CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

Consolidated Annual Financial Statements

(Stated in Canadian Dollars)

For the Year Ended March 31, 2015

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

March 31, 2015

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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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 subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended March 31, 2015 and 2014, 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 subsidiaries as at March 31, 2015 and 2014 and their financial performance and their cash flows for the years ended March 31, 2015 and 2014 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, 2015

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)
Consolidated Statements of Financial Position

As at	Note	March 31 2015 $	March 31 2014 $
ASSETS			
Current			
Cash		52,617	232,671
Short-term investments	6	540,000	1,000,000
Receivables		94,995	-
Interest and other receivables		38,090	15,766
Prepaid expenses and deposits		-	7,129
Refundable security deposits	7	-	105,024
Total current assets		725,702	1,360,590
Non-current			
Exploration and evaluation assets	8	1,829,580	1,895,004
Long-term investments	9	1,141,720	1,141,720
Mata Azul participation right	10	38,548	-
		3,009,848	3,036,724
Total assets		3,735,550	4,397,314
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	35,466	44,111
SHAREHOLDERS' EQUITY			
Share capital	12	14,340,194	14,340,194
Reserves	12	7,711,655	7,698,256
Deficit		(18,351,765)	(17,685,247)
Total shareholders' equity		3,700,084	4,353,203
Total liabilities and shareholders' equity		3,735,550	4,397,314

Note 2 c) – Going concern of operations
Note 19 – 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.
(A Development Stage Enterprise)
Consolidated Statements of Loss and Comprehensive Loss

Year ended March 31	Note	2015 $	2014 $
Revenue			
Corporate finance fees	11, 17	192,667	-
Exploration costs	8	33,315	67,451
Expenses			
Consulting fees	11	591,640	424,952
Advertising and promotion		6,884	23,152
Listing, filing and transfer agent		18,904	24,904
Office and miscellaneous	11	27,508	26,736
Professional fees	11	114,742	113,939
Rent	11	17,600	21,600
Share-based payments	11	13,399	240,324
Travel and accommodations		23,256	89,871
Wages and benefits		151,227	179,009
		965,160	1,144,487
Loss before other items		(805,808)	(1,211,938)
Other income (expense)			
Write-down of exploration and evaluation assets	8	-	(1,447,864)
Gain on sale of exploration and evaluation assets	8 e)	130,295	-
Interest and investment income		8,995	26,061
Net loss and comprehensive loss for the year		(666,518)	(2,633,741)
Loss per share – basic and diluted per common share	18	(0.00)	(0.02)
Weighted average shares outstanding, basic and diluted		142,762,141	142,762,141

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)
Consolidated Statements of Changes in Equity

	Share capital		Reserves		Deficit	Total
	Number of shares	Share capital	Warrants	Equity-settled benefits		
		$	$	$	$	$
Balance at March 31, 2013	142,762,141	14,340,194	952,000	6,505,932	(15,051,506)	6,746,620
Share-based payments	-	-	-	240,324	-	240,324
Loss and comprehensive loss for the year	-	-	-	-	(2,633,741)	(2,633,741)
Balance at March 31, 2014	142,761,141	14,340,194	952,000	6,746,256	(17,685,247)	4,353,203
Share-based payments	-	-	-	13,399	-	13,399
Loss and comprehensive loss for the year	-	-	-	-	(666,518)	(666,518)
Balance at March 31, 2015	142,761,141	14,340,194	952,000	6,759,655	(18,351,765)	3,700,084

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows

Year ended March 31	Note	2015 $	2014 $
Cash flows provided by (used in):			
Operating activities			
Loss and comprehensive loss for the year		(666,518)	(2,633,741)
Adjustments for:			
Share-based payments		13,399	240,324
Write-down (gain on sale) of exploration and evaluation assets		(130,295)	1,447,864
Changes in non-cash working capital items:			
Receivables		(94,995)	-
Interest and other receivables		(22,324)	32,116
Prepaid expenses and deposits		7,129	4,127
Refundable security deposits		105,024	(105,024)
Accounts payable and accrued liabilities		(8,645)	(72,609)
Cash flows used in operating activities		(797,225)	(1,086,943)
Investing activities			
Acquisition of exploration and evaluation assets		(3,281)	(56,459)
Refundable security deposits		105,024	(105,024)
Mata Azul participation right		(38,548)	-
Acquisition of long-term investments		-	(1,141,720)
Net redemption of short-term investments		460,000	2,400,000
Proceeds received on sale of exploration and evaluation assets		159,000	-
Non-refundable deposits received on exploration and evaluation assets		40,000	-
Cash flows provided by financing activities		617,171	1,201,821
Change in cash during the year		(180,054)	114,878
Cash, beginning of year		232,671	117,793
Cash, end of year		52,617	232,671

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 integrated business within the rare earth industry from the initial mandate of acquiring and exploring mineral property interests. 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 2 c)).

The address of the Company’s corporate office and principal place of business is Suite 400 – 602 West Hastings Street, Vancouver, British Columbia, Canada, V6B 1P2.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements for the year ended March 31, 2015 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 24, 2015.

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. Other than certain corporate finance fees, the Company has not generated revenue from operations. The Company incurred a loss of $666,518 during the year ended March 31, 2015 and, as of that date the Company’s deficit was $18,351,765. The Company is dependent on its ability to raise additional debt or equity to raise sufficient cash resources to meet its current financial obligations. As the Company is in the development stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. 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 and short-term investments of $592,617 at March 31, 2015 (March 31, 2014 - $1,232,671). 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 S.A, a Brazilian corporation 80% 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.

3. Significant Accounting Policies (continued)

c) 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 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.

d) 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.

e) 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.

f) Share capital

Share capital represents the fair value of consideration received.

g) Operating expenses

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

3. Significant Accounting Policies (continued)

h) 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.

i) Interest

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

j) 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. At March 31, 2015 and 2014, the Company did not have any cash equivalents.

3. Significant Accounting Policies (continued)

k) 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 related 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 loss and 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.

l) 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.

3. Significant Accounting Policies (continued)

m) 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’.

n) 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.

o) 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.

p) 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.

3. Significant Accounting Policies (continued)

q) 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's long-term investment is classified as an available-for-sale financial asset.

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.

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

s) 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.

3. Significant Accounting Policies (continued)

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.

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.

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.

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation 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 change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

6. Short-term Investments

As at March 31, 2015, the Company held $540,000 (March 31, 2014 - $1,000,000) in short-term investments consisting of GICs. The yields on these investments are prime less 1.95% (1.20%) per year.

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.

7. Refundable Security Deposits

Refundable security deposits of $nil (March 31, 2014 - $105,024), represented amounts paid pursuant to a letter of intent for the acquisition of a site for a rare earth refinery in the Pacific Northwest region of the United States. The deposit was refunded during fiscal 2015.

8. 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.

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended March 31, 2014 and March 31, 2015:

	Springer	Red Wine Complex	Clay-Howells	Coldwell Complex	Hinton Coal	Manitouwadge Graphite	Other	Total
	$	$	$	$	$	$	$	$
March 31, 2013	533,523	1,076,467	429,455	122,002	1,020,000	33,514	71,448	3,286,409
Acquisition costs for the year	53,753	-	2,706	-	-	-	-	56,459
Write-downs	(537,276)	(702,406)	(23,589)	(108,336)	-	(4,809)	(71,448)	(1,447,864)
March 31, 2014	50,000	374,061	408,572	13,666	1,020,000	28,705	-	1,895,004
Acquisition costs for the year	300	275	2,706	-	-	-	-	3,281
Sale/recoveries	-	-	-	-	(40,000)	(28,705)	-	(68,705)
March 31, 2015	50,300	374,336	411,278	13,666	980,000	-	-	1,829,580

During the year ended March 31, 2015, the Company incurred the following exploration expenditures that were expensed as incurred:

	Red Wine Complex	Clay-Howells	Coldwell Complex	Other	Total
	$	$	$	$	$
Prospecting	-	-	8,656	-	8,656
Other	6,900	41	455	17,263	24,659
	6,900	41	9,111	17,263	33,315

During the year ended March 31, 2014, the Company incurred the following exploration expenditures that were expensed as incurred:

	Springer	Red Wine Complex	Clay-Howells	Coldwell Complex	Manitouwadge Graphite	Total
	$	$	$	$	$	$
Prospecting	-	-	-	408	-	408
Geology	19,056	14,288	-	-	100	33,444
Diamond drilling	17,097	6,912	-	-	-	24,009
Other	-	-	40	-	9,550	9,590
	36,153	21,200	40	408	9,650	67,451

8. Exploration and Evaluation Assets (continued)

a) Springer

Lavergne prospect

On June 7, 2011, the Company completed agreements to acquire the mineral rights to one patented claim comprising approximately 130 hectares of the Lavergne-Springer rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 80 km east of Sudbury, Ontario.

The Company terminated this option and therefore at March 31, 2014 the Company wrote off $243,591 in related acquisition costs.

A second agreement was also completed by the Company by paying $150,000 to purchase the surface rights to the eastern half of the Patent. The Company currently retains these surface rights.

The Company intends to sell the surface rights for the Springer project.

Springer - Zimtu

During the year ended March 31, 2014, the Company wrote off $273,130 in related acquisition costs as the Company is no longer exploring the property.

Springer-Field-Pedley

This property is currently comprised of 32 unpatented mining claims located in Springer Township and the adjacent townships of Field to the north and Pedley to the east. During the year ended March 31, 2014, the Company wrote off $20,555 in acquisition costs related to lapsed or inactive claims.

b) Red Wine Complex

The Company has acquired, by an option agreement and staking, three properties: Mann #1 (48 claim units), Two Tom Lake (34 claim units) and Dory Pond (155 claim units acquired by staking) in Labrador. The properties, together with the property known as the Zimtu Property, are situated in four separate claim groups located over a 30 kilometre length of the Red Wine Complex.

Mann #1, Two Tom Lake

Pursuant to an amended option agreement dated September 6, 2012, the Company acquired 100% ownership in the property. The Optionors retain a 2% net smelter return (“NSR”) of which the Company has the right to purchase one-half (1%) of the NSR from the optionors for $1,000,000.

Dory Pond

The Dory Pond prospect consists of 155 claims acquired by the Company through staking.

Red Wine Property - Zimtu

Pursuant to an amended option agreement dated September 6, 2012, the Company acquired 100% ownership in the property. The Optionors retain a 2% NSR of which the Company has the right to purchase one-half (1%) of the NSR from the Optionors for $1,000,000.

During the year ended March 31, 2014, the Company allowed 450 claim units to lapse or decided not to renew certain claims that were expiring during fiscal 2015, reducing the size of the property to 50 claim units. During fiscal 2014, the Company wrote off $702,240 in related acquisition costs.

8. Exploration and Evaluation Assets (continued)

c) Clay-Howells Property

Pursuant to an option agreement executed in 2010, the Company acquired 100% ownership in the Clay-Howells Property, consisting of 45 patented claims. The Optionors retain a 2% NSR subject to the right of the Company to purchase at any time one-half (1%) of the NSR for $1,000,000. The property also currently includes 28 unpatented claim units acquired via staking. During the year ended March 31, 2014, the Company allowed 17 unpatented claims to lapse, writing off $23,589 in related acquisition costs.

Coldwell Complex

During fiscal 2011, the Company completed the staking of 740 unpatented mining claims located in the Coldwell Alkaline Complex in Northern Ontario. Various claims lapsed during fiscal 2014 and 2015, reducing the property to 51 unpatented mining claims. During 2014, the Company wrote off $108,336 in related acquisition costs.

d) Hinton Coal Property

Pursuant to an agreement executed in 2008, the Company acquired 100% ownership in the Hinton Coal Property (the “Hinton Property”) located in the Foothills Region of central Alberta for $1,020,000 and a 5% net profits royalty on any sale of coal from the property. The $1,020,000 purchase price was recorded as a mineral interest in accordance with the Company’s accounting policy. The Company continues to own 100% interest in the Hinton Property.

In September 2014, the Company entered into an agreement to option the Hinton Property and on September 11, 2014, the Company received a non-refundable deposit of $20,000. Further, payments of 1) $200,000, 2) $400,000 and 3) $400,000 are payable at the option of the optionee with a minimum of half cash and the balance of shares of a publicly traded company issued at a discount to the volume weighted adjusted price. The payments are due four months (‘due diligence period’) from entering into the option agreement, 12 months thereafter and then a further 12 months thereafter, respectively. The Company will be granted a royalty of $0.15 per tonne on the first 20,000,000 tonnes of coal produced from the site. The optionee may purchase this royalty for $1,000,000.

In December 2014 and March 2015, the Company received additional non-refundable deposits totalling $20,000 in consideration of extending the due diligence period until June 24, 2015. The $20,000 is to be applied against the first $200,000 payment due upon successful conclusion of the due diligence being undertaken by the optionee.

On receipt of the remaining balance of the $200,000 payment, the Company is required to pay a service provider $25,000 for past advisory services. If and when the Company completes the sale of Hinton Property, the Company is required to purchase the 5% net royalty from the original owner for 8% of the sale price subject to a minimum sale price of $1,000,000.

Subsequent to year end, the due diligence period lapsed and a further extension of the due diligence period until February 29, 2016 was negotiated in principle. See Note 19.

e) Manitouwadge Graphite Property

The Manitouwadge Graphite Property, located in Flanders Township within the Thunder Bay Mining Division, Ontario and in Foch Township within the Porcupine Mining Division, consists of 191 unpatented mining claims acquired by staking, centered about the Thomas Lake Road Graphite Occurrence.

In February 2015, the Company completed the sale of the property for aggregate proceeds of $159,000 and recognized a current year gain of $130,295 in connection with this disposition. The Company was also granted a 2% gross production royalty based on the graphite produced from the property. The purchaser may acquire half of this royalty for $250,000.

9. Long-Term Investments

The Company currently owns an investment in the common shares of a private Delaware company (“Delaware Co.”). Delaware Co. is a U.S. based mineral exploration and exploitation company.

At March 31, 2015, the Company owned 2,348,147 common shares of Delaware Co., which represented approximately a 12% equity interest in Delaware Co. The investment in Delaware Co. shares have been recorded at cost of $1,141,720, which reflects total gross consideration paid.

As part of its agreement to purchase the shares of Delaware Co., the Company also obtained the right to lease, for an initial period of 25 years, 15 acres of deeded land. The Company has also been given an option to enter into a second 25-year term at the end of the initial term.

10. Mata Azul Participation Right

In July 2014, the Company paid US$35,000 (CDN$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 plus automatic extensions under certain situations.

An affiliated company was instrumental in facilitating this purchase agreement and, as a result, 712,500 stock options were released pursuant to their first vesting provision.

In November 2014, the Company entered into a joint venture agreement with Mata Azul to advance exploration and establish and operate mining and concentration operations for rare earth and other mineral rights owned by Mata Azul. This business arrangement allows for the Company to control the exploration and development of the Mata Azul property and ratifies the previously announced agreement between the Company and Mata Azul which provides the Company with the right to purchase all of the rare earth concentrate from the project.

In November 2014, the Company also advanced a loan in the amount of US$12,500 (CDN$14,196) to Mata Azul. The loan carries an interest rate of 6% and matures in one year.

In November 2014, the Company entered into two letters of intent (each an “LOI”) to sell 10,000 metric tons annually, of rare earth concentrate to two affiliated full spectrum rare earth separation refineries situated in Asia. The two LOIs, each having a five year term, are hedged with the Company’s 20-year right (but not obligation) to purchase rare earth concentrate from the Mata Azul property in Brazil.

As a result of the Company entering into the two LOIs facilitated by the affiliated company, an additional 1,425,000 stock options were released pursuant to their second vesting provision.

11. Related Party Transactions

Key management personnel compensation was:

Year ended March 31	2015 $	2014 $
Short-term benefits	134,250	132,250
Share-based payments	7,645	135,450
	141,895	267,700

11. Related Party Transactions (continued)

The short-term benefits were paid or accrued to management and directors of the Company or to companies controlled by management and directors. The Company also paid or accrued $57,763 (March 31, 2014 - $31,150) to certain officers and directors or to companies controlled by certain officers and directors for travel, exploration, office rent and other related expenses.

During the year ended March 31, 2015, the Company paid $428,000 (March 31, 2014 - $300,000) in consulting fees to a company related by common directors.

The Company also paid or accrued legal fees of $32,679 (March 31, 2014 - $97,329) to a company controlled by an officer of the Company.

During the year ended March 31, 2015, the Company earned $192,667 (March 31, 2014 - $nil) in corporate finance fees from a company controlled by a director's relative.

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.

$4,323 included in accounts payable and accrued liabilities was payable to related parties as at March 31, 2015 (2014 - $21,395). The payment terms are similar to the payment terms of non-related party trade payables.

12. Share Capital and Reserves

a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 142,762,141 common shares

b) Share Purchase Warrants

Details of share purchase warrant transactions for the years ended March 31, 2015 and 2014 are as follows:

	Number of Warrants	Weighted Average Exercise Price $
March 31, 2013 and March 31, 2014	28,000,000	0.10
Expired	(28,000,000)	0.10
March 31, 2015	-	-

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. In December 2012, the shareholders of the Company approved an incentive stock option plan which provides that the maximum number of common shares reserved for issuance under the plan is 28,552,428. 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.

12. Share Capital and Reserves (continued)

Two affiliated companies were granted options during fiscal 2013 to acquire 5,000,000 shares of the Company at $0.10 per share, exercisable for five years and vesting in four equal instalments over 18 months. An additional vesting requirement was imposed on 2,850,000 of these shares under the option – 712,500 shares shall be released with each multi-year letter of intent arranged on behalf of the Company for the supply of rare earth concentrate or the sale of rare earth oxides.

During the year, the affiliated company was instrumental in facilitating a purchase agreement and arranged two letters of intent which resulted in 2,137,500 options being released pursuant to the second vesting provision. The remaining 712,500 options have yet to vest.

On February 15, 2015, options to purchase 250,000 shares of the Company at $0.05 per share were granted, exercisable for five years and vesting in four equal instalments over 18 months.

The weighted average grant-date fair value of options awarded in the year ended March 31, 2015 was $0.03 (March 31, 2014 - $0.05). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

	2015	2014
Risk-free interest rate	0.73%	1.26%
Expected life	5 years	5 years
Dividend yield	0%	0%
Volatility	144%	112%

The stock price volatility was determined using the historical fluctuations in the Company's share price.

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2013	22,740,000	0.19
Granted	1,000,000	0.10
Cancelled	(983,607)	0.10
Options outstanding at March 31, 2014	22,756,393	0.19
Granted	250,000	0.05
Cancelled	(4,075,000)	0.28
Expired	(2,231,393)	0.55
Options outstanding March 31, 2015	16,700,000	0.12

12. Share Capital and Reserves (continued)

The Company's outstanding and exercisable stock options at March 31, 2015 were:

	Outstanding Options			Exercisable Options	
Expiry Date	Number	Weighted Average Remaining Life	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
August 2015	50,000	0.40	0.35	50,000	0.35
January 2016	775,000	0.79	0.37	775,000	0.37
January 2017	800,000	1.81	0.17	800,000	0.17
November 2017	14,825,000	2.61	0.10	14,112,500	0.10
February 2020	250,000	4.88	0.05	62,500	0.05
	16,700,000	2.52	0.12	15,800,000	0.11

13. 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. 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, 2015.

14. 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 development 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 a large Canadian financial institution. Staking security deposits are held by the Government of Newfoundland.

iii) Derivative financial instruments

As at March 31, 2015, 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.

14. Risk Management (continued)

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, 2015 and March 31, 2014:

	As at March 31, 2015		
	Level 1 $	Level 2 $	Level 3 $
Cash	52,617	-	-
Short-term investments	540,000	-	-
	592,617	-	-

	As at March 31, 2014		
	Level 1 $	Level 2 $	Level 3 $
Cash	232,671	-	-
Short-term investments	1,000,000	-	-
	1,232,671	-	-

15. Income Taxes

The provision for income taxes differs from the amount that would have resulted by applying combined federal and provincial statutory rates of 26.00% (March 31, 2014 – 26.00%) to the Company's loss before income taxes. A reconciliation of income taxes at statutory rates is as follows:

	2015 $	2014 $
Net loss for the year before tax recovery	(666,518)	(2,633,741)
Expected income tax recovery	(173,295)	(684,773)
Net adjustment for deductible and non-deductible amounts	272	353,077
Unrecognized benefit on non-capital losses	173,023	331,696
Total income tax	-	-

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

	2015 $	2014 $
Deferred income tax assets:		
Exploration and evaluation assets and share issue costs	2,497,358	2,519,007
Non-capital loss carryforwards	2,119,000	2,024,100
Net deferred tax assets	4,616,358	4,543,107
Valuation allowance	(4,616,358)	(4,543,107)
	-	-

The Company has non-capital losses amounting to $8,150,000 expiring from 2016 to 2035 available for deduction against future years' taxable income. 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	$
2026	506,000
2027	721,000
2028	779,000
2029	292,000
2030	571,000
2031	1,154,000
2032	1,230,000
2033	1,221,000
2034	1,011,000
2035	665,000
	8,150,000

16. Commitments

The Company has entered into a consulting agreement with CEC Rare Earth Corp. (“REC”), where, REC provides the Company access to personnel experienced in designing, building and establishing operations of full spectrum rare earth refineries as well as the ongoing sales and marketing of refined rare earths. The agreement may be terminated with three months’ notice. Based on this required notice, the Company has a commitment to pay three months of fees totaling $75,000 to REC in the future.

17. Corporate Finance Fees

The Company is engaged to provide corporate finance, strategic and business development services for a mechanically complete, full spectrum rare earth separation refinery built in Laos. In consideration, the Company receives a retainer of US$25,000 per month for the duration of the mandate, and success fees for securing industry related strategic investors, customers for the separated oxides and for securing a source of rare earth concentrate. This duration of this engagement, which began in September 2014, is one year, with further four-month extensions to result if certain milestones are reasonably achievable during the extension periods.

18. Loss Per Share

Year ended March 31	2015	2014
Net loss for the year ($)	(666,518)	(2,633,741)
Weighted average number of common shares outstanding	142,762,141	142,762,141
Loss per share, basic and diluted ($ per share)	(0.00)	(0.02)

19. Events After the Reporting Period

In May 2015, the Company granted stock options to a consultant of the Company to purchase up to 500,000 common shares at an exercise price of $0.05 until May 2020. The options vest in four equal instalments over 18 months with the first instalment vesting in August 2015. If the Company does not utilize the consultant’s services past July 31, 2015, the consultant will have 30 days to exercise 125,000 of these options.

In July 2015, the Company granted stock options to directors, officers, employees and consultants to purchase up to 7,875,000 common shares at an exercise price of $0.05 until July 8, 2020. The options vest in four equal instalments over 18 months.

In July 2015, the Company negotiated an agreement in principle to extend the due diligence period for the Hinton Property option agreement to February 29, 2016 in consideration for the reimbursement by the optionee of property taxes paid by the Company during fiscal 2015.