CANADA RARE EARTH CORP.

Consolidated Annual Financial Statements

(Stated in Canadian Dollars)

For the year ended March 31, 2018

CANADA RARE EARTH CORP.

March 31, 2018

DeVISSERGRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canada Rare Earth Corp.,

We have audited the accompanying consolidated financial statements of Canada Rare Earth Corp., which comprise the consolidated statements of financial position as at March 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, 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.

Auditor's 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. as at March 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the financial statements, which indicates the Company has limited working capital, limited 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 2, 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 PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
July 27, 2018

CANADA RARE EARTH CORP.
Consolidated Statements of Financial Position

As at	Note	March 31 2018 $	March 31 2017 $
ASSETS			
Current			
Cash		1,502,098	45,599
Accounts receivable		-	62,420
Interest and other receivables	10	17,192	21,414
Prepaid expenses and deposits		323,113	179,235
Total current assets		1,842,403	308,668
Non-current			
Intangible assets	8	139,262	208,892
Mata Azul participation right	10	1	38,548
Promissory note	9	1	1,595,880
Interest receivable on promissory note	9	-	42,621
		139,264	1,885,941
Total assets		1,981,667	2,194,609
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13	307,092	143,836
Convertible note	11	410,436	-
Derivative liability – warrants	11	459,900	-
Deferred revenue	15, 17	617,515	-
Loan	12	-	66,495
Loans, related parties	13	-	94,423
Total current liabilities		1,794,943	304,754
Non-current			
Accounts payable and accrued liabilities	13	250,000	-
Convertible note	11	516,622	-
Derivative liability – warrants	11	197,100	-
		963,722	-
Total liabilities		2,758,665	304,754
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	14	14,823,754	14,823,754
Reserves	14	8,009,100	7,868,329
Deficit		(23,609,852)	(20,802,228)
Total shareholders' equity (deficiency)		(776,998)	1,889,855
Total liabilities and shareholders' equity/deficiency		1,981,667	2,194,609

Note 2 c) – Going concern of operations
Note 19 – Commitments and contingent liabilities
Note 22 – Events after the reporting period

On behalf of the Company:

"Tracy A. Moore" Director — Tracy A. Moore

"Peter Shearing" Director — Peter Shearing

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

CANADA RARE EARTH CORP.
Consolidated Statements of Loss and Comprehensive Loss

Year ended March 31	Note	2018 $	2017 $
Revenue	20	1,756,486	160,615
Expenses			
Cost of sales	6, 8, 13, 19	1,649,358	114,413
Consulting fees	13	775,692	174,500
Advertising and promotion		12,859	5,644
Listing, filing and transfer agent		22,784	19,541
Office and miscellaneous	13	16,694	28,320
Professional fees	13	36,509	41,263
Rent	19	39,291	31,503
Share-based payments	13	140,771	41,094
Travel and accommodations	13	81,012	46,818
Wages and benefits		-	39,391
		2,774,970	542,487
Loss before other items		(1,018,484)	(381,872)
Other income (expense)			
Write-off of exploration and evaluation assets	7	(9,632)	(9,632)
Write-down of promissory note receivable	9	(1,547,279)	-
Write-down of interest receivable on promissory note	9	(95,694)	-
Write-down of loan receivable from Mata Azul	10	(19,594)	-
Impairment of Mata Azul participation right	10	(38,547)	-
Impairment of intangible assets	8	(9,947)	(3,979)
Foreign exchange gain	9, 10	6,881	35,668
Change in fair value of derivative liability	11	9,000	-
Interest expense	11	(141,498)	-
Interest and investment income	9, 10	57,170	34,127
Gain on sale of exploration and evaluation assets	7	-	10,000
Net loss and comprehensive loss for the year		(2,807,624)	(315,688)
Loss per share – basic and diluted per common share	21	(0.02)	(0.00)
Weighted average shares outstanding, basic and diluted		166,940,141	166,940,141

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

CANADA RARE EARTH CORP.
Consolidated Statements of Changes in Equity (Deficiency)

	Share capital		Reserves	Deficit	Total
	Number of shares	Share capital			
		$	$	$	$
Balance at March 31, 2016	166,940,141	14,823,754	7,827,235	(20,486,540)	2,164,449
Share-based payments	-	-	41,094	-	41,094
Loss and comprehensive loss for the year	-	-	-	(315,688)	(315,688)
Balance at March 31, 2017	166,940,141	14,823,754	7,868,329	(20,802,228)	1,889,855
Share-based payments	-	-	140,771	-	140,771
Loss and comprehensive loss for the year	-	-	-	(2,807,624)	(2,807,624)
Balance at March 31, 2018	166,940,141	14,823,754	8,009,100	(23,609,852)	(776,998)

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

CANADA RARE EARTH CORP.
Consolidated Statements of Cash Flows

Year ended March 31	Note	2018 $	2017 $
Cash flows provided by (used in):			
Operating activities			
Net loss and comprehensive loss for the year		(2,807,624)	(315,688)
Adjustments for:			
Accretion of convertible note		93,058	-
Share-based payments		140,771	41,094
Change in fair value of derivative liability		(9,000)	-
Write-off of exploration and evaluation assets		9,632	9,632
Write-down of promissory note		1,547,279	-
Write-off of interest receivable on promissory note		95,694	-
Write-down of loan receivable from Mata Azul		16,116	-
Write-off of interest receivable from Mata Azul		3,478	-
Impairment of Mata Azul participation right		38,547	-
Impairment of intangible assets		9,947	3,979
Gain on sale of exploration and evaluation assets		-	(10,000)
Amortization		59,683	19,894
Unrealized foreign exchange (gain) loss on promissory note		48,600	(37,440)
Unrealized foreign exchange (gain) loss on interest receivable on promissory note		2,928	(655)
Unrealized foreign exchange gain on loan receivable from Mata Azul		(506)	-
Interest accrued on promissory note		(56,001)	(31,661)
Changes in non-cash working capital items:			
Foreign exchange (gain) loss on cash		(70,574)	6,210
Accounts receivable		62,420	(62,420)
Interest and other receivables		(14,866)	(3,482)
Prepaid expenses and deposits		(143,878)	(170,201)
Accounts payable and accrued liabilities		413,256	117,790
Unearned rights option fee		617,515	-
Cash flows provided by (used in) operating activities		56,475	(432,948)
Financing activities			
Convertible note issued		1,500,000	-
Loan		-	66,495
Repayment of loan		(66,495)	-
Loans, related parties		150,384	94,423
Repayment of related party loans		(244,807)	-
Cash flows provided by financing activities		1,339,082	160,918
Investing activities			
Proceeds on sale of exploration and evaluation assets		-	10,000
Acquisition of exploration and evaluation assets		(9,632)	(9,632)
Cash flows provided by (used in) investing activities		(9,632)	368
Effect of exchange rate changes on cash		70,574	(6,210)
Change in cash during the year		1,456,499	(277,872)
Cash, beginning of year		45,599	323,471
Cash, end of year		1,502,098	45,599

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

1. Corporate Information

Canada Rare Earth Corp. ("Canada Rare Earth" or the "Company"), was incorporated under the laws of British Columbia on July 8, 1987. The Company is a development stage company developing a vertically and horizontally integrated business within the global rare earth industry. Historically, the Company was engaged in the exploration and development of precious metal and base metal mineral properties. More recently, its focus has been directed to properties with the potential to host rare earth elements. As the Company has become more involved in the rare earth sector and has gained greater knowledge of the global rare earth supply chain, management's attention has extended to the down-stream processing and sale of rare earth products. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "LL".

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern (see note 2c).

The address of the Company's corporate office and principal place of business is 15th Floor – 1040 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4H1.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements for the year ended March 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee.

The Company's board of directors approved the release of these consolidated financial statements on July 27, 2018.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and at fair value through profit or loss ("FVTPL"). The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

c) Going concern of operations

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of $2,807,624 during the year ended March 31, 2018 (March 31, 2017 - $315,688) and, as of that date, the Company's deficit was $23,609,852 (March 31, 2017 - $20,802,228). The Company is dependent on its ability to raise additional debt, equity or general revenues to raise sufficient cash resources to meet its current financial obligations and plans including establishing an integrated business within the rare earth industry. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. The Company had cash of $1,502,098 at March 31, 2018 (March 31, 2017 – $45,599) to meet current financial obligations of $1,177,428 (March 31, 2017 - $304,754).

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

3. Significant Accounting Policies

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: REM Metals Corp., an Ontario corporation; CREC South American Holdings Corp., a British Columbia corporation; and CanBras Minerals Ltda., a Brazilian corporation 100% owned by CREC South American Holdings Corp.

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

b) 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.

c) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on receipt of payment.

Option fees

Option fees received for granting the right to acquire a percentage of the equity of a company owning a rare earth refinery are recognized as revenue at the earliest to occur of (i) the Company earning the right to acquire the equity being optioned and (ii) the date on which a similar option for the next available refinery is granted.

3. Significant Accounting Policies (continued)

d) Impairment

At each statement of 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 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.

e) 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.

f) 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, the sale of oxides and rare earth concentrate. Currently, substantially all sales are made to a company in Asia.

g) Operating expenses

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

h) Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan for its employees, directors and consultants. The Company's plan does not 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

3. Significant Accounting Policies (continued)

h) Share-based payment transactions (continued)

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.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term investments and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. At March 31, 2018 and 2017, the Company did not have any cash equivalents.

j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of loss and comprehensive loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of loss and comprehensive loss when the asset is derecognized.

During the year ended March 31, 2018, the Company changed the amortization method used for contracts and customer relationships from a straight-line basis over the period of expected future benefit to a straight-line basis over three years.

3. Significant Accounting Policies (continued)

j) Intangible assets (continued)

A summary of the policies applied to the Company's intangible assets is as follows:

	Supply Agreement	Contracts	Customer Relationships
Useful lives	Finite	Finite	Finite
Amortization method used	Amortized on a straight-line basis over five years	Amortized on a straight-line basis over three years	Amortized on a straight-line basis over three years

k) 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.

l) 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 miscellaneous' or 'interest and investment income'.

i) 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 promissory note, deposits and trade and most other receivables fall into this category of financial instruments.

3. Significant Accounting Policies (continued)

l) Financial assets (continued)

ii) 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 falls 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.

iii) 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.

iv) Available for sale financial assets

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 currently does not hold any financial assets designated into this category.

m) Financial liabilities

The Company's financial liabilities include trade and other payables, convertible note and loans.

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 miscellaneous' or 'interest and investment income'.

n) Derivative liability

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. This accounting treatment requires that the carrying amount of embedded derivatives be marked-to-market at each statement of financial position date and carried at fair value. In the event that the fair value is recorded as a liability, the change in fair value during the period is recorded in the statement of loss as either income or expense. Upon conversion, exercise or modification to the terms of a derivative instrument, the instrument is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of financial instruments, including whether such instruments should be recorded

3. Significant Accounting Policies (continued)

n) Derivative liability (continued)

as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the statement of financial position as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the balance sheet date.

Management must determine whether an instrument (or an embedded feature) is indexed to the Company's own shares. An entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own shares, including evaluating the instrument's contingent exercise and settlement provisions. This exercise affects the accounting for (i) certain freestanding warrants that contain exercise price adjustment features and (ii) convertible notes containing full-ratchet and anti-dilution protections (iii) certain free standing warrants that contain contingently puttable cash settlement.

o) 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.

4. Adoption of New Accounting Pronouncements and Recent Developments

Standards, amendments and interpretations not yet effective

a) IFRS 9 Financial Instruments

As part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- deals with classification and measurement of financial assets;
- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset; and
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

This Standard is to be adopted for accounting periods beginning or after January 1, 2018, with early adoption permitted. The Company will adopt IFRS 9 on April 1, 2018, and has determined that the adoption of IFRS 9 will not have a material impact on the Company’s financial statements.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2015 and specified how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The Company will adopt IFRS 15 on April 1, 2018.

The Company must apply the following five steps to all contracts to determine when and what amount of revenue to recognize:

- Identify the contract with a customer;
- Identify the performance obligations;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognize revenue

Revenue will either be recognized over time or at a point in time, when control transfers to the customer. Detailed and extensive quantitative and qualitative disclosure about the revenue recognition process is also required.

4. Adoption of New Accounting Pronouncements and Recent Developments (continued)

c) IFRS 16 Leases

IFRS 16 was issued in January 2017 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

IFRS 16 is applicable to all leases, including leases of "right-of-use assets" in a sublease. As disclosed in Note 19, the Company is both a lessee and lessor of commercial office property pursuant to sublease agreements. On April 1, 2019, the date of initial application, the Company must apply IFRS 16 either (i) retrospectively to each prior period presented in the financial statements or (ii) retrospectively with the cumulative effect of initial application being recognized as an adjustment to opening deficit without restatement of comparative information. Under option (ii), the lease liability and right-of-use asset to be recognized on the statement financial position at the date of initial application are measured as follows:

- lease liability – at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at the date of initial application; and
- right-of-use asset – at either (i) its carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or (ii) an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application.

Under option (ii), applicable disclosures under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are required.

The Company does not expect to early adopt standards, amendments, and interpretations not yet effective.

5. Critical Accounting Judgements, 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:

Critical Judgments

Going concern of operations

Management has made the determination that the Company will continue as a going concern for the next year.

Intangible assets

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may

5. Critical Accounting Judgements, Estimates and Assumptions (continued)

change if new information becomes available. If, after an intangible asset is capitalized, information becomes available suggesting that the recovery of the value of the asset is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

Significant Estimates and Assumptions

Convertible note / Derivative liability

Management has made significant assumptions in the application of the Black-Scholes option-pricing model when calculating the fair value of the derivative liability and the residual fair value of the convertible note.

6. Acquisition of CEC Rare Earth Corp. Assets

In September 2015, the Company acquired assets from CEC Rare Earth Corp. ("REC"), an affiliated private British Columbia company.

Consideration paid and payable for the acquired assets is as follows:

a) Common Shares – the Company issued 24,178,000 common shares subject to an escrow provision over 18 months.

b) Royalty Streams – the Company will pay three royalty streams, for the implementation and execution of contracts and business arrangements and the disposition of the assets acquired by the Company, as follows:

- *Royalty Stream A* – a royalty stream consisting of 5% of the first US$70 million or equivalent of non-refundable gross cash collected;
- *Royalty Stream B* – for a period of 12 years from closing, a royalty stream consisting of 5% of the non-refundable gross cash collected plus 10% of dividends received from equity ownership in rare earth businesses derived from the acquired assets. For a period of three years from closing, the Company retains the right to buy out the obligation for payments of this royalty stream and dividends for the amount of US$15 million less 50% of payments previously made pursuant to this royalty stream.
- *Royalty Stream C* – a royalty stream consisting of 3% of the first US$70 million or equivalent of non-refundable gross cash collected. For a period of two years from closing, the Company has the right, subject to shareholder and/or regulatory approval, to purchase or otherwise cancel this royalty stream by issuing 15,712,000 escrow shares to REC's major shareholder.

Effective August 31, 2016, the Company and REC entered into a Clarification Agreement for the purpose of calculating the royalty on trading activities. The royalty on trading activities is 13% of gross profit, with gross profit being defined as gross selling price less gross purchase price in $CDN.

As agreed between the Company and REC, the unearned rights option fee received is not considered to be "gross cash collected" for the purpose of royalty calculation.

For the year ended March 31, 2018, the Company accrued $28,696 (2017 - $9,876) of royalties payable to former shareholders of REC, reflected in the cost of sales.

7. Exploration and Evaluation Assets

Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

During the year ended March 31, 2018, and March 31, 2017, the Company did not incur any exploration expenditures and wrote off all capitalized acquisition costs.

During the year ended March 31, 2018, the Company allowed all the claims relating to the Springer property and 11 claims relating to the Red Wine Complex to lapse. As of March 31, 2018, the Company held an interest in the Red Wine Complex and Hinton Coal properties. The Company is seeking business opportunities for all its existing exploration and evaluation assets.

During the year ended March 31, 2017, the Company sold the Clay-Howells property for a one-time payment of $10,000.

8. Intangible Assets

	Supply Agreements $	Contracts $	Memorandum Of Understanding $	Customer Relationships $	Total $
Cost					
At March 31, 2016, and March 31, 2017	99,472	29,842	3,979	99,472	232,765
Accumulated amortization and impairment					
At March 31, 2016	-	-	-	-	-
Amortization expense	19,894	-	-	-	19,894
Impairment provision	-	-	3,979	-	3,979
At March 31, 2017	19,894	-	3,979	-	23,873
Amortization expense	19,894	6,632	-	33,157	59,683
Impairment provision	-	9,947	-	-	9,947
At March 31, 2018	39,788	16,579	3,979	33,157	93,503
Net book value					
At March 31, 2016	99,472	29,842	3,979	99,472	232,765
At March 31, 2017	79,578	29,842	-	99,472	208,892
At March 31, 2018	59,684	13,263	-	66,315	139,262

Supply Agreements

The Company has supply agreements to sell rare earth concentrate to refineries held by the Company's partners.

Contracts

The Company acquired a design, build and operating agreement to build a 3,000 tons per annum rare earth refinery. The contract was partially executed (phase 1 of 3 complete) but was halted for lack of payment by the contracting party and a drop in the rare earth prices that made the project uneconomical. The project is currently on hold and may be restarted if the rare earth market recovers sufficiently.

8. Intangible Assets (continued)

Customer Relationships

The Company has acquired relationships with customers in the rare earth market that were developed by REC.

Amortization expense of $59,683 (2017 - $19,894) is included in cost of sales.

9. Promissory Note

In September 2013, the Company acquired a 15% interest (2,348,147 common shares) in a private Delaware company ("Delaware Co."). Delaware Co. is a mineral exploration and exploitation company. The Master Agreement comprised a Common Stock Purchase Agreement ("CSPA") and a Land Lease Agreement ("LLA"). Pursuant to the CSPA, the Company paid US$1,100,000 ($1,141,720) for its 15% interest and was provided with a 25 year lease of 15 acres of deeded land in accordance with the LLA. Pursuant to the LLA, the Company was granted an option to renew the lease for an additional consecutive 25 years. For the purposes of the LLA, the US$1,100,000 investment was considered to represent a pre-payment of rent for the initial 25 year period of the lease.

On December 1, 2015, the Company entered into the CREC Stock Purchase Agreement ("SPA"). Pursuant to the SPA, Delaware Co. repurchased the Company's 15% interest for gross proceeds of US$1,200,000 ($1,604,640) resulting in a gain on sale of its long-term investment of $462,920. The gross proceeds are secured by a US$1,200,000 promissory note. The promissory note bears interest at 2% per annum for the first 24 months and 6% per annum for the final 12 months. The principal balance plus accrued interest is due on or before November 30, 2018. Pursuant to the SPA, the lease and lease option were cancelled. The Company, in its sole discretion, has the right to extend the maturity date in the event Delaware Co. fails to pay on a timely basis. If Delaware Co. defaults, the Company has the right and option to either extend the promissory note on its current terms or reinstate the equity investment in Delaware Co., any company that owns, directly or indirectly, the deeded land or any entity affiliated with any of these companies. The equity investment shall be US$1,200,000 plus interest accrued on the promissory note converted at a 10% discount to the lowest priced issuance of shares by that entity in the past 24 months. In addition, the lease and lease option shall be reinstated with an extension for the lease term equal to the duration of the period of time the promissory note was outstanding.

On April 10, 2017, the Company entered into a restructuring agreement (the "2017 Restructuring Agreement") with Delaware Co. to convert the promissory note into shares of two private Haitian companies and one private US company once certain conditions are met.

During the year ended March 31, 2018, it was determined that collectability of the promissory note is uncertain and, accordingly, the promissory note was written down to $1 at March 31, 2018 and the related accrued interest receivable was written off.

See Note 22.

10. Mata Azul Participation Right

In July 2014, the Company paid US$35,000 ($38,548) to Mineracao Mata Azul S.A. ("Mata Azul") and entered into a long-term rights agreement to purchase all of the rare earth concentrate to be produced from the Mata Azul property. Pursuant to the longer term supply/sales agreement, the Company has the right but not the obligation to purchase all of the rare earth concentrate produced from the Mata Azul property. The duration of the agreement is for 20 years commencing with production plus automatic extensions under certain situations.

During the year ended March 31, 2018, it was determined that recoverability of the participation right and collectability of the US$12,500 loan advanced in November 2014 are uncertain. Accordingly, the participation right and the loan were each written down to $1 at March 31, 2018 and the related accrued interest receivable was written off.

11. Convertible Note

On January 1, 2018, the Company entered into a Convertible Loan Agreement (the "CLA") with Talaxis Limited ("Talaxis" or the "Lender") pursuant to which Talaxis advanced $1,500,000 to the Company on January 30, 2018 (the "Advance Date") for the purpose of providing working capital. Pursuant to the CLA, the loan:

- is comprised of two tranches – tranche A ($800,000) due and payable 12 months after the Advance Date and tranche B ($700,000) due and payable 24 months after the Advance Date;
- bears interest at 12% per annum, payable semi-annually, not in advance, accruing without compounding until the maturity date with the first interest payment being due six months after the Advance Date and the final payment of the relevant tranche being made on the maturity date;
- is unsecured and evidenced by the CLA and a convertible promissory note; and
- is repayable or convertible into units and common shares of the Company at the Lender's sole discretion as follows:
    - tranche A loan – the first $300,000 is convertible into units at $0.05 per unit and the next $500,000 at $0.075 per unit during the first 12 months of the Advance Date or must be repaid in full on the 12 month after the Advance Date (see Note 22); and
    - tranche B loan – the first $533,333 is convertible into units at $0.10 per unit and the next $166,667 at $0.10 per share unit during the first 24 months of the Advance Date or must be repaid in full on the 24 month after the Advance Date.

Each unit is comprised of one common share of the Company plus one half of a warrant. Each share purchase warrant is exercisable at the greater of (i) $0.10 and (ii) the 10-day value weighted average price of the Company's common shares on the TSX Venture Exchange less 15%, for a period of 30 months from the Advance Date.

Upon providing the Lender with 15 days written notice, the Company has the right to repay the loan at any time with minimum payments of $500,000 subject to the Lender's conversion rights in respect to the proposed repayment amount.

Pursuant to IFRS (*IAS 32 – Financial Instruments: Presentation*), the convertible promissory note is comprised of two components, being a liability host contract (the convertible note) plus a separate conversion feature. Because the conversion feature does not meet the "fixed-for-fixed" criterion, it fails equity classification which means that it is a financial liability. The conversion feature is a derivative liability because it is a written option that provides the Lender with a choice over whether the convertible note is exchanged for shares or cash. This links with the definition of a derivative in IAS 39 – *Financial Instruments: Recognition and Measurement* with all three characteristics of a derivative being met. The conversion feature is accounted for separately from the host contract, because the fair value of the conversion feature is affected by changes in the fair value of the Company's shares and the fair value of the host loan is not. Accordingly, the conversion feature is not "closely related" to the host contract. The effect of this is that the convertible note has been accounted for at amortized cost, with the embedded derivative being measured at fair value with changes in fair value being recorded in profit or loss. Pursuant to IAS 39, the fair value of the embedded derivative liability is calculated first and the residual value is assigned to the debt host liability component.

At inception, the proceeds of $1,500,000 were allocated between the fair value of the convertible note ($834,000) and the fair value of the derivative liability ($666,000). The convertible note is being accreted to its face value over the term of the obligation. The accretion charge for the year was $93,058 (2017 - $nil) and is recorded as interest expense. At March 31, 2018, $29,589 (2017 - $nil) in accrued interest is included in accounts payable and accrued liabilities. At March 31, 2018, the carrying amount of the convertible note was as follows:

11. Convertible Note (continued)

March 31	2018 $	2017 $
Convertible note issued	1,500,000	-
Fair value of derivative liability	(666,000)	-
Accretion	93,058	-
	927,058	-
Current portion	(410,436)	-
Long-term portion	516,622	-
Principal	1,500,000	-
Future accretion	(572,942)	-
Carrying amount	927,058	-

The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to calculate the fair value of the derivative liability:

	2018	2017
Volatility	228.71 – 229.50%	-
Expected life	2.33 – 2.50 years	-
Risk-free interest rate	1.71 – 1.76%	-
Dividend yield	0%	-

12. Loan

At March 31, 2018, the Company had a loan outstanding in the amount of $nil (2017 - US$50,000). The loan was repayable within three business days of the company attaining specific benchmarks.

13. Related Party Transactions

Key management personnel compensation was:

Year ended March 31	2018 $	2017 $
Short-term benefits (includes bonuses of $44,692; 2017 - $nil)	770,692	150,000
Share-based payments	134,322	25,550
	905,014	175,550

The short-term benefits were paid or accrued to management and directors of the Company or to companies controlled by management and directors.

The Board of Directors approved executive compensation plans (“ECPs”) for the Chief Executive Officer (“CEO”) and Chief Operating Officer (“COO”) of the Company for the years ended March 31, 2017 and 2018 in December 2017 and March 2018 respectively. Prior to the approval of the ECPs, the CEO and COO each received annual base compensation of $60,000. Pursuant to the ECPs, the base compensation was increased to $204,000. The retroactive increase in base compensation for the year ended March 31, 2017 is included in consulting fees for the current year.

13. Related Party Transactions (continued)

Each ECP has a one-year term, with the follow on ECP usually being negotiated and finalized prior to the expiry of, and being no less favourable than, the current one. Pursuant to the ECPs, the CEO and COO are entitled to the following bonus compensation:

- a performance bonus to a maximum of $156,000 based on achieving specified annual milestones approved by Board of Directors;
- a public market performance bonus to a maximum of $45,000 based on achieving specified levels of market capitalization;
- a minimum of 500,000 in stock options priced at market (but not less than $0.05 per share) vesting over 18 months; and
- additional bonuses at the discretion of the Board of Directors.

The Company also paid or accrued $117,777 (March 31, 2017 - $65,030) to certain officers and directors or to companies controlled by certain officers and directors for reimbursement of travel and other related expenses. Bonuses for the year ended March 31, 2018, are pursuant to an executive compensation plan effective for the one-year period ended March 31, 2018.

The Company also paid or accrued legal fees of $15,000 (March 31, 2017 - $8,700) to a company controlled by an officer of the Company. Also, $31,788 (March 31, 2017 - $31,898) of the office rental and related costs have been paid by the officer of the Company as per an agreement to share such expenses equally between the Company and the officer. See Note 19.

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 amount of consideration established and agreed to by the related parties.

The Company had $443,892 included in accounts payable and accrued liabilities that was payable to related parties as at March 31, 2018 (March 31, 2017 - $82,467). The payment terms are similar to the payment terms of non-related party trade payables. Of this amount, the CEO and COO have each agreed to defer payment of $125,000 in consulting fees until May 2019. Accordingly, $250,000 has been presented as long-term.

During the year ended March 31, 2018, the Company had loans outstanding in the amount of $nil (March 31, 2017 - US$71,000) to two directors of the Company. The amounts were unsecured, bearing interest at a rate of 6% per annum calculated daily and were due on demand.

14. Share Capital and Reserves

a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 166,940,141 (2017 – 166,940,141) common shares.

b) Stock Options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. In March 2017, the shareholders of the Company approved an increase in the number of options reserved for issuance under the plan to 33,880,028. The plan was amended so that the number of shares reserved for issuance is 20% of the Company's outstanding shares. The Company recognizes share-based payments 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.

In April 2016, the Company granted stock options to a director of the Company to purchase up to 300,000 common shares at an exercise price of $0.05 until April 4, 2021. The options vest in four equal instalments over 18 months.

In February 2017, the Company granted stock options to a consultant of the Company who later became a director to purchase up to 300,000 common shares at a price of $0.05 until February 17, 2022. The options vest in four equal instalments over 18 months.

In April 2017, the Company granted stock options to a consultant of the Company to purchase up to 100,000 common shares at a price of $0.05 until April 3, 2022. The options vest in four equal instalments over 18 months.

In December 2017, the Company granted stock options to officers, directors and consultants to purchase up to 7,925,000 common shares at an exercise price of $0.05 until December 4, 2022. The options vest in four equal instalments over eighteen months. Of these options, 2,800,000 options have additional 'earn out' vesting conditions.

The weighted average grant-date fair value of options awarded in the year ended March 31, 2018 was $0.03 (March 31, 2017 - $0.03). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

	2018	2017
Volatility	157.41% - 231.71%	149.82% - 162.34%
Expected life	5 years	5 years
Risk-free interest rate	1.10% - 1.94%	0.50% - 1.16%
Dividend yield	0%	0%

14. Share Capital and Reserves (continued)

b) Stock Options (continued)

A summary of stock option activity to March 31, 2018 is as follows:

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2016	23,750,000	0.09
Granted	600,000	0.05
Cancelled	(200,000)	0.10
Expired	(800,000)	0.17
Options outstanding at March 31, 2017	23,350,000	0.08
Granted	8,025,000	0.05
Expired	(14,925,000)	0.10
Options outstanding at March 31, 2018	16,450,000	0.05

The Company's outstanding and exercisable stock options at March 31, 2018 were:

	Outstanding Options			Exercisable Options	
Expiry Date	Number	Weighted Average Remaining Life	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
February 2020	250,000	1.88	0.05	250,000	0.05
July 2020	7,575,000	2.27	0.05	7,575,000	0.05
April 2021	300,000	3.01	0.05	300,000	0.05
February 2022	300,000	3.90	0.05	225,000	0.05
April 2022	100,000	4.01	0.05	50,000	0.05
December 2022	7,925,000	4.68	0.05	1,981,250	0.05
	16,450,000	3.48	0.05	10,381,250	0.05

15. Agreement to Purchase a Rare Earth Refinery

In May 2016, the Company entered into an agreement to purchase 60% of the issued and outstanding shares of a company based in Laos ("LaosCo"). LaosCo owns a full capability rare earth refinery that is designed to process rare earth concentrate and separate the concentrate into the entire spectrum of commercially traded rare earths including light and heavy elements. LaosCo's future development plans include extending operating capabilities and rare earth metal making.

In August 2017, the Company, LaosCo and the current owner of LaosCo entered into a Purchase and Sale Agreement (the "PSA") replacing all previous agreements between the parties pertaining to the refinery. Pursuant to the PSA:

i) the Company will continue to take responsibility for the application and issuance of the final operating permits ("FOPs") authorizing the operation of the refinery;

ii) if and when the FOPs are issued the Company will have earned:

   i) the right of first refusal to sell concentrate to LaosCo to the full extent of the refinery's requirements;

   ii) the right of first refusal to sell products produced by the refinery to the full extent of production; and

   iii) the right to purchase 60% of the issued and outstanding shares of LaosCo (the "CREC Option") for an amount and price of equity to be negotiated between the parties based on market conditions, capabilities of the refinery, working capital requirements of the refinery and the amount of funds raised by the Company.

iii) simultaneous with the permitting efforts, the Company will seek to raise between US$50 million and US$110 million to purchase LaosCo equity and to contribute to the working capital requirements through a special purpose vehicle so as to not dilute shareholders of the Company. After the purchase of the LaosCo shares, the shareholders of LaosCo will be required to contribute working capital to LaosCo for the operations of the refinery in proportion to their respective equity holdings; and

iv) the Company and its financiers will have six months from the receipt of the FOPs to complete negotiations for the purchase of the LaosCo shares, to pay for the LaosCo shares and to contribute to the working capital requirements.

In February 2018, the Company entered into a Rights Agreement (the "RA") with an arm's length company with an officer who is also a director of the Company (the "Investor Group") whereby the Company granted the Investor Group the exclusive right to acquire 83.33% of the CREC Option in consideration for a non-refundable option fee of US$500,000 ($617,515). Pursuant to the RA, if the Investor Group exercises its right it must, subject to the terms and conditions of the agreement noted below:

- raise working capital to support operations of the refinery with the assistance of the Company; and
- pay the entire amount required by the Company to exercise the CREC Option within five months of the issuance of the FOPs or as mutually agreed.

If the Investor Group successfully exercises its right, it will be granted a similar exclusive right for the next available refinery optioned to the Company. If that right is successfully exercised, then a similar follow on option will be granted. If the FOPs are not issued by August 31, 2018, the Company will grant the Investor Group a similar option for the next available refinery optioned to it.

The Company will recognize the non-refundable option fee as revenue on the earliest to occur of (i) the date of issuance of the FOPs and (ii) September 30, 2018.

The current owner of LaosCo, the Investor Group and the Company are negotiating a definitive agreement.

15. Agreement to Purchase a Rare Earth Refinery (continued)

As at March 31, 2018, the FOPs had not been issued.

The RA will terminate on the earliest of a written agreement to terminate, failure to close the transaction within five months of issuance of the FOPs or as mutually agreed, or upon notice to the defaulting party by the other party.

See Note 22.

16. 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 trading activities; 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 and its short-term working capital 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. 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, 2018.

17. 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, accounts receivable, deposits, promissory note and interest 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 monitors and controls its risks and exposures through financial and credit based systems and to a large extent through personal relationships and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is

17. Risk Management (continued)

a) Credit risk (continued)

i) Trade credit risk (continued)

subject. Credit is subject to ongoing management review.

ii) Cash

In order to manage credit and liquidity risk the Company's cash is held through a large Canadian financial institution.

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. At March 31, 2018, the Company had cash of $1,502,098 to meet current financial liabilities of $1,177,428. Deferred revenue is not a financial liability (see Note 15).

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

c) Interest rate risk

Interest rate risk pertains to interest income earned on the promissory note and a receivable. The Company actively manages its interest rate exposure, where possible. The interest rate on the Company's promissory note is at 2% per annum for the first 24 months and 6% per annum for the final 12 months. Interest on the receivable is at 6% per annum until the receivable has been repaid. At March 31, 2018, the receivable and the accrued interest are overdue (see Note 9).

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) Foreign currency exchange rate risk

The Company is exposed to foreign currency fluctuations as it has cash, prepaid expenses and deposits and promissory note denominated in US dollars. There are no exchange rate contracts in place. A 10% change in the US dollar will affect profit/loss by approximately $177,000.

Financial instruments denominated in foreign currencies are:

At March 31, 2018	US Dollars
Assets	1,393,384
Liabilities	18,516
Exchange rate / $1.00 =	.7756

At March 31, 2017	US Dollars
Assets	1,458,924
Liabilities	125,270
Exchange rate / $1.00 =	.7519

17. Risk Management (continued)

f) Risk of economic dependency

The Company is reliant on one customer for the majority of its sales of rare earth concentrate. If the Company's relationship is impaired with this customer, it would have an adverse impact on the Company's business.

g) Fair value of financial instruments

The fair value of the Company's financial assets and liabilities, excluding the convertible note and derivative liability – warrants, approximates the carrying amount due to their short term nature and capacity for prompt liquidation. See Note 11 for the fair value of the derivative liability - warrants. Deferred revenue is not a financial liability.

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 and liabilities which are measured at fair value as at March 31, 2018 and March 31, 2017:

	As at March 31, 2018		
	Level 1 $	Level 2 $	Level 3 $
Cash	1,502,098	-	-
Derivative liability - warrants	-	-	657,000

	As at March 31, 2017		
	Level 1 $	Level 2 $	Level 3 $
Cash	45,599	-	-

There were no transfers between Level 1, 2 or 3 during the years ended March 31, 2018 and March 31, 2017.

18. Income Taxes

a) Provision for current tax

No provision has been made for current income taxes, as the Company has no taxable income

b) Provision for deferred tax

As future taxable profits of the Company are uncertain, no deferred tax asset has been recognized. As at March 31, 2018, the Company has unused non-capital loss carry forwards of approximately $9,900,000 (2017 – $9,139,000) expiring from 2026 to 2038 available for deduction against future years' taxable income. In addition, the Company has approximately $11,351,000 (2017 – $11,341,000) of resource tax pools available, which may be used to shelter certain resource income. The Company has not recognized any future benefit for these tax losses, as it is not considered likely that they will be utilized.

18. Income Taxes (continued)

b) Provision for deferred tax (continued)

The provision for income taxes differs from the amount that would have resulted by applying combined federal and provincial statutory rates of 27.00% (March 31, 2017 – 26.00%) to the Company's loss before income taxes. A reconciliation of income taxes at statutory rates is as follows:

	2018 $	2017 $
Net loss for the year before tax recovery	(2,807,624)	(315,688)
Expected income tax recovery	(758,058)	(82,079)
Net adjustment for deductible and non-deductible amounts	538,552	(652)
Capital gains reserve	46,292	46,292
Unrecognized benefit on non-capital losses	173,214	36,439
Total income tax	-	-

19. Commitments and Contingent Liabilities

On December 7, 2015 the Company entered into a commercial property lease expiring April 29, 2021. The future minimum rental payments under the non-cancellable operating lease at March 31, 2018 are:

Year ending March 31	$
2019	62,292
2020	66,864
2021	67,280
2022	5,607
	202,043

The Company has a written agreement with a related party to sublease to the related party 50% of this office space. The related party will split premises costs on a 50/50 basis with the Company for the duration of the lease. Each party pays its 50% share.

The Company has a commitment to pay US$20/ton to a maximum of 30,000 tons as finders' fee for rare earth concentrate sourced from a certain entity.

Pursuant to the Company's contracts for the sale of concentrate to a rare earth company in Asia, the buyer has the right to the following claims within 90 days and 12 months after arrival of the goods at destination based on an inspection certificate issued by the relevant government inspection authority:

- within 90 days – the right to claim for replacement with new goods or for compensation if the quality, specification or quantity is not in conformity with the contract; and
- within 12 months – as regarding quality based on the Company's guarantee that if damages occur in the course of operation as a result of inferior quality, bad workmanship or the use of inferior materials, the right to claim for immediate replacement of the defect, complete or partial replacement of the commodity, devaluation of the commodity according to the state of the defect(s) or, where necessary, elimination of the defects at the Company's expense.

20. Revenue

During the year ended March 31, 2017, the Company earned business development fees for procuring rare earth concentrate for a buyer in Asia and also from trading activities by purchasing rare earth concentrate from a supplier in Asia and selling the concentrate to buyers in North America and Europe.

During the year ended March 31, 2018, the Company's trading activities involved sourcing the rare earth concentrate from sellers to match the buyer's specifications. The Company has no commitments to its buyer or sellers other than operating under certain guidelines. The price of the rare earth concentrate is fully hedged at the onset of the purchase of each shipment.

Following is an analysis of Company's revenue for the years ended March 31, 2018 and 2017:

Year ended March 31	2018 $	2017 $
Revenue from sale of oxides and rare earth concentrate	1,756,486	93,175
Revenue from business development fee	-	67,440
	1,756,486	160,615

During the years ended March 31, 2018 and 2017, substantially all of the Company's revenue from the sale of oxides and rare earth concentrate was from one company in Asia.

21. Loss Per Share

Year ended March 31	2018	2017
Net loss for the year ($)	(2,807,624)	(315,688)
Weighted average number of common shares outstanding	166,940,141	166,940,141
Loss per share, basic and diluted ($ per share)	(0.02)	(0.00)

Basic loss per common share has been calculated using the weighted average number of common shares outstanding in each respective period. As the issue of shares upon the exercise of stock options and warrants would be anti-dilutive, diluted loss per common share is equivalent to basic loss per common share.

22. Events After the Reporting Period

a) In May 2018, the current owner of LaosCo, the Investor Group and the Company further documented their relationship regarding LaosCo through a term sheet (the Term Sheet") which supersedes all previous correspondence, agreements and understandings between the parties except for the RA and the PSA. Pursuant to the Term Sheet, the key terms were confirmed and certain requirements were modified or specified including:

- the Investor Group is to provide a certain amount of working capital within 30 and 60 days of the issuance of the FOPs;
- if the FOPs are not received by September 30, 2018, the Company, in addition to this transaction, will grant the Investor Group a similar right to purchase an interest in the next available refinery optioned to the Company; and
- the Term Sheet will remain in force until the earlier of (i) the execution of the definitive agreement, (ii) five months after the issuance of the FOPs and (iii) June 1, 2019.

See Note 15.

b) In June 2018, the Company issued to Talaxis 6 million common shares and 3 million warrants in consideration of Talaxis converting the first $300,000 of Tranche A under the convertible note (see Note 11).

22. Events After the Reporting Period (continued)

c) In July 2018, the Company entered into an agreement to revise the 2017 Restructuring Agreement (the "2018 Restructuring Agreement") based on details provided by management of Delaware Co. including estimated assumptions pertaining to mine life, ore recovery and sales over a six year period. Details of the latest restructuring include:

- converting the Company's position into a certain equity percentage of two companies which hold prospective gold, silver and copper properties;
- obtaining the right to receive a specified percentage of net profit interest received from the two prospective properties until US$1.3 million has been recouped and then receive distributions in proportion to its equity holdings; and
- reinstating the original land lease for 25 years with an option for a further 25 years on previously agreed terms, in the event the Company does not recover at least US$675,000 within two years from commencement of commercial mining operations or commercial mining operations do not commence within five years of the effective date of the anticipated new Mining Act affecting the two properties.

See Note 9.

d) In July 2018, the Company entered into a consulting agreement with a third party whereby the consultant is to provide specified business development services and, if successful, will be compensated through the issuance of 3 million common shares of the Company and the grant of options enabling the purchase of 2 million common shares. This transaction is subject to regulatory approval.

e) In July 2018, management was advised of a potential quality issue that may have occurred during shipment of a batch of rare earths concentrate during the year. Management is investigating to determine the validity of the issue and actions required to resolve the issue. At this point, management cannot make a determination of an amount, if any, required to resolve the issue and, accordingly, has not recorded a provision in the financial statements at March 31, 2018.