Operations (Note 1)
Commitments (Note 11)

These consolidated financial statements are authorized for issue by the Board of Directors on July 24, 2013. They are signed on the Company's behalf by:

"Tracy A. Moore " Director

"Michael Stares" Director

The accompanying notes form an integral part of these consolidated financial statements.

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Stated in Canadian Dollars)

For the years ended March 31,	**2013**	2012
	$	$
Exploration costs (Notes 4, 7)	294,443	4,027,998
Expenses		
Depreciation	16,615	46,775
Consulting fees (Note 7)	228,320	63,278
Advertising and promotion	65,162	357,990
Listing, filing and transfer agent	93,720	76,269
Office and miscellaneous (Note 7)	57,195	86,399
Professional fees	137,053	73,458
Rent (Note 7)	41,878	52,324
Share-based payments	564,259	668,616
Travel and accommodations	50,673	78,918
Wages and benefits	390,721	366,542
Part XII.6 tax expense	-	3,430
	1,645,596	1,873,999
Loss before the following:	(1,940,039)	(5,901,997)
Interest and sundry income	25,037	107,277
Adjustment to fair market value for fair value through profit and loss investments	16,600	(31,712)
Write-down of exploration and evaluation assets (Note 4)	-	(164,878)
Recognized premium on flow through shares	-	418,955
Loss and comprehensive loss for the year	(1,898,402)	(5,572,355)
Loss per share - basic and diluted	(0.02)	(0.07)
Weighted Average Shares Outstanding - basic and diluted	116,870,632	83,166,273

The accompanying notes form an integral part of these consolidated financial statements.

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended March 31, 2013 and 2012
(Stated in Canadian Dollars)

	Share capital		Reserves			
	Number of shares	Share capital	Warrants	Equity-settled benefits	Deficit	Total
	#	$	$	$	$	$
Balance at April 1, 2011	81,373,082	12,069,710	3,624,743	1,627,134	(7,580,749)	9,740,838
Issued for cash:						
Private placements	2,824,059	480,090	-	-	-	480,090
Value of warrants issued to investors	-	(21,180)	21,180	-	-	-
Share issue costs	-	(12,512)	-	-	-	(12,512)
Deferred premium on flow-through shares	-	(170,914)	-	-	-	(170,914)
Expiry of warrants	-	-	(3,497,862)	3,497,862	-	-
Shares issued on property acquisitions (note 6(f))	1,665,000	350,950	-	-	-	350,950
Share-based payments	-	-	-	668,616	-	668,616
Loss for the year	-	-	-	-	(5,572,355)	(5,572,355)
Balance at March 31, 2012	**85,862,141**	**12,696,144**	**148,061**	**5,793,612**	**(13,153,104)**	**5,484,713**
Balance at April 1, 2012	85,862,141	12,696,144	148,061	5,793,612	(13,153,104)	5,484,713
Issued for cash:						
Private placements	56,000,000	2,800,000	-	-	-	2,800,000
Value of warrants issued to investors	-	(952,000)	952,000	-	-	-
Expiry of warrants	-	-	(148,061)	148,061	-	-
Share issue costs (note 7)	-	(258,950)	-	-	-	(258,950)
Shares issued on property acquisitions (note 6(f))	900,000	55,000	-	-	-	55,000
Share-based payments	-	-	-	564,259	-	564,259
Loss for the year	-	-	-	-	(1,898,402)	(1,898,402)
Balance at March 31, 2013	**142,762,141**	**14,340,194**	**952,000**	**6,505,932**	**(15,051,506)**	**6,746,620**

The accompanying notes form an integral part of these consolidated financial statements.

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)

For the years ended March 31,	**2013** **$**	2012 $
CASH FLOWS FROM (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	(1,898,402)	(5,572,355)
Depreciation	16,615	46,775
Share-based payments	564,259	668,616
Adjustment to fair value for fair value through profit and loss investments	(16,600)	31,712
Non-cash wages and benefits	116,210	-
Write-down of exploration and evaluation assets	-	164,878
Decrease in interest and other receivables	216,353	25,131
Decrease (increase) in prepaid expenses	17,466	(2,165)
Increase in refundable security deposits	-	56,966
Decrease in accounts payable and accrued liabilities	(46,382)	(359,442)
Recognized premium on flow-through shares	-	(418,955)
Cash flows used in operating activities	(1,030,481)	(5,358,839)
FINANCING ACTIVITIES		
Issuance of capital stock for cash	2,800,000	480,090
Cash commission (Note 7)	(258,950)	(12,512)
Cash flows from financing activities	2,541,050	467,578
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(250,753)	(445,801)
Acquisition of property and equipment	-	(27,980)
Net redemption (purchase) of short-term investments	(1,213,883)	5,269,435
Cash flows from (used in) investing activities	(1,464,636)	4,795,654
Increase (decrease) in cash	45,933	(95,607)
Cash, beginning of year	71,860	167,467
Cash, end of year	117,793	71,860

Supplemental cash flow information (see note 10)

The accompanying notes form an integral part of these consolidated financial statements.

1. Nature and Continuance of Operations

Canada Rare Earth Corp. ("Canada Rare Earth" or "the Company", formerly Rare Earth Metals Inc., "Rare Earth") is a development stage public company in transition to developing a vertically integrated business in the rare earth industry from the base of acquiring and exploring mineral property interests. The Company has not yet determined whether or not its properties contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become payable, including the development of the vertically integrated business and completion of acquisitions, exploration and development of mineral properties and projects, is dependent on the ability of the Company to obtain necessary financing.

On February 7, 2013, the Company changed its name from Rare Earth Metals Inc. to Canada Rare Earth Corp.

The accompanying consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company's investment in exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop its properties and establish future profitable production from the properties, or from the proceeds of their disposition. At March 31, 2013 the Company has working capital in the amount of $3,460,211 (March 31, 2012: $2,371,232) and has a deficit in the amount of $15,051,506 (March 31, 2012: $13,153,104). The Company has not earned any revenues to date and is considered to be in the development and exploration stage.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed inappropriate. These adjustments could be material.

2. Significant Accounting Policies

Basis of presentation and statement of compliance with IFRS

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with IFRS as issued by the IASB ("International Accounting Standards Board").

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These consolidated financial statements including comparatives have been prepared on the basis of IFRS standards that were in effect on March 31, 2013.

The standards that are effective in the annual consolidated financial statements for the year ending March 31, 2013 are subject to change and may be affected by additional interpretation(s).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars (CDN), which is also the functional currency of the Company.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary REM Metals Corp.

All the transactions and balances between the Company and its subsidiary are eliminated on consolidation. Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Flow-through financing

The Company raises equity through the issuance of flow-through shares. Under such an arrangement, shares are issued which transfer the tax deductibility of mineral property exploration expenditures to investors. The Company allocates the proceeds from the issuance of these shares between the offering of shares and the sale of the tax benefits. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A deferred flow through premium liability is recognized for the difference. The liability is reversed when the expenditures are made and is recorded in the statement of loss and comprehensive loss. The spending can also give rise to a deferred tax timing difference between the carrying value and tax value of the qualifying expenditure.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a specified period. The Company has no flow-through obligations at March 31, 2013.

Property and equipment

Purchased property and equipment are carried at acquisition costs less subsequent depreciation and impairment losses.

Depreciation is recognized on a declining balance basis to recognize the cost of the item over its estimated useful life. The rates generally applicable are:

Computer equipment	30%
Computer software	100%
General and field equipment	20 - 30%
Office equipment and furniture	30%
Signs	20%
Vehicles	30%

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within “other income” or “other expenses”.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for the restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

Impairment

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value to their present value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating units to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of impairment is recognized immediately in profit or loss.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Segment reporting

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Company has only one single reportable operating segment.

Share capital

Share capital represents the fair value of consideration received.

Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the services or at the date of their origin.

Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan for its employees, directors and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to 'reserves'.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term investments, highly liquid investments that are readily convertible into known amounts or cash and which are subject to an insignificant risk of changes in value.

Exploration and evaluation assets

Exploration and evaluation assets include the costs associated with exploration and evaluation activity (e.g. geological, geophysical studies, exploratory drilling and sampling), and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or asset purchase. The Company follows the practice of capitalizing all costs related to the acquisition of mineral claims, expensing all costs relating to the exploration and evaluation of mineral claims, and crediting all revenue received against the acquisition cost of the claims, with any excess included in profit or loss. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of comprehensive loss.

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploration, or alternatively, sale of the respective areas of interest.

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transaction costs and subsequently accounted for at amortized cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Available for sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within ‘office and general’ or ‘interest and investment income’, except for impairment of trade receivables which is presented within ‘other expenses’.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company’s deposits, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain criteria and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The Company's cash and short-term investments fall into this category of financial instruments.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold any investments designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company does not hold any available-for-sale financial assets.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'interest and investment income'.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Financial liabilities

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

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges, and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'office and general' or 'interest and investment income'.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been impacted. For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterpart; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, deposits and prepayments, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly through the use of an allowance account. When an amount receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

The Company does not have any derivative instruments.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year; and

- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable.

Future accounting pronouncements

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company does not believe that these standards will have a significant impact on its reported results or financial position.

(i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The effective date of IFRS 9 is January 1, 2015.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(iii) IFRS 11, *Joint Arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities.

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

(vii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

3. Short-term Investments

As at March 31, 2013 the Company had $3,400,000 (March 31, 2012: $2,169,517) in short-term investments consisting of variable rate GIC's. The variable rate of interest in effect at the time of purchase was PRIME – 1.65%. PRIME at March 31, 2013 was 3.00%.

These investments are fully liquid and available at the request of the Company, and accordingly they have been classified as a current asset in these consolidated financial statements.

4. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended March 31, 2013 and 2012:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Mineral Interests	Hinton Coal $	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Balance, March 31, 2011	1,020,000	424,043	-	122,002	758,494	-	11,044	2,335,583
Acquisition costs for the year	-	2,706	444,990	-	289,051	12,800	60,404	809,951
Write-downs	-	-	-	-	(164,878)	-	-	(164,878)
Balance, March 31, 2012	1,020,000	426,749	444,990	122,002	882,667	12,800	71,448	2,980,656
Acquisition costs for the year	-	2,706	88,533	-	193,800	20,714	-	305,753
Write-downs	-	-	-	-	-	-	-	-
Balance, March 31, 2013	1,020,000	429,455	533,523	122,002	1,076,467	33,514	71,448	3,286,409

During the year ended March 31, 2013, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Prospecting	-	-	2,275	-	6,588	14,659	23,522
Geology	1,585	84,250	580	16,319	40,371	2,727	145,832
Geophysical	-	-	1,463	-	12,037	-	13,500
Line cutting	-	-	-	-	18,900	-	18,900
Trenching	-	-	-	-	10,592	-	10,592
Diamond drilling	2,226	14,800	-	53,971	-	-	70,997
Other	-	-	-	-	1,500	9,600	11,100
Exploration expenditures for the year	3,811	99,050	4,318	70,290	89,988	26,986	294,443

During the year ended March 31, 2012, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Prospecting	1,793	9,145	16,458	418,428	262	3,486	449,572
Geology	55,775	84,622	6,243	159,269	1,300	5,368	312,577
Geophysical	3,600	52,855	72,126	4,080	-	-	132,661
Trenching	-	-	-	3,627	-	-	3,627
Diamond drilling	296,270	1,133,736	-	1,688,550	-	-	3,118,556
Other	-	-	-	-	-	11,005	11,005
Exploration expenditures for the year	357,438	1,280,358	94,827	2,273,954	1,562	19,859	4,027,998

(a) Hinton Coal Property

On June 25, 2008, the Company acquired 100% ownership in the Hinton Coal Property (the “Hinton Property”) located in the Foothills Region of central Alberta for $1 million and a 5% net profits royalty on any sale of coal from the property. The $1 million purchase price was recorded as a mineral interest in accordance with the Company’s accounting policy.

On July 16, 2008, the Company issued 50,000 common shares at a value of $20,000 as a finder’s fee in conjunction with the above transaction.

The 5% net profits royalty can be purchased for an amount in Canadian dollars which is equal to 8% of the sales price of the Hinton Property to an unrelated third party through a commercial market process subject to a minimum sales price of $1 million.

The Company continues to own a 100% interest in the Hinton Coal property.

(b) Clay-Howells Property

The Clay-Howells property consists of 45 patented claims (mining and surface) and is located 30 kilometres north-northeast of Kapuskasing, Ontario. During fiscal 2010, the Company entered into an agreement to acquire a 100% interest in the Clay-Howells property. Pursuant to the agreement, the Company exercised the option by paying the optionor an aggregate of $350,000. The optionor retains a 2% net smelter returns royalty (“NSR”) and the Company has the right to purchase, at any time, one-half of the NSR in consideration for the payment of $1 million.

(c) Springer

(i) Lavergne prospect

On June 7, 2011, the Company completed agreements to acquire the Lavergne rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 80 km east of Sudbury, Ontario.

Terms of the initial agreement to option the mineral rights to the 320 acre patent (the “Patent”), covering the prospect, include staged payments of $217,000 over three years, including (a) $36,000 on signing (paid), (b) $36,000 on or before April 13, 2012 (paid), (c) $45,000 on or before April 13, 2013 (paid in April 2013), and (d) $100,000 on or before April 13, 2014. The Company must also make the following payments commencing January 12, 2012: (a) $4,000 (paid), (b) $4,000 on or before May 16, 2012 (paid), (c) $5,000 on or before May 16, 2013 (paid in April 2013), and (d) $11,111 on or before May 16, 2014. The owners will retain a 1% NSR and the Company will have the right to purchase one-half of this for $1,000,000.

A second agreement was also completed to purchase the surface rights to the eastern half of the Patent (153 acres) for a total of $150,000, in two payments which include (a) $50,000 on signing (paid), and (b) $100,000 on or before October 16, 2011 (paid).

(ii) Springer – Zimtu

A separate third agreement was negotiated with Zimtu Capital Corp. and two private prospectors (the "Optionors") to option a total of 40 unpatented claim units totaling 647 hectares adjacent to the above-described patent. Terms of the Zimtu option agreement include total payments of $200,000 and 2,000,000 shares over four years, including initial payments of $50,000 (paid) and 500,000 shares (issued).

On January 13, 2012, terms of the agreement were amended to: (a) a $50,000 initial cash payment (paid) and initial issuance of 500,000 shares (issued), (b) issuance of 500,000 shares prior to December 7, 2011 (issued), (c) issuance of 500,000 shares prior to June 7, 2012, and (d) issuance of 500,000 shares prior to June 7, 2013.

On June 8, 2012, the Company's directors approved an amendment to the June 7, 2011 property option agreement with Zimtu Capital Corp. and two private prospectors where the Company issued 800,000 shares pursuant to this option agreement on June 19, 2012, completing the option and acquiring the above claim units.

The Optionors will retain a 2% NSR on the 40 unpatented claim unit property with the Company having the right to purchase half of this for $1,000,000.

(iii) Springer-Field-Pedley

During fiscal 2012, the Company completed the staking of 153 claim units located in the Springer Township and the adjacent townships of Field to the north and Pedley to the east.

(d) <u>Coldwell Complex</u>

During fiscal 2011, the Company completed the staking of 740 claim units located in the Coldwell Alkaline Complex in Northern Ontario. Certain claims were dropped during fiscal 2013, reducing the property to 99 claim units.

(e) <u>Red Wine Complex</u>

The Company has acquired, by an option agreement and staking, three properties: Mann #1 (48 claim units), Two Tom Lake (34 claim units) and Red Wine #2 (167 claim units acquired by staking) in Labrador. The properties are located in three separate claim groups located over a 30 kilometre length of the Red Wine Complex.

Mann #1, Two Tom Lake

Pursuant to an option agreement dated September 29, 2009 as amended November 3, 2009 between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the "Mann Optionors"), the Company may acquire a 100% interest in the Mann # 1 and Two Tom Lake properties (the "Optioned Properties"). Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Optioned Properties, the Company must make the following payments and share issuances to the Mann Optionors: (a) within 60 days of the date of the agreement, pay $25,000 (paid) and issue 60,000 shares (issued); (b) pay $35,000 (paid) and issue 135,000 shares (issued) on or before September 29, 2010; (c) pay $45,000 (paid) and issue 135,000 shares (issued) on or before September 29, 2011; and (d) pay $70,000 and issue 170,000 shares on or before September 29, 2012.

Upon the Company exercising the option, the Mann Optionors will retain a 2% NSR in the Optioned Properties and beginning on September 29, 2014, the Company will issue 20,000 shares per annum to the Mann Optionors as advance royalty payments, all of which will be credited against royalty payments payable once commercial production commences. The Company may at any time purchase one-half (1%) of the NSR from the Mann Optionors for $1,000,000.

In order to complete the acquisition of the property and to eliminate the advance royalty payments, the Company paid and issued to the vendors of the Mann One and Two Tom properties an aggregate of $86,800 (paid October 2012) and 100,000 common shares (issued October 2012) pursuant to an amended option agreement.

Red Wine Property - Zimtu

Pursuant to an option agreement dated August 31, 2010 between the Company, Zimtu Capital Corp., Gary Lewis, Aubrey Budgell and Neh Pinsent, the Company may acquire a 100% interest in 500 claim units located in the Red Wine/Letitia Lake area of west central Labrador, Canada and known as the Zimtu Property. The Company must make the following cash payments and share issuances to the optionors: (a) payment of $50,000 on signing (paid) and issuance of 1,000,000 shares (issued) on TSX-V approval of the formal agreement; (b) payment of $50,000 (paid) and issuance of 500,000 shares (issued) prior to September 30, 2011; (c) payment of $50,000 and issuance of 500,000 shares prior to September 30, 2012. The optionors will maintain a 2% NSR on the Property; one-half of which the Company has the right to purchase for $1,000,000 at any time.

In order to complete the acquisition of the property, the Company paid $100,000 (paid October 2012) to the vendors of the Red Wine Claims pursuant to an amended option agreement. After completion of the option, some non-core claims were dropped or returned to the vendors, reducing the property to 73 claims.

(f) Manitouwadge Graphite Property

The Manitouwadge Graphite Property, located in the Ramsay Lake, Thomas Lake, Olie Lake, and Flanders Lake areas and Flanders Township within the Thunder Bay Mining Division, Ontario, and in Foch Township within the Porcupine Mining Division, consists of 18 claims totaling 223 unpatented claim units acquired by staking, encompassing 35.7 square kilometers (13.8 square miles), or 3,563 hectares. The 18 claims consist of a contiguous block of 11 unpatented mining claims centered about the Thomas Lake Road Graphite Occurrence.

(g) Other

Included in Other are the following: Lackner Property, Armstrong Dyno Property, James Bay Property and miscellaneous properties.

5. Property and Equipment

	March 31, 2013			March 31, 2012		
	Cost $	Accumulated Depreciation $	Net $	Cost $	Accumulated Depreciation $	Net $
Computer equipment	-	-	-	12,456	4,968	7,488
Computer software	-	-	-	9,182	9,182	-
Office equipment and furniture	-	-	-	12,142	4,237	7,905
General equipment	-	-	-	46,854	15,725	31,129
Field equipment	-	-	-	133,336	54,251	79,085
Signs	-	-	-	3,915	1,472	2,443
Vehicles	-	-	-	8,025	3,250	4,775
Total	-	-	-	225,910	93,085	132,825

During the year ended March 31, 2013, the property and equipment was transferred to the former CEO pursuant to a severance agreement between the Company and former CEO. The net book value of the property and equipment at the time of the transfer was $116,210. This amount has been included in wages and benefits in the statement of loss and comprehensive loss.

6. Capital and Reserves

(a) Share capital

Authorized: Unlimited common shares without par value.

(b) Share purchase warrants

Details of share purchase warrant transactions for the years ended March 31, 2013 and 2012 are as follows:

	# of Warrants	Weighted Average Exercise Price $	Expiry
Outstanding at March 31, 2011	11,549,724	0.39	
Expired during the year	(9,542,000)	0.35	
Issued during the year	1,412,030	0.22	December 2012
Outstanding at March 31, 2012	3,419,754	0.44	
Expired during the year	(3,419,754)	0.44	
Issued during the year	28,000,000	0.10	September 2014
Outstanding at March 31, 2013	28,000,000	0.10	

For all warrants issued during the year ended March 31, 2012, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 85.25%, a risk-free interest rate of 0.95% and an expected life of 1 year. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

For all warrants issued during the year ended March 31, 2013, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 90.06%, a risk-free interest rate of 1.11% and an expected life of 2 years. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

As at March 31, 2013, the following share purchase warrants were outstanding:

Number of common shares issuable	Exercise price $	Date of expiry
28,000,000	0.10	September 11, 2014

On November 10, 2012, 2,007,724 warrants with an exercise price of $0.60 expired.

On December 6, 2012, 1,412,030 warrants with an exercise price of $0.22 expired.

(c) Stock options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. The maximum number of common shares reserved for issuance under the plan is 28,552,428. The Company recognizes share-based compensation in connection with stock options granted over their respective vesting periods, with stock options typically vesting in various increments and having a maximum term of five years.

Stock option transactions for the years ended March 31, 2013 and 2012 are as follows:

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2011	5,840,000	0.45
Granted	3,100,000	0.19
Expired	(200,000)	0.55
Options outstanding at March 31, 2012	8,740,000	0.35
Granted	14,825,000	0.10
Cancelled	(775,000)	0.32
Expired	(50,000)	0.35
Options outstanding at March 31, 2013	22,740,000	0.19

The weighted-average fair value of options granted during the year ended March 31, 2013 was $0.10 (2012 – $0.19). Each option entitles the holder to purchase one common share.

Options Outstanding				Options Exercisable	
Range of Exercise Prices $	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
0.10 - 0.60	22,740,000	3.99	0.19	16,837,812	0.22

The following table summarizes information about the options outstanding at March 31, 2013 and 2012:

Expiry Dates	Exercise Price $	March 31, 2013 # of options	March 31, 2012 # of options
August 2012	0.35	-	50,000
February 2013	0.38	-	200,000
July 2013	0.37	-	100,000
January 2015	0.60	65,000	65,000
January 2015	0.55	2,150,000	2,150,000
April 2015	0.35	350,000	450,000
August 2015	0.35	100,000	100,000
January 2016	0.37	2,525,000	2,625,000
July 2016	0.37	-	75,000
September 2016	0.37	100,000	100,000
January 2017	0.17	2,625,000	2,825,000
November 2017	0.10	14,825,000	-
		22,740,000	8,740,000

The Company applies the fair value method of accounting for share-based payments using the Black-Scholes Option Pricing Model.

Stock options granted to directors, officers and employees vested during the year ended March 31, 2013 as follows:

Grant Date	# of Options Vested	Exercise Price $	Expiry Date	Fair Value Of Options $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
January 14, 2011	127,171	0.37	January 14, 2016	0.30	0%	124%	2.60%	5 yrs
July 5, 2011	11,084	0.37	July 5, 2016	0.17	0%	118%	2.32%	5 yrs
September 1, 2011	25,973	0.37	September 1, 2016	0.24	0%	117%	1.58%	5 yrs
January 18, 2012	1,304,620	0.17	January 18, 2017	0.09	0%	87%	1.30%	5 yrs
November 8, 2012	9,053,581	0.10	November 8, 2017	0.04	0%	86%	1.32%	5 yrs
	10,522,429							

The Company has recorded $552,979 (2012 - $623,841) as compensation expense and credited shareholders' equity as part of reserves for the 10,522,429 (2012 - 2,819,528) options vesting to directors, officers and employees during the year.

Stock options granted to non-employees vested during the year ended March 31, 2013 as follows:

Grant Date	# of Options Vested	Exercise Price $	Expiry Date	Fair Value Of Options $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
July 27, 2011	16,355	0.37	July 27, 2013	0.03	0%	86%	1.02%	1.5 yrs
January 18, 2012	123,341	0.17	January 18, 2017	0.03	0%	90%	1.44%	4 yrs
	139,696							

The Company has recorded $11,280 (2012 - $44,775) as compensation expense and credited shareholders' equity as part of reserves for the 139,696 (2012 - 346,692) options vesting to non-employees during the year.

Option pricing models require highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

On November 3, 2012, 775,000 options were cancelled ranging in exercise prices from $0.17 to $0.38.

(d) Shares subject to escrow or hold periods

On December 14, 2012, 855,000 of the Company's issued and outstanding common shares were released that were previously subject to an escrow agreement. There are no issued and outstanding common shares that are subject to an escrow agreement.

(e) Private placement

During the year ended March 31, 2013, the Company closed a non-brokered private placement for gross proceeds of $2.8 million by issuing 56,000,000 units at a price of $0.05 per unit. Each unit consists of one common share and one half of one common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.10 for a period of 24 months following the closing of the private placement. The Units are subject to a four month hold period. Pursuant to the private placement, cash commission of $258,950 was paid by the Company. (Note 7)

During the year ended March 31, 2012, the Company closed a non-brokered private placement for gross proceeds of $480,090 by issuing 2,824,059 flow-through units at a price of $0.17 per unit. Each unit consists of one flow-through common share and one half of one share purchase warrant with each whole warrant entitling the holder to acquire one additional common share at a price of $0.22 per share for a period of one year from closing. Pursuant to the private placement, cash commissions totalling $12,512 were paid to finders. As at March 31, 2012, flow-through proceeds of $480,090 were fully expended.

(f) Shares issued on property acquisitions

Property	# of shares issued March 31, 2013	March 31, 2012
Red Wine - Ten Mile Lake	-	30,000
Red Wine - Zimtu	-	500,000
Red Wine - Mann#1, Two Tom Lake	100,000	135,000
Springer - Zimtu	800,000	500,000
	900,000	1,165,000

7. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the years ended March 31, 2013 and March 31, 2012:

Payee	Description of Relationship	Nature of Transaction	March 31, 2013 Amount $	March 31, 2012 Amount $
Stares Contracting Corp.	Company controlled by Michael Stares, Director and Officer and Stephen Stares, Director	Payments for equipment rentals, supply of labour and reimbursement of exploration expenditures, and premises rental	57,277	111,164
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	114,198	35,975
Eastrock Exploration Inc.	Company controlled by former director Wayne Reid	Payments for geological consulting services and reimbursement of exploration expenditures	9,735	56,850
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	77,400	164,450
Benton Resources Corp.	Company related by common directorships and a common officer	Payments for shared office costs and advertising and promotion	6,713	8,380
Canadian Horizon Capital Corporation	Company controlled by Tracy A. Moore, President and CEO	Cash commission in connection with private placement	258,950	-
CEC Rare Earth Corporation	Company related by common directorships	Fees for consulting services	167,045	-
Moore Consulting Services Inc.	50% of Company owned by Tracy A. Moore, President & CEO	Fees for services as President and CEO	35,000	-

The purchases from and fees charged by the related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included as payable to related parties in accounts payable and accrued liabilities is $67,339 (2012 - $10,536) to Gordon J. Fretwell Law Corporation, $2,034 (2012 - $23,703) to Stares Contracting Corp., $9,502 (2012 - $nil) to Michael Stares, $nil (2012 - $8,136) to Felix Geo-Consultants, $nil (2012 - $5,255) to Eastrock Exploration, and $nil (2012 - $2,839) to Benton Resources Corp. The payment terms are similar to the payment terms of non-related party trade payables.

During 2013, the Company paid fees to a former director totaling $2,500 (2012 - $10,000) for services rendered as Chair of the Company's Audit Committee.

Key management personnel remuneration during the year ended March 31, 2013 included $382,103 (March 31, 2012 - $470,305) in salaries and benefits and $294,212 (March 31, 2012 - $465,114) in share-based payments. During the year ended March 31, 2013, property and equipment with a net book value of $116,210 was transferred to the previous President & CEO pursuant to a severance agreement between the Company and former CEO. This amount has been included in wages and benefits in the statement of loss and comprehensive loss.

8. Capital Disclosures

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern;
- To raise sufficient capital to finance its exploration and evaluation activities on its mineral exploration properties; and
- To raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it based on the general economic conditions, its short-term working capital requirements, and its planned exploration and evaluation program expenditure requirements. The Company may increase its capital by issuing flow-through or non-flow-through common shares, or by obtaining additional financing.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirements. These budgets are approved by management and updated for changes in the underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the year.
In order to maintain or adjust the capital structure, the Company considers the following:

i. Incremental investment and acquisition opportunities;
ii. Equity and debt capital available from capital markets;
iii. Equity and debt credit that may be obtainable from the marketplace as a result of growth in mineral reserves;
iv. the sale of assets;
v. limiting the size of the exploration programs; and
vi. new share issuances if available on favourable terms.

Except as otherwise disclosed, the Company is not subject to any external financial covenants at March 31, 2013.

9. Risk Management

The Company's financial instruments are exposed to certain risks, including credit risk, liquidity risk, interest rate risk and market risk.

a) Credit Risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash, investments and receivable amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

i) Trade credit risk

The Company is in the exploration stage and has not yet commenced production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

ii) Cash and short-term investments

In order to manage credit and liquidity risk the Company's cash and short-term investments are held through large Canadian Financial Institutions. Staking security deposits are held by the Government of Newfoundland.

iii) Derivative financial instruments

As at March 31, 2013, the Company had no derivative financial instruments.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities.

Accounts payable and accrued liabilities are due within the current operating period.

c) Interest rate risk

The Company's interest revenue earned on cash and or short-term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk. The Company's exposure to interest rate risk is very low as the Company's short-term investments are fully liquid.

The Company limits its exposure to interest rate risk as it invests only in short-term investments at major Canadian financial institutions.

d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of currency risk, interest rate risk, and other price risk. The Company currently does not have any financial instruments that would be impacted by changes in market prices.

e) Fair value of financial instruments

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short term nature and capacity for prompt liquidation.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets, which are measured at fair value as at March 31, 2013 and March 31, 2012:

	As at March 31, 2013		
	Level 1	Level 2	Level 3
	$	$	$
Cash	117,793	-	-
Short-term investments	3,400,000	-	-
	3,517,793	-	-

	As at March 31, 2012		
	Level 1	Level 2	Level 3
	$	$	$
Cash	71,860	-	-
Short-term investments	2,169,517	-	-
	2,241,377	-	-

10. Supplemental Cash Flow Information

The following transactions did not result in cash flows and have been excluded from operating, financing and investing activities in consolidated statements of cash flows:

	March 31, 2013	March 31, 2012
	$	$
Non-cash financing activities		
Common shares issued pursuant to property agreements	55,000	350,950
Non-cash investing activities		
Common shares issued pursuant to property agreements	(55,000)	(350,950)

11. Commitments

The Company has commitments as described in Note 4 with respect to certain agreements on its mineral property interests; however, such future payments remain entirely at the Company's option and only if it intends to maintain its interest in a particular property.

During 2010, the Company entered into lease agreements for the use of two automobiles for 36 month periods, expiring January 12, 2013 and January 26, 2013. The Company entered into a lease agreement for the use of a photocopier for 48 months, expiring January 2, 2014.

During the year ended March 31, 2012, the Company terminated one of the lease agreements for the use of an automobile.

During the year ended March 31, 2013, the Company terminated the remaining lease agreement for the use of an automobile.

The Company's consulting agreement with CEC Rare Earth Corp. ("REC"), where the Company pays $25,000/month to REC for consulting services, may be terminated with three months' notice. Based on this required notice, the Company has a commitment to pay three months of fees totalling $75,000 to REC in the future.

12. Income Taxes

The provision for income taxes differs from the amount that would have resulted by applying combined federal and provincial statutory rates of 26.50% (March 31, 2012 – 26.13%) to the Company's loss before income taxes.

A reconciliation of income taxes at statutory rates is as follows:

	2013	2012
	$	$
Net loss for the year before tax recovery	(1,898,402)	(5,572,355)
Expected income tax recovery	(503,077)	(1,455,778)
Net adjustment for deductible and non-deductible amounts	169,451	761,292
Unrecognized benefit of non-capital losses	333,626	694,486
Total income tax	-	-

The significant components of the Company's deferred income tax liabilities are as follows:

	2013	2012
	$	$
Deferred income tax assets:		
Mineral property, equipment, and share issue costs	2,111,455	1,792,606
Non-capital loss carryforwards	1,708,000	1,750,750
Net deferred tax assets	3,819,455	3,543,356
Valuation allowance	(3,819,455)	(3,543,356)
	-	-

The Company has non-capital losses available for deduction against future years' taxable income amounting to $6,832,000. The Company has not recognized any future benefit for these tax losses, as it is not considered likely that they will be utilized. If unused, these tax losses will expire as follows:

Year		Amount
2014	$	25,000
2015		34,000
2026		262,000
2027		506,000
2028		721,000
2029		1,071,000
2030		571,000
2031		1,154,000
2032		1,230,000
2033		1,258,000
	$	6,832,000

13. Subsequent Events (Events after the Reporting Period)

On April 12, 2013, the Company entered into a consulting agreement with Nick Vermeulen to head the Company's initiative to find and secure a site in the United States for the construction and operation of a full spectrum rare earth refinery. The initial term of this contract is three months and can be extended to up to four years in stages based on the accomplishment of certain objectives within specified timeframes. Compensation to be paid pursuant to this agreement includes a $5,000/month retainer, potential cash bonuses of up to $305,000, and vesting of up to 1,000,000 five-year share purchase options exercisable at $0.10/option in proportion to the cash bonuses received. 25% of these options vested at the grant date and an additional 25% vest every six months thereafter for up to eighteen months.

As of July 24, 2013, Nick Vermeulen has achieved two milestones and as a result has earned 16,394 share purchase options of the 25% that vested immediately on the grant date.

On May 2, 2013, the Company signed a letter of intent for the purchase 140 acres of land in Washington State for the potential construction of a rare earth refinery. The asking price for this land is $50,000/acre, and the final purchase price is subject to negotiation with the vendor. The Company paid a US$50,000 refundable deposit at the execution date; a second US$50,000 refundable deposit (paid) was due 60 days from the date of execution as ratification of the intent to purchase the land, and a third refundable deposit of US$100,000 is due 180 days after the execution date if the Company chooses to extend the initial 180-day due diligence period by another 180 days (payment of this third deposit will render the initial US$50,000 deposit non-refundable).