# CANADA RARE EARTH CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Year Ended March 31, 2017

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## GENERAL

*The following is management's discussion and analysis ("MD&A") of Canada Rare Earth Corp. prepared as of July 31, 2017. This MD&A should be read together with the audited consolidated financial statements for the year ended March 31, 2017 and related notes.*

*Certain information included in the following MD&A may constitute forward-looking statements within the meaning of applicable laws and regulations. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated. We expressly disclaim any obligation to update forward-looking statements, unless so required by applicable law, and readers should read this MD&A with the understanding that actual future results may be materially different from those expected.*

*Our audited consolidated financial statements for the year ended March 31, 2017 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as issued by the IASB and interpretations of the International Financial Reporting Interpretations Committee.*

*This MD&A contains "forward looking statements" that are subject to risk factors set out in this MD&A.*

*Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars, which is our functional and reporting currency. Additional information relating to us is available on SEDAR at www.sedar.com.*

## OVERVIEW

Canada Rare Earth Corp. (the "Company", "we" or "CREC") is a development stage company developing an integrated business within the global rare earth industry from the initial mandate of acquiring and exploring mineral property interests.

Historically, we were engaged solely in the exploration and development of precious metal and base metal mineral properties. More recently, our focus has been directed to properties with the potential to host rare earth elements. As we have become more involved in the rare earth sector and have gained greater knowledge of the global rare earth supply chain, our attention, starting in about September 2012, has expanded to the down-stream processing of rare earth products.

## INCORPORATION AND ORGANIZATION OF THE COMPANY

We were incorporated under the laws of British Columbia on July 8, 1987. Our common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "LL".

Our head office and its registered office are located at 15th Floor - 1040 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4H1.

As of the date of this MD&A, we have three subsidiaries: REM Metals Inc., a wholly owned Ontario corporation; CREC South American Holdings Corp., a wholly owned British Columbia corporation; and CanBras Minerals LTDA, a Brazilian corporation, wholly owned by CREC South American Holdings Corp.

## OUTLOOK

Our goal over the past four years has evolved from exploring for rare earth elements to developing an integrated supply chain network by focusing on the three key connected areas of the supply chain: securing multiple long term supplies of rare earth concentrates; enhancing and separating the concentrates into individual rare earth oxides; selling the oxides to the 200+ major international manufacturing companies and their supply networks.

We are sourcing concentrates and selling to existing refineries; we are in varying stages of acquiring and developing enhancement and separation facilities; and we have sold and continue to market oxides.

Our commercial sales activities are generating gross profit and positive cash flow. We have secured a key customer whose demands are currently greater than what we can supply hence we are devoting significant resources to maintain and increase our sources of rare earth concentrate. Readily available sources tend to be found in waste piles of mining operations focused on other minerals, such as heavy mineral sand operations. With the general downturn in the natural resource sectors and mining and mineral processing in particular, these operations are looking to augment their revenues and are more open to discussing the sale of rare earths so long as ultimate buyers may legally import the concentrate. We are also in discussions with owners of prospective rare earth mines.

We believe that our integration strategy will position us to take advantage of the anticipated strong demand for rare earths, particularly those sourced and processed outside of China. Rare earth raw materials and value-added products are essential to many "green" technologies such as hybrid vehicles and wind power, and we believe that the global efforts to reduce reliance on fossil fuels in favour of alternative energy sources presents an extremely attractive opportunity for producers of rare earth elements. In addition to the emerging "green" technology sector there continues to be an increased demand for rare earths in the traditional markets including applications in the military and electronics sectors.

In September 2015, we acquired the assets including business relationships and dealings of an affiliated company. This transaction brought us directly to a business relationship with an experienced designer, builder, operator and owner of rare earth enhancement and separation refineries.

We believe that by virtue of our commercial activities and increasing momentum and direct access to extensive refining capabilities, we are uniquely well positioned to become a leading business within the global rare earth industry.

### CORPORATE DEVELOPMENTS AND HIGHLIGHTS

Our objective is the development of an integrated rare earth business with refining capabilities in various jurisdictions including Asia, the Caribbean and South America. Recent developments and initiatives include:

- In December 2016, we entered into a significant agreement with a company in China (the "Refinery") to import and process rare earth monazite concentrate. The agreement provides the Refinery with solid international sourcing of monazite through a close ally and provides us with direct access to the largest market involving rare earth products via a strategic partner. As per the terms of the agreement, we will represent the Refinery for purchases of rare earth monazite concentrate from sources outside of China for an initial period of 5 years with the option to extend for additional terms so long as both parties are satisfied with the commercial and operational benefits of the arrangement.

- In October 2016 we entered into four transactions for the purchase and sale of 33 metric tons of rare earth concentrate and oxide products. The transactions involve three suppliers and four customers situated in five countries on four continents: Europe, North America, South America and Southeast Asia.

- In September 2016 we entered into agreements for the purchase and corresponding sale of 16,500 metric tons of rare earth concentrate over a three-year period. Shipment volumes are to increase steadily to 500 metric tons per month and remain at this monthly amount for the balance of the agreement. The provider, Canada Rare Earth, and the buyer are receptive to increasing volumes above 500 metric tons per month.
- 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 monazite 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.

  Although the written agreement expired the owner of LaosCo and the Company have continued with the terms of the agreement pursuant to a verbal understanding. The agreement continues to be subject to certain terms and conditions including: receiving an operating permit and paying a specified purchase price for the shares within a currently unspecified period of time. There can be no assurance that the operating permit will be received, the necessary funding for the purchase of the shares will be raised or that the verbal agreement will be honoured. For proprietary business and competitive pricing reasons and while fund raising for this initiative the purchase price of the LaosCo shares will not be publicly disclosed until the transaction closes. The expired written agreement called for the granting of warrants to the owner of LaosCo allowing for the purchase of 40,000,000 common shares of the Company at $0.25 per warrant share, exercisable within 30 days of closing. Subsequently, the parties agreed to cancel the obligation to grant the warrants.

  Once the purchase of the LaosCo shares closes, shareholders of LaosCo will be responsible for contributing their respective pro-rata shares of working capital requirements. Additionally, shareholders will be responsible for their pro-rata share of future, agreed upon capital expenditures (such as for extending the refinery's capabilities to rare earth metal making utilizing the oxide production)..

## Exploration and Evaluation Assets

Our mineral projects include the Red Wine project and the Hinton Coal property. At present, we are looking for business opportunities for our existing exploration and evaluation assets. During the year ended March 31, 2017, we sold the Clay-Howells property for a one-time payment of $10,000. In April 2017, we let all the claims relating to the Springer property lapse.

### *MATA AZUL*

In November 2014, we entered into a joint venture agreement with Mineracao Mata Azul S.A. ("Mata Azul") to advance exploration and establish mining and concentration operations for rare earth and other mineral rights owned by Mata Azul (the "Joint Venture"). Although the joint venture did not mature we secured the right to purchase all of the rare earth concentrate from the Mata Azul properties. This right provides us with the opportunity, but not the obligation, to purchase all of the rare earth concentrate to be produced from the Mata Azul property for 20 years for a base price plus a percentage of the difference between the base price and fair market value.

## FINANCIAL

### *SELECTED ANNUAL AND QUARTERLY INFORMATION*

During the most recent three fiscal years, we have not incurred any loss from discontinued operations or extraordinary items.

| Year ended March 31 | 2017<br>$ | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Revenue | 160,615 | 92,363 | 192,667 |
| Revenue (interest and investment income) | 34,127 | 12,822 | 8,995 |
| Loss for the year | (315,688) | (2,134,775) | (666,518) |
| Loss per share, basic and diluted | (0.00) | (0.01) | (0.00) |
| Total assets | 2,194,609 | 2,190,495 | 3,735,550 |

### *RESULTS OF OPERATIONS*

*Overview of Year Ended March 31, 2017*

We earned revenue from sale of oxides, rare earth concentrate products and consulting fees regarding the establishment of a rare earth supply chain of $160,615 during the year ended March 31, 2017 compared to corporate finance fee of $92,363 during the year ended March 31, 2016.

During the year ended March 31, 2017, we incurred $9,876 of royalty payments payable to REC Shareholders. This represents 13% of the gross profit for the year. These royalty payments and amortization of $19,894 related to the expensing of the intangible asset are included in cost of sales.

We also earned interest and investment income of $34,127 during the year ended March 31, 2017 compared to $12,822 earned during the year ended March 31, 2016. The increase in interest income is attributable to interest accrued on the Promissory Note and interest accrued on a receivable.

We incurred unrealized foreign exchange gains during the current period due to the US dollar strengthening against the Canadian dollar.

Total operating expenses for the year ended March 31, 2017 were $542,487 compared to $767,589 for the year ended March 31, 2016.

Generally, administrative and regulatory expenses in the year ended March 31, 2017 were lower than the year ended March 31, 2016. Consulting fees decreased to $174,500 compared to $269,582 in the year ended March 31, 2016 due to absence of a consulting fee that was paid to a company related by common directors and to a consultant for investor relation activities, while share-based payments decreased to $41,094 compared to $115,580 in the year ended March 31, 2016, due to lower number of options vesting in the current year. Professional fees decreased to $41,263 compared to $133,118 for the year ended March 31, 2016 due to a general reduction of legal fees incurred. Office and miscellaneous costs increased marginally due to additional regulatory costs over the comparative period. A gain on sale of exploration and evaluation asset of $10,000 relates to the sale of the Clay-Howells property. Net loss and comprehensive loss for the year ended March 31, 2017 was $315,688 or $0.00 loss per share compared to a loss and comprehensive loss of $2,134,775 or $0.01 loss per share at March 31, 2016. The decrease in net loss was primarily due to substantially lower amount of write-down of exploration and evaluation assets of $ 9,632 compared to $1,840,203 in the comparative period.

*CASH FLOWS*

We used cash of $432,948 in operating activities during the year ended March 31, 2017 compared to $428,041 during the year ended March 31, 2016. The marginal overall increased use of cash in operating activities was primarily due to upfront payments for buying inventory of rare earth concentrate products offset by lower consulting fees, professional fees and wages and benefits.

Cash flows provided by investing activities were $368 for the year ended March 31, 2017 compared to $720,172 for the year ended March 31, 2016. The significant decrease in investing activities is due to absence of net redemption of short-term investments and no cash received on acquisition of assets.

Cash flows provided by financing activities were $160,918 for the year ended March 31, 2017 compared to $nil for the year ended March 31, 2016. The financing activities relate solely to loans received by the Company.

*CHANGES IN FINANCIAL POSITION SINCE MARCH 31, 2016*

Changes in our financial position since March 31, 2016 relate to operations in the ordinary course.

*LIQUIDITY AND CAPITAL RESOURCES*

As of March 31, 2017, we had $45,599 in cash (March 31, 2016 - $323,471) and had net working capital of $3,914 (March 31, 2016 - $324,391).

During the year ended March 31, 2017, we placed deposits for, and purchased and sold rare earth concentrate products. We do not operate any revenue producing mineral properties, and we only started our trading activities in the third quarter of fiscal year 2017. As a result, we do not have established cash flow from operations. We raise funds for business development, exploration, development and general overhead and other expenses through the issuance of shares from treasury. This method has been the principal source of funding for us since inception although we have generated cash for a short term by providing consulting services and are now focused on trading activities.

We intend to continue raising funds for future rare earth refinery projects, business development, future exploration, and general overhead and other working capital through earn-in or option agreements with other mineral exploration and mining companies, sale of assets, raising funds at project levels, generating transaction fees and to the extent necessary and available through the continuation of issuance of shares from treasury.

During the year ended March 31, 2017, we did not issue any shares in connection with evaluation and development of assets or for any other purpose.

Our success in funding our project expenditures is dependent upon our ability to raise adequate debt and equity financing, primarily at the project level. If in the event that future private placement financings cannot be closed, we would have to review our budgeted project expenditures and revise where necessary. Management continues to seek out capital required to undertake its rare earth refinery projects and for working capital to meet project work commitments.

### Related Party Transactions

| Payee | Relationship | Nature of Transaction | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|---|---|
| Tracy A. Moore | President & CEO | Reimbursement for office, travel related expenditures, interest on loan and share-based payments | 46,519 | 57,599 |
| Moore Consulting Services Inc. | Company 50% owned by Tracy A. Moore | Compensation | 60,000 | 60,000 |
| Peter Shearing | Chief Operating Officer | Travel related expenditures and share-based payments | 30,801 | 55,597 |
| EchoTrack Inc. | Company 50% owned by Peter Shearing | Compensation | 60,000 | 30,000 |
| Bill Purcell | Director | Share-based payments | 954 | 6,501 |
| Christopher Goodman | Director | Share-based payments | 5,965 | - |
| Gordon J. Fretwell Law Corporation | Company controlled by Gordon Fretwell | Legal fees charged/accrued during the period, News releases | 10,200 | 56,659 |
| Gordon J. Fretwell | Director | Interest on loan and share-based payments | 2,412 | 15,168 |
| Salil Dhaumya | CFO | Share-based payments | 321 | 3,749 |
| Koios Corporate Financial Services Ltd. | Company controlled by Salil Dhaumya | Compensation and reimbursements for office related expenses | 30,636 | 32,513 |
| Hunter Dickinson Services Inc. ("HDSI") | Mark Peters, Director (CFO of HDSI) | Office rent | 2,678 | - |

We had $82,467 included in accounts payable and accrued liabilities that was payable to related parties as at March 31, 2017 (March 31, 2016 - $6,194). The payment terms are similar to the payment terms of non-related party trade payables.

During the year ended March 31, 2017, we had loans outstanding in the amount of $94,423 (US$71,000) to two directors of the Company. The amounts are unsecured, bearing interest at a rate of 6% per annum calculated daily and are due on demand.

### Contractual Obligations

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, 2017 are:

| Year ending March 31 | $ |
|---|---|
| 2018 | 62,292 |
| 2019 | 62,292 |
| 2020 | 66,864 |
| 2021 | 67,280 |
| 2022 | 5,607 |
| | 264,335 |

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 a finders' fee for rare earth concentrate sourced from a certain entity.

*FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS*

Our financial instruments are comprised of cash and cash equivalents, receivables, investments and accounts payable and accrued liabilities. Our financial instruments are exposed to certain risks, including credit risk, liquidity risk, interest rate risk and market risk.

### 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, 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 offset exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

i. *Trade credit risk*

We monitor and control our risks and exposures through financial and credit based systems and to a large extent through personal relationships and, accordingly, we believe that we have procedures in place for evaluating and limiting the credit risks to which the Company is subjected to. Credit is subject to ongoing management review.

ii. *Cash and cash equivalents*

In order to manage credit and liquidity risk, our cash is held through a large Canadian financial institution.

iii) Promissory note, interest receivable

We are able to minimize our risk on the promissory note and interest receivable by exercising our right to convert the outstanding amount into equity investment in the Delaware Co.

### Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk through the management of our capital structure. We monitor and review current and future cash requirements and match the maturity profile of financial assets and liabilities.

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

### Interest Rate Risk

Interest rate risk pertains to interest income earned on the promissory note and a receivable. We actively manage our 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, 2017, the receivable and the accrued interest are overdue.

### 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. We currently do not have any financial instruments that would be impacted by changes in market prices.

### Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency fluctuations as it has cash, accounts receivables, interest and other receivables, prepaid expenses and deposits, promissory note, interest receivable on promissory note, Mata Azul participation right, loan and loans, related parties 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, 2017 | US Dollars |
|---|---|
| Assets | 1,458,924 |
| Liabilities | 125,270 |
| Exchange rate - $1.00 = | .7519 |

| At March 31, 2016 | US Dollars |
|---|---|
| Assets | 1,466,480 |
| Exchange rate - $1.00 = | .7225 |

*OUTSTANDING SHARE DATA*

At the date of this MD&A, there are 166,940,141 common shares outstanding and stock options to purchase an aggregate of 23,450,000 common shares expiring at various dates between June 2017 and April 2022, exercisable at various prices between $0.05 and $0.10 per share. There are no share purchase warrants outstanding.

All of the options are out of the money but if those were exercised, the maximum number of shares potentially issuable is therefore 23,450,000.

Pursuant to a May 9, 2016 agreement we had a contingent commitment to issue warrants to purchase 40,000,000 common shares of the Company at $0.25 per warrant share subject to the closing of the purchase of the Laos company's shares. The commitment was subsequently cancelled as an amendment to the agreement.

We are authorized to issue an unlimited number of voting shares.

*STOCK OPTIONS*

We may grant options to our directors, officers, employees and service providers under our stock option plan. In March 2017, our shareholders approved an amendment so that 33,880,028 common shares are reserved for issuance pursuant to the incentive stock option plan.

In April 2016, we granted stock options to a director 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 eighteen months.

In February 2017, we granted stock options to a person who subsequently became a director to purchase up to 300,000 common shares at an exercise price of $0.05 until February 17, 2022. The options vest in four equal instalments over eighteen months.

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

### ***Conflicts of Interest***

There are potential conflicts of interest to which our directors and officers will be subject to, in connection with the operations of the Company. Some of the directors and officers have been and will continue to be engaged in the identification and evaluation, with a view to potential acquisition of interests in businesses and corporations on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with us. Conflicts, if any, will be subject to the procedures and remedies under the British Columbia *Business Corporations Act*.

## RISK FACTORS

*Risks associated with developing an integrated business within the rare earth industry*

The global rare earth industry is facing a number of complex issues including a disjointed supply chain connecting supply of rare earth concentrates to the critical separation/refining capability which is found primarily in China, to over 200 international manufacturing companies and their supply networks. We are aware of the following factors associated with developing a vertical and horizontal integration strategy: the successful and timely completion of an integration strategy including identifying and arranging viable, long term sources of rare earths, transitioning rare earth exploration properties into mines, assisting with fund raising to support mining operations, arranging processing of rare earths with rare earth refineries whether inside China or otherwise, arranging for the commissioning of the design, build and operation of one or more rare earth separation refineries, raising sufficient funds to support the construction and operation of each refinery, reliance on other parties to meet projected timelines, entering into long term sales contracts with customers including international manufacturers on terms acceptable to us, risks related to the receipt of all required approvals including those relating to the commencement of production at selected mines and one or more refineries whether identified or not, delays in obtaining permits, licenses and operating authorities, environmental matters, water and land use risks, risks associated with the industry in general, commodity prices and exchange rate changes, operational risks associated with exploration mining, development, production, processing till separation, delays or changes in plans, risks associated with the uncertainty of reserve or resource estimates, health and safety risks, uncertainty of estimates and projections of production, costs and expenses, the adequacy of our financial resources and the availability of additional cash from operations or from financing on reasonable terms or at all, political risks wherever we may conduct business, risks associated with the relationship between us and/or our business partners and local governments wherever we conduct business, radioactivity and related issues, dependence on one or a few mineral projects, loss of key personnel, and other factors that could cause actions, events or results not to be as anticipated.

*Environmental Risks*

Environmental legislation is continuing to evolve and such as will require strict standards and enforcement, increased fines and penalties for non-compliance, more stringent assessment of proposed projects and a greater degree of corporate responsibility. There can be no assurance that future changes to environmental legislation will not adversely affect our operations.

*Political Risks*

We are subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determination or rulings by governmental authorities, changes in mining policies or in the personnel administering them, currency fluctuations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which our operations are conducted. Our operations may be adversely affected by changes in government policies and legislation and other factors which are not within our control. In particular, Delawareco is a U.S. based mineral exploration company focused on locations in the Caribbean. As part of our agreement with Delawareco, we may regain the right to lease, for an initial period of 25 years, 15 acres on which it may be suitable to construct a rare earth refinery.

*Mineral Market*

The market for minerals, in general, and for rare earth elements in particular is subject to factors beyond our control, such as market price fluctuation, currency fluctuation and government regulation. The effect of such factors cannot be accurately calculated. The existence of any or all such factors may restrict the access to a market, if same exists, for the sale of commercial ore which may be discovered.

*Funding Requirements*

In order to proceed with our activities, we will require additional funding. There can be no guarantee that such funds will be available as and when required or, if available, be accessible on reasonable commercial terms.

*Reliance on Management*

We anticipate that we will be heavily reliant upon the experience and expertise of management with respect to the further development of the mineral properties. The loss of any one of their services or their inability to devote the time required to effectively manage our affairs could materially adversely affect the Company.

*Risk of economic dependency*

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