# CANADA RARE EARTH CORP.

**Unaudited Condensed Consolidated Interim Financial Statements**

(Stated in Canadian Dollars)

**For the Three Months Ended June 30, 2019**

**NOTICE OF NO AUDITOR REVIEW OF**
**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Canada Rare Earth Corp. for the three months ended June 30, 2019 have been prepared by and are the responsibility of the Company's management and have been approved by the Company's audit committee.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

# CANADA RARE EARTH CORP.

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**CANADA RARE EARTH CORP.**
**Consolidated Statements of Financial Position**

| As at | Note | June 30 2019 $ | March 31 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash | | 602,806 | 514,227 |
| Accounts receivable | 18 | 370,094 | 346,371 |
| Interest and other receivables | 8, 9 | 16,818 | 6,033 |
| Prepaid expenses and deposits | 5 | 97,226 | 162,123 |
| Total current assets | | 1,086,944 | 1,028,754 |
| Non-current | | | |
| Right of use asset | 4 | 106,476 | - |
| Intangible assets | 7 | 64,659 | 79,580 |
| Mata Azul participation right | 9 | 1 | 1 |
| Promissory note | 8 | 1 | 1 |
| | | 171,137 | 79,582 |
| Total assets | | 1,258,081 | 1,108,336 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 11 | 384,523 | 299,958 |
| Convertible note | 10 | 1,141,429 | 1,116,522 |
| Derivative liability – warrants | 10 | 387,000 | 324,000 |
| Lease liability | 4 | 48,476 | - |
| Total current liabilities | | 1,961,428 | 1,740,480 |
| Non-current | | | |
| Accounts payable and accrued liabilities | 11 | 250,000 | 250,000 |
| Lease liability | 4 | 59,928 | - |
| | | 309,928 | 250,000 |
| Total liabilities | | 2,271,356 | 1,990,480 |
| **SHAREHOLDERS' DEFICIENCY** | | | |
| Share capital | 12 | 15,235,832 | 15,235,832 |
| Reserves | 12 | 8,303,807 | 8,283,107 |
| Deficit | | (24,552,914) | (24,401,083) |
| Total shareholders' deficiency | | (1,013,275) | (882,144) |
| Total liabilities and shareholders' deficiency | | 1,258,081 | 1,108,336 |

Note 2 c) – Going concern of operations
Note 17 – Commitments and contingent liabilities
Note 20 – Subsequent events

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 condensed consolidated interim financial statements.**

**CANADA RARE EARTH CORP.**
**Condensed Consolidated Interim Statements of Loss and Comprehensive Income (Loss)**
(Prepared by Management – Unaudited)

| Three Months ended June 30 | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Revenue** | 18, 19 | 370,094 | 127,453 |
| **Expenses** | | | |
| Cost of sales | 5, 7, 17, 19 | 194,966 | 135,185 |
| Consulting fees | 11 | 111,750 | 114,500 |
| Depreciation | 4 | 14,294 | - |
| Listing, filing and transfer agent | | 2,910 | 1,007 |
| Office and miscellaneous | 11 | 5,086 | 3,438 |
| Professional fees | 11 | 15,859 | - |
| Rent | 17 | 1,331 | 10,212 |
| Share-based payments | 11, 12 | 20,700 | 48,487 |
| Travel and accommodations | | 25,528 | 17,167 |
| | | 392,424 | 329,996 |
| **Loss before other items** | | (22,330) | (202,543) |
| **Other income (expense)** | | | |
| Foreign exchange gain (loss) | | (14,018) | 50,087 |
| Change in fair value of derivative liability | 10 | (63,000) | 57,000 |
| Interest expense | 10 | (56,469) | (34,112) |
| Interest expense on lease liability | 4 | (4,039) | - |
| Lease income | 4, 17 | 7,925 | - |
| Other income | | 100 | - |
| **Net loss and comprehensive loss for the period** | | (151,831) | (262,081) |
| **Loss per share – basic and diluted per common share** | | (0.00) | (0.00) |
| **Weighted average shares outstanding, basic and diluted** | | 177,404,141 | 169,841,240 |

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

**CANADA RARE EARTH CORP.**
**Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)**
(Prepared by Management – Unaudited)

| | Share capital | | Reserves | Deficit | Total |
|---|---|---|---|---|---|
| | Number of shares | Share capital $ | $ | $ | $ |
| Balance at March 31, 2018 | 166,940,141 | 14,823,754 | 8,009,100 | (23,609,852) | (776,998) |
| Shares issued on note conversion | 6,000,000 | 173,878 | - | - | 173,878 |
| Share-based payments | - | - | 48,487 | - | 48,487 |
| Loss and comprehensive loss for the period | - | - | - | (262,081) | (262,081) |
| Balance at June 30, 2018 | 172,940,141 | 14,997,632 | 8,057,587 | (23,871,933) | (816,714) |
| Balance at March 31, 2019 | 177,404,141 | 15,235,832 | 8,283,107 | (24,401,083) | (882,144) |
| Share-based payments | - | - | 20,700 | - | 20,700 |
| Loss and comprehensive loss for the period | - | - | - | (151,831) | (151,831) |
| Balance at June 30, 2019 | 177,404,141 | 15,235,832 | 8,303,807 | (24,552,914) | (1,013,275) |

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

**CANADA RARE EARTH CORP.**
**Consolidated Statements of Cash Flows**

| Three Months ended March 31 | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash flows provided by (used in):** | | | |
| **Operating activities** | | | |
| Net loss and comprehensive loss for the year | | (151,831) | (262,081) |
| Adjustments for: | | | |
| Accretion of convertible note | 10 | 24,907 | 132,516 |
| Share-based payments | | 20,700 | 48,487 |
| Change in fair value of derivative liability | 10 | 63,000 | (57,000) |
| Amortization and depreciation | 4, 7 | 29,215 | 14,921 |
| Changes in non-cash working capital items: | | | |
| Foreign exchange (gain) loss on cash | | 13,459 | 20,248 |
| Accounts receivable | | (23,723) | (127,453) |
| Interest and other receivables | | (10,785) | 12,388 |
| Interest expense on lease liability | | (4,039) | - |
| Prepaid expenses and deposits | | 64,897 | 4,820 |
| Accounts payable and accrued liabilities | | 88,604 | 25,512 |
| Cash flows provided by (used in) operating activities | | 114,404 | (187,642) |
| **Financing activities** | | | |
| Principal portion of lease liability | 4 | (12,366) | - |
| Cash flows provided by financing activities | | (12,366) | - |
| Effect of exchange rate changes on cash | | (13,459) | (20,248) |
| **Change in cash during the year** | | 88,579 | (207,890) |
| **Cash, beginning of year** | | 514,227 | 1,502,098 |
| **Cash, end of year** | | 602,806 | 1,294,208 |

**The accompanying notes form an integral part of these condensed consolidated interim 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 expanded to the down-stream processing and sale of mineral products including rare earth products. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "LL".

These condensed consolidated interim 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 condensed consolidated interim financial statements for the three months ended June 30, 2019 have been prepared by management 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 adopted IFRS 16, Leases ("IFRS 16"), which became effective April 1, 2019. Note 4 discloses the effects of the adoption of these new IFRS pronouncements for all periods presented, including the nature and effect of changes in accounting policies.

The Company's board of directors approved the release of these consolidated financial statements on August 23, 2019.

b) Basis of measurement

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount. These financial statements, except for the statement of cash flows, are based on the accrual basis. 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 3.

## 2. Basis of Presentation (continued)

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 $151,831 during the three months ended June 30, 2019 (June 30, 2018 - $262,081) and, as of that date, the Company's deficit was $24,552,914 (March 31, 2019 - $24,401,083). 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 $602,806 at March 31, 2019 (March 31, 2019 – $514,227) to meet current financial obligations of $1,961,428 (March 31, 2019 - $1,740,480).

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

We applied the same accounting policies in these condensed interim consolidated financial statements as those applied in the Company's annual audited consolidated financial statements as at and for the year ended March 31, 2019.

In preparing these condensed interim consolidated financial statements, the significant judgements we made in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended March 31, 2019, with the exception of the new estimate identified below.

Readers should read these condensed interim consolidated financial statements in conjunction with the Company's annual audited consolidated financial statements as at and for the years ended March 31, 2019 and 2018.

## 4. Adoption of New Accounting Pronouncements and Recent Developments

Effective April 1, 2019, the following standard was adopted:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and requires how leases will be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. For leases where the Company is the lessee, it recognizes a right-of-use asset and a lease liability for its office premises leases previously classified as operating leases. The Company chose the adopted modified retrospective approach on transition to IFRS 16 on January 1, 2019 and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS16. As a result, the comparative information continues to be presented in accordance with the Company's previous accounting policies.

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

IFRS 16 Leases (continued)

At the time of adoption of IFRS 16 on April 1, 2019, the Company had one operating lease for office premises. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates applies to the lease liability. The weighted average incremental borrowing rate applied to the lease liability in the three months ended June 30, 2019 was 9.9% per annum. The weighted average lease term remaining as at June 30, 2019 is approximately 2.08 years. The details of the lease liability recognized during the period is as follow:

| Three Months Ended June 30 | 2019 |
|---|---|
| | $ |
| Operating lease commitment as at March 31, 2019 | 139,751 |
| Discount of future commitment | (18,981) |
| Lease liability recognized as at April 1, 2019 | 120,770 |

### Right-of-use asset

The following is the continuity of the cost and accumulated amortization of right-of-use asset (office premises) as at and for the period ended June 30, 2019:

| Three Months Ended June 30 | 2019 |
|---|---|
| Cost | $ |
| Balance, April 1, 2019 | 120,770 |
| Additions | - |
| Balance, June 30, 2019 | 120,770 |
| **Accumulated depreciation** | |
| Balance, April1, 2019 | - |
| Depreciation | 14,294 |
| Balance, June 30, 2019 | 14,294 |
| Carrying amount as at June 30, 2019 | 106,476 |

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

IFRS 16 Leases (continued)

**Lease liabilities**

The following is the continuity of lease liability as at and for the period ended June 30, 2019:

| Three Months Ended June 30 | 2019 |
|---|---|
| **Cost** | $ |
| Balance, April 1, 2019 | 120,770 |
| Additions | - |
| Lease payments | (16,404) |
| Interest expense on lease payments | 4,039 |
| Balance, June 30, 2019 | 108,404 |
| Less: current portion | (48,476) |
| Lease liabilities – non current | 59,928 |

## 5. Prepaid Expenses and Deposits

At the three month ended June 30, 2019, the Company had advanced $76,755 (March 31, 2019 - $414,924) to suppliers to secure future deliveries of Mineral Products, of which $nil (March 31, 2019 - $274,751) was written off.

| | June 30, 2019<br>$ | March 31, 2019<br>$ |
|---|---|---|
| Prepaid expenses | 20,471 | 21,950 |
| Deposits | 76,755 | 140,173 |
| | 97,226 | 162,123 |

## 6. 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 three months ended June 30, 2019 and June 30, 2018, the Company did not incur any exploration expenditures.

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 June 30, 2019, 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.

## 7. Intangible Assets

| | Supply Agreements $ | Contracts $ | Memorandum Of Understanding $ | Customer Relationships $ | Total $ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At March 31, 2018, March 31, 2019 and June 30, 2019 | 99,472 | 29,842 | 3,979 | 99,472 | 232,765 |
| **Accumulated amortization and impairment** | | | | | |
| At March 31, 2018 | 39,788 | 16,579 | 3,979 | 33,157 | 93,503 |
| Amortization expense | 19,894 | 6,631 | - | 33,157 | 59,682 |
| At March 31, 2019 | 59,682 | 23,210 | 3,979 | 66,314 | 153,185 |
| Amortization expense | 4,974 | 1,658 | - | 8,289 | 14,921 |
| At June 30, 2019 | 64,656 | 24,868 | 3,979 | 74,603 | 168,106 |
| **Net book value** | | | | | |
| At March 31, 2018 | 59,684 | 13,263 | - | 66,315 | 139,262 |
| At March 31, 2019 | 39,790 | 6,632 | - | 33,158 | 79,580 |
| At June 30, 2019 | 34,816 | 4,974 | - | 24,869 | 64,659 |

### Supply Agreements

The Company has supply agreements to sell mineral products to refineries.

### Contracts

The Company acquired a design, build and operating agreement to build a rare earth refinery with 3,000 tons per annum capacity. 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.

### Customer Relationships

The Company has acquired relationships with customers in the rare earth market.

Amortization expense of $14,921 (2018 - $14,921) is included in cost of sales.

Pursuant to the acquisition of the intangible assets, the Company will pay royalties relating to the implementation and execution of contracts and business arrangements and the disposition of certain assets in accordance with the following royalty streams:

- 5% of the first US$70 million or equivalent of non-refundable gross cash collected;
- 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, until September 2027; and
- 3% of the first US$70 million or equivalent of non-refundable gross cash collected.

The royalty on trading activities is 13% of gross profit, with gross profit being defined as gross selling price less gross purchase price in CAD.

For the three months ended June 30, 2019, the Company accrued or paid $16,687 (2018 - $1,252) of royalties, which are reflected in cost of sales.

## 8. Promissory Note

In September 2013, the Company acquired a 15% interest 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 for its 15% interest and was provided with a 25 year lease of 15 acres of deeded land in accordance with the LLA.

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. The gross proceeds were secured by a US$1,200,000 promissory note. The promissory note bore 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 was due on or before November 30, 2018. Pursuant to the SPA, the lease and lease option were cancelled.

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 was uncertain and, accordingly, the promissory note was written down to $1 at March 31, 2018 and the related accrued interest receivable was written off.

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.

## 9. 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 were 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.

## 10. 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 was convertible into units at $0.05 per unit and the next $500,000 at $0.075 per unit during the first 12 months after the Advance Date or must be repaid in full within the first 12 months after the Advance Date; 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 during the first 24 months after the Advance Date or must be repaid in full within 24 months 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.

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 (see Note 12). The conversion was recorded at the carrying amount of debt and the derivative liability. The Company potentially has an additional 13,666,667 shares and 6 million warrants issuable if the entire remaining loan is converted.

In February 2019, Talaxis extended the repayment date for the remainder of the tranche A loan of $500,000 due in January 2019 to April 30, 2019. In April 2019, Talaxis further extended the repayment date for this portion of the loan to July 31, 2019.

## 10. Convertible Note (continued)

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 three months ended June 30, 2019 was $24,907 (June 30, 2018 - $132,516) and is recorded as interest expense. At June 30, 2019, $31,562 (June 30, 2018 - $34,112) in accrued interest is included in accounts payable and accrued liabilities. At June 30, 2019, the carrying amount of the convertible note was as follows:

| | June 30, 2019 $ | March 31, 2019 $ |
|---|---|---|
| Convertible note – beginning of the period | 1,116,522 | 927,058 |
| Converted to equity | - | (188,878) |
| Accretion | 24,907 | 378,342 |
| Convertible note – end of the period | 1,141,429 | 1,116,522 |
| Current portion | (1,141,429) | (1,116,522) |
| Long-term portion | - | - |
| Principal balance – end of the period | 1,200,000 | 1,200,000 |
| Future accretion | (58,571) | (83,478) |
| Carrying amount | 1,141,429 | 1,116,522 |

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

| | June 30, 2019 | March 31, 2019 |
|---|---|---|
| Volatility | 190.27% | 192.33 – 217.01% |
| Expected life | 1.08 years | 1.33 – 2.13 years |
| Risk-free interest rate | 1.35% | 1.56 – 2.21% |
| Dividend yield | 0% | 0% |

See Note 19.

## 11. Related Party Transactions

Key management personnel compensation was:

| Three Months Ended June 30 | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Short-term benefits (includes bonuses of $24,000; 2018 - $24,000) | 109,500 | 109,500 |
| Share-based payments | 19,663 | 46,194 |
| | 129,163 | 155,694 |

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 year ended March 31, 2018 in March 2018. 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 was included in consulting fees for the year ended March 31, 2018.

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 favorable than, the current one. Pursuant to the ECPs for the years ended March 31, 2019 and 2020, 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 (waived by the CEO and COO for the current year); and
- additional bonuses at the discretion of the Board of Directors.

During the three months ended June 30, 2019, $8,480 (June 30, 2018 - $8,054) 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 17.

The 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 owes related parties $397,328 as at June 30, 2019 (March 31, 2019 - $369,387). $250,000 of this amount has been presented as a long term liability and the balance as current accounts payable and accrued liabilities. 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:* 177,404,141 (March 31, 2019 – 177,404,141) common shares.

*Share Issuance*

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).

In March 2019, the Company settled $223,200 payable to related parties by issuing 4,464,000 shares at a deemed price of $0.05 per share.

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, of which 21,200,000 have been granted. 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 2017, the Company granted stock options to a consultant of the Company 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 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.

In August 2018, the Company granted stock options to a consultant to purchase up to 3,400,000 common shares of the Company at an exercise price of $0.065 until December 31, 2019.

In March 2019, the Company granted stock options to officers, directors and consultants to purchase up to 1,350,000 common shares at an exercise price of $0.05 until March 22, 2024. The options vest in four equal instalments over eighteen months.

A summary of stock option activity to June 30, 2019 is as follows:

| | Number | Weighted Average Exercise Price<br>$ |
|---|---|---|
| Options outstanding at March 31, 2018 | 16,450,000 | 0.05 |
| Granted | 4,750,000 | 0.06 |
| Options outstanding at March 31, 2019 and June 30, 2019 | 21,200,000 | 0.05 |

## 12. Share Capital and Reserves (continued)

b) Stock Options (continued)

The Company's outstanding and exercisable stock options at June 30, 2019 were:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Expiry Date | Number | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price $ | Number | Weighted Average Exercise Price $ |
| December 2019 | 3,400,000 | 0.50 | 0.065 | 3,400,000 | 0.065 |
| February 2020 | 250,000 | 0.63 | 0.05 | 250,000 | 0.05 |
| July 2020 | 7,575,000 | 1.02 | 0.05 | 7,575,000 | 0.05 |
| April 2021 | 300,000 | 1.76 | 0.05 | 300,000 | 0.05 |
| February 2022 | 300,000 | 2.65 | 0.05 | 300,000 | 0.05 |
| April 2022 | 100,000 | 2.76 | 0.05 | 100,000 | 0.05 |
| December 2022 | 7,925,000 | 3.43 | 0.05 | 7,925,000 | 0.05 |
| March 2024 | 1,350,000 | 4.73 | 0.05 | 337,500 | 0.05 |
| | 21,200,000 | 2.04 | 0.05 | 20,187,500 | 0.05 |

c) Warrants

The Company's outstanding warrants at June 30, 2019 were:

| | Outstanding Warrants | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price $ | Expiry Date |
|---|---|---|---|---|
| March 31, 2018 | - | | - | |
| Issued | 3,000,000 | 1.33 | 0.10 | July 30, 2020 |
| March 31, 2019 and June 30, 2019 | 3,000,000 | 1.33 | 0.10 | |

In June 2018, 3 million stock purchase warrants 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 were issued pursuant to Talaxis converting $300,000 of tranche A of a convertible loan provided to the Company on January 30, 2018. See Note 10.

## 13. 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 mineral 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 to 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.

## 13. Agreement to Purchase a Rare Earth Refinery (continued)

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 December 31, 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.

As at March 31, 2019, the FOPs had not been issued. Accordingly, the first option under the RA expired on August 31, 2018. The Company recognized the non-refundable fee as revenue from the sale of the option on refinery of US$500,000 ($617,515) in the year ended March 31, 2019.

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.

## 14. 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 June 30, 2019.

## 15. 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

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. Credit risk arises from cash, trade receivables and deposits. While the Company is exposed to credit losses due to the non-performance of its counterparties and there is a significant concentration of credit risk because the trade receivables and deposits are receivable from/held by a single counterparty, management does not consider this to be a material risk.

The Company mitigates the risk of default of accounts receivable by assessing the credit worthiness of customers prior to sale and shipment of product.

For trade receivables, the simplified approach is applied for determining expected credit losses. This requires the lifetime expected losses to be determined for all trade receivables. The expected lifetime credit loss provision for trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, as required. Since the Company's buyer is considered to have low default risk and the Company's historical default rate and frequency of loss are low, the lifetime expected credit loss allowance for trade receivables is nominal as at June 30, 2019.

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 June 30, 2019, the Company had cash of $602,806 to meet current financial liabilities of $1,961,428.

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

c) 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.

d) Foreign currency exchange rate risk

The Company is exposed to foreign currency fluctuations as it has cash and prepaid expenses and deposits 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 $85,000.

Financial instruments denominated in foreign currencies are:

| At June 30, 2019 | US Dollars |
|---|---|
| Assets | 733,037 |
| Liabilities | 82,000 |
| Exchange rate / $1.00 = | .7641 |

**15. Risk Management (continued)**

d) Foreign currency exchange rate risk (continued)

| At March 31, 2019 | US Dollars |
|---|---|
| Assets | 634,236 |
| Liabilities | 84,906 |
| Exchange rate / $1.00 = | .7483 |

e) Risk of economic dependency

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

f) 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 10 for the fair value of the derivative liability - warrants.

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 June 30, 2019 and March 31, 2019:

| | As at June 30, 2019 | | |
|---|---|---|---|
| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ |
| Derivative liability - warrants | - | - | 387,000 |

| | As at March 31, 2019 | | |
|---|---|---|---|
| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ |
| Derivative liability - warrants | - | - | 324,000 |

There were no transfers between Level 1, 2 or 3 during the three months ended June 30, 2019 and year ended March 31, 2019.

## 16. Commitments and Contingent Liabilities

The Company has a written agreement with a related party to sublease to the related party 50% of the Company's 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 enters into finders' agreements from time to time pursuant to which fees are subject to completion at the discretion of the Company. For example, amongst other finders' agreements, the Company has a commitment to pay US$20/ton to a maximum of 30,000 tons for mineral 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.

## 17. Revenue

During the three months ended June 30, 2019, the Company's trading activities involved sourcing mineral products 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 mineral products is fully hedged at the onset of the purchase of each shipment.

a) Total Revenues by Major Product Type

The following table shows the Company's revenue disaggregated by major product type:

| Three Months ended June 30 | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Revenue from sale of oxides | 63,314 | - |
| Revenue from sale of concentrates | 306,780 | 127,453 |
| | 370,094 | 127,453 |

b) Total Revenues by Regions

The following table shows the Company's revenue disaggregated by geographical region. Revenues are attributed to regions based on the destination port or delivery location as designated by the buyer:

| Three Months ended June 30 | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Asia | 370,094 | 127,453 |

As at June 30, 2019, $370,094 of revenue was included in accounts receivable (June 30, 2018 - $127,453) in the consolidated statement of financial position.

## 18. Segment Reporting

Based on the primary products the Company sell, it has two reportable segments – oxides and concentrates:

| Three Months ended June 30, 2019 | Oxides | Concentrates | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Segment revenues | 63,314 | 306,780 | - | 370,094 |
| Cost of sales | - | (194,966) | - | (194,966) |
| Gross profit | 63,314 | 111,814 | - | 175,128 |
| Expenses | - | - | (197,458) | (197,458) |
| Profit (loss) from operations | 63,314 | 111,814 | (197,458) | (22,330) |
| Other items (net) | - | - | (129,901) | (129,901) |
| Profit (loss) before taxes | 63,314 | 111,814 | (326,959) | (151,831) |

| Three Months ended June 30, 2018 | Oxides | Concentrates | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Segment revenues | - | 127,453 | - | 127,453 |
| Cost of sales | - | (135,185) | - | (135,185) |
| Gross profit | - | (7,732) | - | (7,732) |
| Other operating expenses | - | - | (194,811) | (194,811) |
| Profit (loss) from operations | - | (7,732) | (194,811) | (194,811) |
| Other items (net) | - | - | (59,538) | (59,538) |
| Profit (loss) before taxes | - | (7,732) | (254,349) | (262,081) |

## 19. Subsequent events

In August 2019, the CLA was amended such that the tranche B in the amount of $700,000 became convertible at $0.085 per share with the number of warrants and the terms of the warrants remaining the same.

In August 2019, Talaxis converted its entire loan principal balance of $1,200,000 and accrued interest of $53,260 into 15,612,093 common shares of the Company and 6,000,000 warrants and $395 of cash.